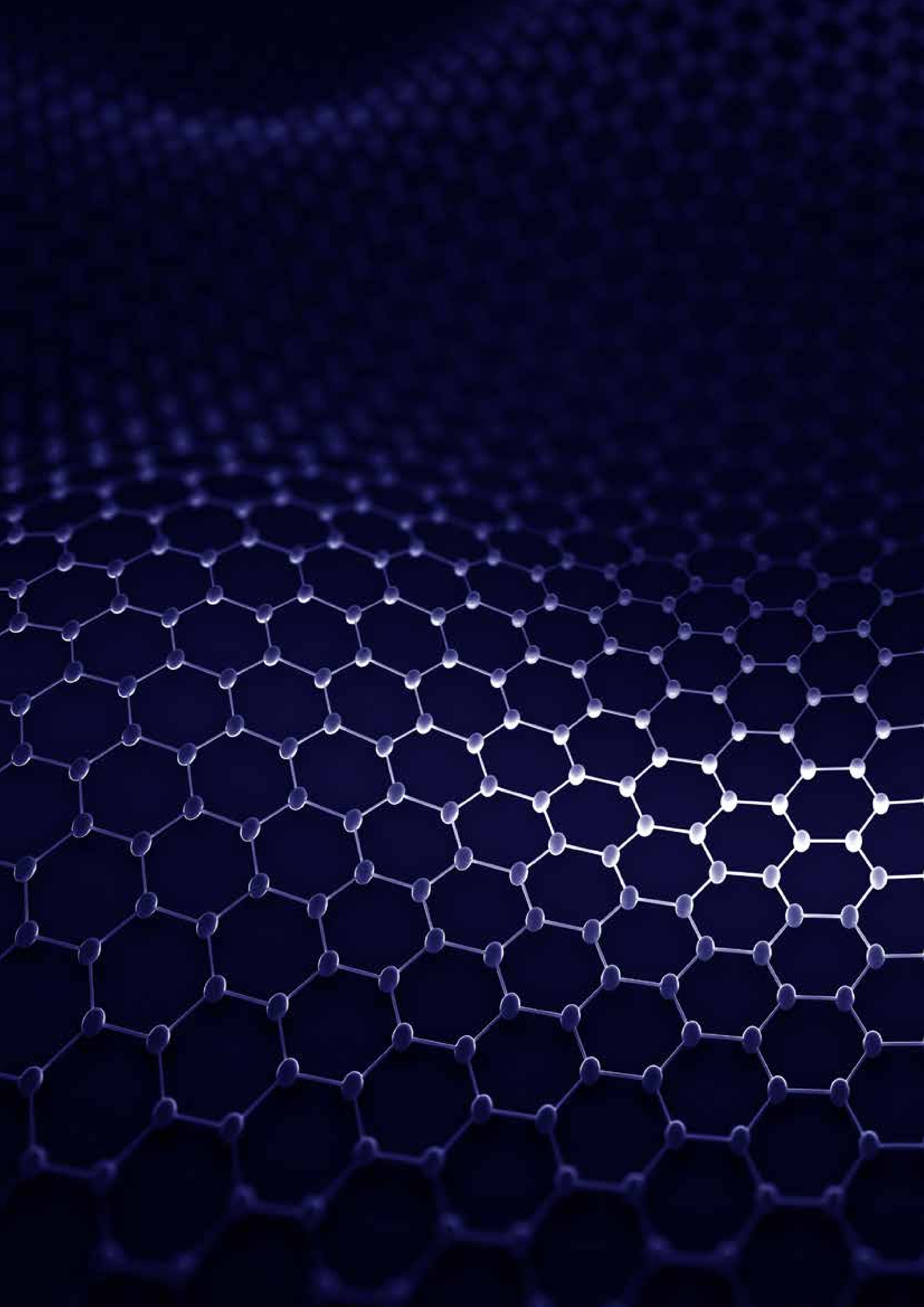
2022 Annual Report

Hills Limited ABN 35 007 573 417



Hills Limited

Annual report

For the year ended 30 June 2022

ABN 35 007 573 417

Contents

Hills Limited

Shareholders' letter

For the year ended 30 June 2022

Dear Shareholders

The ongoing, and unabated, COVID-19 pandemic continued to adversely impact the Company's operations and created a high level of uncertainty in FY22. Your Board and Management sought to address this difficult trading environment by bringing forward several key strategic initiatives whilst keeping strong cost control and tight cash flow management to navigate and mitigate the severity of the downturn.

Hills' net loss for the period reflects the underlying difficult trading conditions as well as the significant changes the business undertook during the year, which included the divestment of the Australian security and IT distribution business and the closure of the New Zealand distribution business.

We are proud to be an Australian company with a strong Australian heritage and will continue to seek ways to develop our IP locally and/or partner with other Australian firms who can play a role in contributing to our endeavours. We will continue to be focused on growth initiatives underpinning our health strategy and diversifying our technical services business to support sustainable earnings growth over the medium to long term.

FY22 RESULTS

Statutory net loss after tax of $24.0 million for the year was comprised of the following:

- Net loss before funding costs of $4.8 million relating to the ongoing businesses.
- Net funding costs of $1.7 million representing the full year cost of the higher funding requirements of the Hills business prior to the divestment of the discontinued operations.
- Non-cash tax expense of $1.9 million caused by the reversal of tax-related timing differences for the ongoing businesses.
- Net loss of $15.6 million relating to the discontinued operation.

The loss from our ongoing business reflected the impact on the health division's EBITDA of tough trading conditions due to COVID-19.

Despite these challenges, Hills remains focussed on its strategic priorities of building on and maintaining its market-leading product portfolio and customer base, tight cost control and capital management. Hills reduced its net debt position from $13.2 million to a net cash surplus of $3.23 million as at 30 June 2022. The majority of the reduction reflected the cash proceeds from the divestment of the Australian security and IT distribution business, but was also testament to Hills' focus on cash flow and workforce management in the continuing businesses during the year.

HEALTH DIVISION

The health division delivered an underlying EBITDA of $3.8 million compared to $9.7 million in the prior year, reflecting the COVID suppressed revenue and higher costs. The higher costs include a $0.9 million reduction in COVID-19 related labour subsidy received from the government in FY22 versus FY21. The impact of COVID-19 was considerable and had a dampening effect on several aspects of the business; firstly, the disruption or cessation of building projects where Hills' systems were intended to be deployed, and secondly, the curtailment of elective surgeries and non-urgent cases resulting in a significant drop in hospital bed occupancies impacting usage of our in-room patient entertainment systems. Further, supply chain disruptions restricted access to essential components and spare parts, including but not limited to the worldwide shortage of semiconductors, which severely hampered product availability, impacting top line performance.

The downside in FY22 will produce a future upside with the delayed projects from the previous 12–24 months expected to result in increased revenue being recognised from completed projects throughout FY23. Clearing that backlog places us in a strong market position and allows us to provide new employment opportunities.

During FY22, Hills had strategic wins at ACT Health, Westmead, Calvary, Sunshine Coast and Churches of Christ, together with the extension of the Guest Wi-Fi contract with eHealth NSW. It was with pride that we recently announced the Hills Nurse Call win at Footscray Hospital in Victoria, reflecting an important step forward for the company. The New Footscray Hospital is the largest and most advanced Hospital under construction in the country. The selection of Hills' Nurse Call systems in such a significant project reaffirms our market leadership in this field.

Technology keeps advancing and with the ageing population and increase in chronic diseases there is the ongoing need to find ways to improve the care and oversight of patients and to provide solutions to hospitals, aged care and supported living environments. Hills is intent on developing its technology such that it can continue to evolve and meet these demands. We believe that our strong market share position will allow us to keep abreast of and meet the changing requirements which will require existing market players to adapt and improve their products and services across the broader health eco-system.

DISTRIBUTION DIVISION AND HILLS TECHNICAL SERVICES (HTS)

On 21 February 2022, Hills announced the divestment of its Australian security and IT distribution business. The transaction was completed in May 2022 for a final cash consideration of $21.3 million. The business made a $1.0 million profit before tax on the divestment.

The divestment was part of the Company's ongoing strategy to focus on the strong growth prospects associated with the Hills health division. The majority of the funds received were immediately applied to reducing the Company's debt. The divestment followed the 1 November 2021 announcement that Hills was exiting its loss-making New Zealand security distribution operation. This exit was substantially completed in the first half of FY22 and Hills now only retains its health and technical services businesses in that marketplace.

Post divestment Hills has retained the Hills Technical Services business that was a part of the distribution division. This business focuses largely on the installation of NBN and Sky TV services in regional Australia and in New Zealand. It contributes positively to overall group cash and earnings results and has the potential to expand on and apply these capabilities to a broader market.

The various transactions completed during FY22 cleared the way for the Company to focus on the restructure and modernisation of the remaining businesses and pursue our growth ambitions in the health technology sector. The restructuring and modernisation of the Company remains ongoing as we adapt and remain agile to effectively compete in the fast-moving health-tech domain.

ORGANISATIONAL CHANGE

The Company undertook further significant changes to the organisational structure during this financial year. These changes included the final steps in the renewal of the Board which began in July 2020, that has resulted in the Board now being comprised of three independent directors, each recently appointed, and focused on delivering Hills' health-centric strategy.

Firstly, I was pleased to accept the appointment as Chairman of Hills Limited on 1 July 2021. It was with pride that I took over the role from Jenny Hill-Ling.

In FY22, two long serving members of the Board retired; being Jenny Hill-Ling and Ken Dwyer. Jenny Hill-Ling retired on 18 October 2021, having previously announced her intentions in the 1 July 2021 when she stepped down as Chairman. Jenny Hill-Ling has been a significant part of the Company's history during her 35 years on the Hills Board and 16 years as Chairman. She brought a wealth of experience, leadership, and commitment in performance of those roles. Her focus in recent years on business renewal has resulted in the rationalisation of the distribution division, and the refocus of our healthcare solutions business into a future growth engine for Hills. Jenny Hill-Ling retired with our sincere thanks for her outstanding commitment and tireless efforts.

Ken Dwyer played an important role on the Board since his admission in 2016 and he was instrumental in the sale of the Australian security and IT distribution business, where his expertise was invaluable in securing the divestment. We thank him for his insights and adept and accurate knowledge of the marketplace. Ken also served as Chair of the Nomination and Remuneration Committee since November 2020. With the divestment of the business, Ken determined that it was an appropriate time to retire from the board. Ken leaves a greatly changed company and one that is well positioned for renewal.

With Jenny Hill-Ling's retirement, Hills announced the appointment of Ms Janet Muir as a non-executive independent director. Janet Muir led one of Australia's largest allied hearing healthcare providers, Audika, which is part of a global company based in Copenhagen, that provides comprehensive hearing health care across Australia and New Zealand. She has extensive senior executive experience within large-scale healthcare organisations, including as Group General Manager Strategy at St Vincent's Health Australia, and as Group Manager Strategic Development at St John of God Healthcare.

Reflecting the smaller size of Hills' ongoing businesses, the Board has been reduced to three members. The size of the Board will continue to be reviewed as circumstances and business conditions change. I am confident that Hills is well placed to continue to grow its ongoing businesses under the guidance of a refreshed and renewed Board, and by working

Shareholders' letter

For the year ended 30 June 2022

closely with the CEO, David Clarke, and his executive team. We are acting in the knowledge that we have the ongoing support of the Hill-Ling family as we go forward with the implementation of the Company's growth initiatives.

FUNDING

As a consequence of the divestment and closure of the security and IT distribution businesses, the Company has paid down much of the debt facilities. The borrowing base facilities with the Commonwealth Bank of Australia (CBA) are largely secured over assets of that business and are no longer appropriate for the future structure. Therefore, the company has secured $6 million of new funding from Causeway Financial Pty Ltd which will commence in September 2022 at which time the main CBA facility will be closed.

The Company has previously announced its intention to undertake a capital raise in Q4 FY22 to invest in reshaping and growing the existing businesses. Given current capital market conditions that activity has been paused.

OUTLOOK

FY23 commences with divestments completed, most legal matters resolved, new management in place and funding arrangements secured. The Company is now focused on the execution of its health technology growth strategy, expanding the technical services operations, streamlining corporate functions, and improving operational performance. Hills is confident that the new approaches will build and deliver sustained revenue growth and improved earnings in FY23 and beyond.

Trading in the new financial year has commenced in line with management's expectations, despite continued challenges with delays and catch up in construction, workforce shortages, and disruption in the supply chain.

For our health business, the first half of FY23 will continue to be affected by these factors, though a recovery in hospital occupancy has already lifted usage of patient entertainment systems. Whilst the recognition of revenue for health technology projects remains reliant on the timing of construction and refurbishment activity, the planned customer investment in these projects is strong and order intake continues to improve. Interest in the community health record platform of Extensia is building, supported by the consortium of complementary businesses that Hills has drawn together to focus on aged care and primary health sectors.

As a response to the global disruption of technology supply chains, the Company is closely managing component availability and cost. Extended and sudden delays in delivery have complicated planning efforts, and significant component and other price increases are putting pressure on margins for often fixed-price contracts. The Company has responded by bolstering stock levels, working closely with suppliers and, where required, re-designing products to adopt alternative components.

Our Technical Services business sees continuing demand for installation of wireless and satellite broadband services with planned technology replacement programs expected to bring further sustained growth over the coming years. The immediate strategic focus is to prepare for the increases in volumes and expand the current customer base beyond the existing business activities into related areas.

There are positive signs of stability, recovery, and growth across both continuing operations. The focus of the board and management is on nurturing this recovery whilst pursing other opportunities for growth in related businesses.

I join with other Board members and our Executive team in thanking the entire management and employee base of Hills who have shown unrelenting dedication and have strived to give their support to the business through these difficult times. I would also acknowledge our suppliers and customers who, despite their own challenges, have also backed us.

In closing, I thank the shareholders for their patience and recognition that Hills is taking tangible and important strides with a strategy of renewal and refocus.

Yours sincerely

David Chambers
Chairman

David Clarke
Chief Executive Officer

Directors' report

For the year ended 30 June 2022

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 year ended 30 June 2022 and the independent auditor's report thereon.

OPERATING AND FINANCIAL REVIEW

The operating and financial review forms part of the Directors' report and has been prepared in accordance with section 299A of the *Corporations Act 2001* (Cth). The information provided aims to assist users to better understand the operations and financial position of the Group.

ABOUT THE GROUP

Hills commenced business in Adelaide, South Australia in 1945 and has a long history of developing and innovating products whilst diversifying and divesting as market conditions and customer demands have changed.

The Group operates in Australia and New Zealand. The principal activities of the Group during the year was as a supplier of technology solutions in healthcare and a value-added distributor of technology products and services in the security, surveillance and IT markets. During the current period, the Group divested the Hills security and IT distribution business in Australia and closed those operations in New Zealand. The divestment was part of the Company's ongoing strategy to focus on the strong growth prospects associated with the Hills Health Solutions division and Hills Technical Services operation (refer note 2.2).

HILLS HEALTH SOLUTIONS

Hills Health Solutions (HHS) designs, supplies, installs, and maintains health technology solutions, particularly Nurse Call and patient engagement systems into the hospital and aged care sectors.

Research and development activities are undertaken in Australia to enhance and develop the Nurse Call and other products, ensuring the healthcare solutions business remain market leaders in their segments.

The Company has also invested in community health record software as part of its diversification strategy into the broader health technology market.

HILLS TECHNICAL SOLUTIONS

Hills Technical Solutions (HTS) provides technology installation and maintenance services for residential and commercial premises across Australia and New Zealand.

HTS service was previously combined in the Distribution segment for reporting.

HILLS DISTRIBUTION (DIVESTED BUSINESS)

Hills Distribution was a leading value-added provider of security and IT technology for homes, healthcare facilities, places of learning, entertainment venues, retail spaces, transport and infrastructure, banking and finance, workplaces, and government institutions.

Directors' report

For the year ended 30 June 2022

GROUP PERFORMANCE HIGHLIGHTS

The following table provides an overview of the financial performance of the Group's continuing business for the year ended 30 June 2022 as detailed in the financial report:

Summary of Group performance	Total 30-Jun-22 $million	Total 30-Jun-21 $million	% change
Revenue	**47.3**	49.3	(4.0%)
Cost of sales	**(23.4)**	(23.5)	0.6%
Gross margin	**23.9**	25.7	(7.2%)
Other operating costs	**(21.8)**	(19.5)	(11.7%)
Underlying segment EBITDA[1]	**2.1**	6.2	(66.4%)
Net financing expense	**(1.7)**	(2.3)	26.9%
Statutory net loss before tax	**(6.5)**	(5.5)	(17.2%)
Tax (expense)/benefit	**(1.9)**	0.4	603.3%
Statutory net loss after tax (NPAT)	**(8.3)**	(5.2)	(61.5%)
Cash flows (used in)/from operating activities	**2.2**	1.2	80.6%
Net cash/(net debt)[2]	**3.2**	(13.2)	(124.6%)

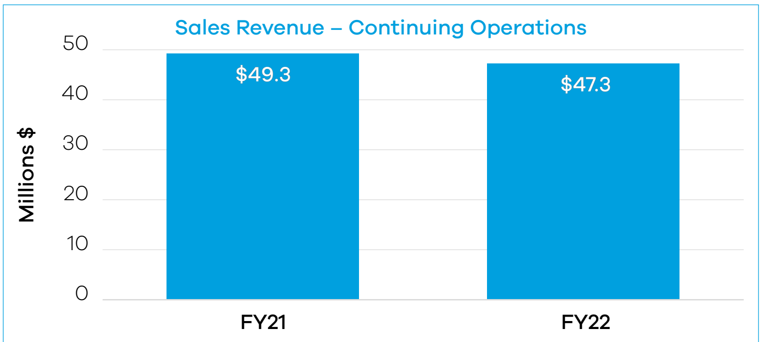
1 Hills' Financial Report complies with Australian Accounting Standards and International Financial Reporting Standards. The underlying (non-IFRS) segment EBITDA is unaudited but is derived from the audited accounts by removing the impact of non-operating items from the reported (IFRS) audited profit. Hills believe this reflects a more meaningful measure of the Group's underlying performance.

2 Net cash excludes lease liabilities associated with the introduction of AASB16 Leases. For further information refer Note 4.5, Financial instruments: Measurement and risk management, of the audited financial statements.

REVENUE

Sales revenue for the year ended 30 June 2022 was down 4%, from $49.3 million to $47.3 million.

HTS business sales increased by 10.3% following the number of NBN installations increasing over the prior year, whilst the health division sales dropped by 11.6% due to COVID challenges in getting access to hospital and aged care homes, and reduced hospital occupancy. Despite impediments to delivering projects suppressing health revenue, project sales orders grew 13%, resulting in a year end closing order book four times that of the prior year.

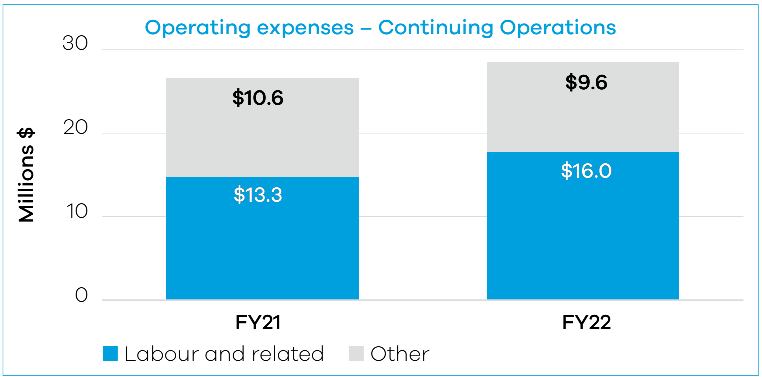


NET RESULT

The FY22 net loss from continuing operations of $8.3 million was impacted by the lower health business revenue and non-cash income tax expense adjustment of $1.8 million being the reversal of the deferred tax asset.

The underlying business performance was $3.6 million lower than prior year. Operating expenses, inclusive of $3.9 million depreciation and amortisation, have declined slightly during the year to $28.8 million being a 1% reduction.

Labour and related costs increased by $1.3 million predominately due to a decrease in COVID government subsidies. Other operating costs declined $0.7 million including the reduction in foreign exchange losses from the prior year. Net finance expenses of $1.7 million is below the prior year of $2.3 million as a result lower interest rates and the reduction in the outstanding debt.

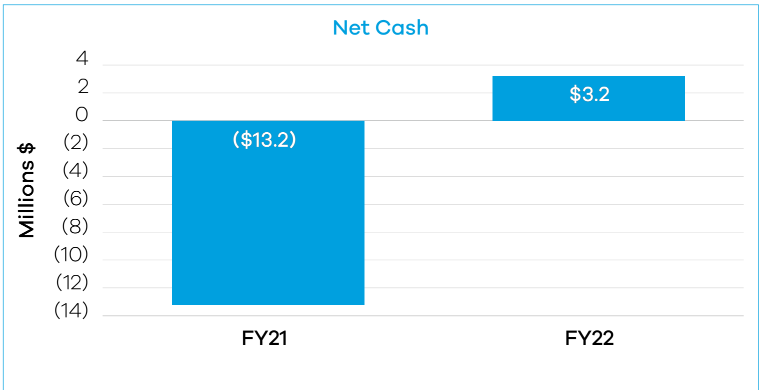


FINANCIAL POSITION

The Company has net cash of $3.2 million at year end compared to net debt of $13.2 million in the prior year. Borrowings of $20.5 million were repaid during the year primarily from the divestment of the Hills security and IT distribution business.

The entire Group's operating cash inflow for the year remained positive at $2.2 million despite tougher trading conditions. The reduction of $0.8 million in finance-related costs positively assisted.

The working capital position of the continuing businesses is significantly less than the prior year due to the divestment of the distribution business which had high working capital requirements.



Directors' report

For the year ended 30 June 2022

COVID-19

The Coronavirus pandemic (COVID-19) has continued to present challenges for the Group during the financial year. The board and management have focused on three priorities; looking after our people; continuing to deliver the highest level of products and services to our customers and partners; and managing the economic and social impacts caused by COVID-19. Risk mitigation strategies and actions taken include:

- Implementing safeguards to ensure safe working environments for all employees.
- Receipt of $0.9 million Job Saver assistance from the Australian government for all group business.
- Maintaining a strong focus on our sales, expenses and cash flow with implementation of regular Board plus management reviews.
- Focusing on our business continuity plans, to ensure our services and products continued to be available to all our customers, while also protecting the safety of customers, suppliers, and our own people.
- Focusing on the well-being of our people and retention of key skills and experience in our businesses.

During periods of lockdown, the Company has continued to trade, having been considered an essential service provider based on the customers we service in the healthcare and security markets. Depending on the nature of the lockdown, and in particular the continuity or otherwise of commercial construction, revenue has been suppressed during such periods. This rarely results in loss or cancellation of orders; however, subsequent delay defers the period until revenue is achievable. Government support is sought where it is available and appropriate.

OUTLOOK

In FY23, the Company is focused on the execution of its health technology growth strategy, expanding the technical services operations, streamlining corporate functions, and improving operational performance to build and deliver sustained revenue growth and improved earnings in FY23 and beyond.

Trading in the new financial year has commenced in line with management's expectations, despite continued challenges with delays and catch up in construction, workforce shortages, and disruption in the supply chain.

The first half of FY23 will continue to be affected by these factors. Whilst revenue from health technology projects is reliant on the timing of construction and refurbishment activity, the planned customer investment in these projects is strong and order intake continues to improve. Additionally, a recovery in hospital occupancy rates has lifted usage of patient entertainment systems.

Demand for installation of broadband services and planned technology upgrade programs is expected to bring further opportunities for the technical services business in FY23 beyond, whilst also pursuing the strategic focus of expanding the current customer base beyond the existing business activities.

Interest in the community health record platform of Extensia is building, supported by the consortium of complementary businesses focused on aged care and primary health sectors.

The Company is closely managing component availability and cost in response to global supply disruptions and shortages. It has responded to critical component delays and cost spikes by bolstering stock levels, working with suppliers and, where required, re-designing products to adopt alternatives.

There are positive signs of stability, recovery, and growth across the continuing operations. The focus of the board and management is on nurturing this recovery whilst pursing other opportunities for growth in related businesses.

Directors' qualifications and experience

The directors of the Company at any time during or since the end of the financial year are as follows:

Director	Experience and expertise	
David Chambers **BSc Dip Bus Mgt** *Chairman* *Independent Non-executive director* **Special responsibilities** Chairman of the Board Member of the Nomination and Remuneration Committee Member of the Audit, Risk and Compliance Committee	Appointed Non-executive director on 8 July 2020. Appointed Chairman 1 July 2021. Mr Chambers has more than 30 years of international experience in the healthcare and technology sectors and recently retired as the Managing Director of Asia Pacific operations at Allscripts Healthcare Solutions Inc., a Nasdaq-listed global leader in healthcare information technology. He is a former chief executive of ASX-listed health software business Pro Medicus Limited and has worked in senior executive roles in Australia, the US, Europe, and Asia. He is currently chairman of ASX-listed healthcare software provider Mach7 Technologies Ltd.	**Other current listed company directorships** Chair of Mach7 Technologies Limited. **Former listed company directorships in last 3 years** None.
Peter Steel **BEc, MBA (Executive)** *Independent Non-executive director* **Special responsibilities** Chairman of the Audit, Risk and Compliance Committee Member of the Nomination and Remuneration Committee	Appointed Non-executive director on 31 March 2021. Mr Steel trained as a Chartered Accountant and has considerable experience in the consumer goods and logistics industries. This experience has developed strong skills in strategy, business planning, acquisitions, and business development. He has worked in senior financial roles for more than 20 years, including serving as General Manager, Finance, and IT, at Toll Priority and as General Manager, Planning and Strategy at Coca-Cola Amatil Ltd.	**Other current listed company directorships** None. **Former listed company directorships in last 3 years** None.
Janet Muir **BBus, MBA, GAICD, CA** *Independent Non-executive director* **Special responsibilities** Chair and Member of the Nomination and Remuneration Committee Member of the Audit, Risk and Compliance Committee	Appointed Non-executive director on 18 October 2021. Ms Muir has 20+ years of senior executive experience within large-scale health care, retail, and technology organisations. She has experience in reporting to local and international listed companies and privately owned organisations. In her most recent role, Ms Muir was the Managing Director ANZ of Audika for 8+ years. Audika is part of the global listed Demant A/S company head officed in Copenhagen, Denmark, and one of Australia's leading allied hearing healthcare providers across Australia and New Zealand through a network of more than 400 clinics. Ms Muir's former executive experience includes Group General Manager Strategy at St Vincent's Health Australia, Group Manager Strategic Development at St John of God Healthcare, and Director of Finance at St John of God Pathology. Ms Muir has also held several healthcare industry board directorships.	**Other current listed company directorships** None. **Former listed company directorships in last 3 years** None.

Directors' report

For the year ended 30 June 2022

Director	Experience and expertise	
Kenneth Dwyer **BCom, GMQ, GAICD** *Independent Non-executive director* **Special responsibilities** Chairman and Member of the Nomination and Remuneration Committee Member of the Audit, Risk and Compliance Committee	Appointed Non-executive director on 20 September 2016. Retired as Non-executive director on 30 June 2022. Mr Dwyer formerly worked in banking, including investment banking in the US and Australia specialising in M&A, debt, and equity funding. Mr Dwyer has established and grown two businesses in the highly competitive audio industry in Australia and New Zealand via a combination of organic growth and acquisitions. He has experience in the distribution of premium European machinery for textile manufacturing.	**Other current listed company directorships** None. **Former listed company directorships in last 3 years** None.
Jennifer Hill-Ling **LLB (Adel) FAICD** *Former Chair* *Non-independent director* **Special responsibilities** Chair of the Board to 1 July 2021. Member of the Nomination and Remuneration Committee to 18 October 21.	Appointed Director in August 1985. Appointed Deputy Chair in June 2004. Appointed Chair 28 October 2005. Retired as Chair on 1 July 2021. Retired as Director on 18 October 2021 Ms Hill-Ling has extensive experience in corporate and commercial law, specialising in corporate and business structuring, mergers and acquisitions, joint ventures, and related commercial transactions. She practiced law for some 25 years and was a senior partner in two Sydney law firms in that time. She was formerly a director of Tower Trust Limited and MS Limited. She is a fellow of the Australian Institute of Company Directors.	**Other current listed company directorships** None. **Former listed company directorships in last 3 years** None.
David Lenz *Managing Director* **Special responsibilities** Chief Executive Officer to 17 May 2021.	Appointed Managing Director 19 February 2018 and Chief Executive Officer on 1 September 2016. Retired 17 May 2021 as Chief Executive Officer and retired 1 July 21 as Managing Director. Mr Lenz had over 30 years of proven experience in sales, business development, management and operational leadership across Australia and New Zealand, Asia Pacific, and the Global ICT markets.	**Other current listed company directorships** None. **Former listed company directorships in last 3 years** None.

COMPANY SECRETARY

David Fox

LLB/LP, BA (until 29 July 2022)

Mr Fox was appointed to the position of General Counsel on 11 March 2013 and as General Counsel and Company Secretary on 22 December 2016 until his resignation on 29 July 2022.

Geoffrey Stirton

ACA, CGI, FAICD, FGIA (from 29 July 2022)

Mr Stirton was appointed Company Secretary on 29 July 2022 and has over 30 years' experience working with listed and unlisted companies as well as not for profits in both governance and line management roles. He is a Chartered Accountant and Chartered Secretary and a Fellow of the both the Australian Institute of Company Directors and the Governance Institute of Australia.

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2022, and the number of meetings attended by each Director were:

	Full meetings of Directors		Audit, Risk and Compliance Committee		Nomination & Remuneration Committee	
	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended
D Chambers	18	18	5	5	6	6
J Muir	14	14	–	–	3	3
P Steel	18	18	5	5	–	–
J Hill-Ling	4	4	–	–	3	3
K Dwyer	18	18	5	5	6	6

1 Number of meetings held during the period that the Director held office as a Director or was a member of the Committee.
2 Directors appointed and retired during the year. Refer to key management personnel table on pg 16.

ENVIRONMENTAL REGULATION

Manufacturing

Hills ceased to operate a manufacturing facility at O'Sullivan Beach in South Australia from 20 February 2020, following the divestment of the Antenna business in December 2019. No significant environmental incidents were reported during the 2022 financial year and Hills continued to meet the requirements specified in relevant licenses and authorisations.

Australian Packaging Covenant

The Australian Packaging Covenant (APC) is a voluntary initiative by Government and industry to reduce the environmental impact of packaging. Hills became a signatory to the APC in 2010 and established ongoing action plans aimed at optimising packaging design, material recovery, recycling, and product stewardship. Hills remains supportive of the goals and initiatives of the APC and remains compliant following the submission of its annual report during June 2022.

Directors' report

For the year ended 30 June 2022

INSURANCE OF OFFICERS

Since the end of the previous financial year, the Company has paid insurance premiums in respect of Directors and Officers liability and legal expenses for current and former Directors and officers of the parent company and of its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in Hills Group of Companies, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

The Directors have not included details of the nature of the liabilities covered or the amount of the premiums paid in respect of the Directors and Officers liability and legal expenses insurance contracts as such disclosure is prohibited under the terms of the contracts.

INDEMNIFICATION OF OFFICERS

The Company has agreed to indemnify the directors and officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses. The Company has also agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

DIVIDENDS

No dividend has been proposed or paid since the start of the year.

REMUNERATION REPORT

The Remuneration report set out on pages 16 to 26 forms part of the Directors report for the year ended 30 June 2022.

CORPORATE GOVERNANCE STATEMENT

Details of the Company's corporate governance practices are included in the Corporate Governance Statement set out on the Company's website http://www.corporate.hills.com.au/about-us/governance.

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 27.

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.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with Hills are important. The Board of Directors has considered the position and, in accordance with advice received from the Audit, Risk and Compliance Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit, Risk and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*.

During the year, the following fees were paid or payable for services provided by the auditor of the Company:

KPMG AUDIT AND NON-AUDIT SERVICES	2022 $	2021 $
Audit and other assurance services		
KPMG Australia[1] – audit and review of the financial statements	**351,000**	251,803
Overseas KPMG firms – audit and review of the financial statements	**–**	43,500
Total remuneration for audit and other assurance services	**351,000**	295,303
Taxation and other services		
KPMG Australia – taxation and other services	**–**	43,203
Total remuneration for taxation and other services	**–**	43,203
Total remuneration of KPMG	**351,000**	338,506

1 KPMG Australia audit includes the audit of both the Australian and New Zealand entities within the Hills Group in relation to FY22.

SUBSEQUENT EVENTS

On 21 September 2022, the Group entered into a $6 million debt finance facility with Causeway Financial Pty Ltd that will deliver both working capital finance and provide funding for growth opportunities. The facility expires in September 2025.

The facility is secured on the Group's assets. Interest is charged at a fixed rate. The facility will replace the secure borrowing base bilateral facility and guarantee facility held with the Commonwealth Bank of Australia.

Other than the above, there are no subsequent events to report.

This Report is made in accordance with a Resolution of the Directors of the Company, dated 26 September 2022.

David Chambers
Chairman

Peter Steel
Director

Sydney
26 September 2022

Remuneration report (audited)

For the year ended 30 June 2022

This Remuneration Report that forms part of the Directors Report outlines the remuneration strategy, framework and practices adopted by Hills in accordance with the requirements of section 300A of the Corporations Act 2001 ("the Act") and its regulations.

This report details remuneration information pertaining to the "Key Management Personnel" ("KMP") of Hills. KMP are defined as those persons having authority and responsibility for planning, directing, and controlling the activities of the consolidated entity, including all directors.

The Remuneration Report comprises the following sections:

1. **Key Management Personnel**
2. **Remuneration Governance**
3. **Executive Remuneration**
4. **Executive Contracts and Termination Arrangements**
5. **Remuneration of Executive Key Management Personnel**
6. **Remuneration of Non-executive directors**
7. **Equity Holdings of Directors and Key Management Personnel**

ABBREVIATIONS USED IN THIS REPORT

Act	*Corporations Act 2001* (Cth)	**FY**	Financial year
AGM	Annual General Meeting	**1H**	First Half
ASX	Australian Stock Exchange	**2H**	Second Half
CEO	Chief Executive Officer	**KMP**	Key Management Personnel
CFO	Chief Finance Officer	**KPI**	Key Performance Indicator
ED	Executive director	**NED**	Non-executive director

Remuneration report (audited)

For the year ended 30 June 2022

1. KEY MANAGEMENT PERSONNEL

The following have been identified as KMP.

Name	Position	Term as KMP in FY22
Non-executive directors		
D Chambers	Chairman, Independent, Non-executive director	Full Year
J Hill-Ling	Non-independent and Non-executive director	Retired 18 October 2021
K Dwyer	Independent, Non-executive director	Retired 30 June 2022
P Steel	Independent, Non-executive director	Full Year
J Muir	Independent, Non-executive director	Appointed 18 October 2021
Senior executives		
D Clarke	Chief Executive Officer	Full Year
N Scott	Chief Financial Officer	Full Year

2. REMUNERATION GOVERNANCE

2.1. Role of the Nomination and Remuneration Committee

The Board, with assistance from the Nomination and Remuneration Committee, is responsible for ensuring that the Hills remuneration framework is consistent with the business strategy and performance, supporting increased shareholder wealth over the long-term.

The Remuneration and Nomination Committee, consisting of non-executive directors Janet Muir (Chair from 23 June 22), Peter Steel, and David Chambers, has responsibility for reviewing the remuneration strategy annually and advises the Board on remuneration policies and practices generally.

The Nomination and Remuneration Committee is responsible for:

- the ongoing appropriateness and relevance of the remuneration framework for the Chair, the Board Committees and the Non-executive directors.
- Hills' remuneration policy for the CEO and other senior executives, any changes to the policy, and the implementation of the policy including any shareholder approvals required.
- incentive plans for the CEO and other senior executives.

Further detail on the Nomination and Remuneration Committee's responsibilities is set out in its Charter, which is reviewed annually, and available on the Hills website at: http://www.corporate.hills.com.au/about-us/governance.

2.2. Use of Independent Remuneration Consultants

In accordance with the Nomination and Remuneration Committee Charter, the Committee seeks advice and market data from independent remuneration consultants as required.

During the year, no advisors were retained. Benchmarking salary reviews were conducted using third party information.

2.3. Hills Share Trading Policy

The Hills Share Trading Policy imposes trading restrictions on all Hills employees considered to be in possession of 'inside information'. Board members, senior executives and members of the broader management team are prohibited from trading in Hills shares during specific periods prior to the announcement of the half and full year results.
This policy applies equally to shares received as part of remuneration. The Securities Policy is available on the Hills website at: http://www.corporate.hills.com.au/about-us/governance.

2.4. Hills Clawback Policy

To strengthen the governance of the remuneration strategy, Hills has an Executive Remuneration Clawback Policy in place. The policy is designed to further align the remuneration outcomes of the Hills senior executive team with the long-term interests of Hills and its shareholders, to ensure that excessive risk taking is not rewarded, and to provide the Board with the ability to claw back incentives paid where there has been a material misstatement in Hills' Financial Statements.

3. EXECUTIVE REMUNERATION

3.1. Alignment of Remuneration Strategy with Business Strategy

The Board recognises that the performance of Hills depends on the quality and motivation of its people and their leaders. Our remuneration strategy aims to appropriately reward, incentivise and retain talent necessary to achieve our operational and strategic goals. Core to our remuneration philosophy is a strong performance framework, where the contribution of all our employees is aligned to the interests of our shareholders. For our senior executives, this is managed through a balanced scorecard that includes both financial and non-financial measures.

We believe this approach provides alignment to our shareholders and importantly, clarity to our executives by setting expectations regarding what the Board considers are acceptable targets. The Board has established a Remuneration Strategy that supports and drives the achievement of the Hills Business Strategy. The Board is confident that the remuneration framework aligns the remuneration of the senior executives with shareholder interests. Hills is a business that is heavily focused on performance and rewarding its people on achievement.

Long-term incentives for the executives are offered to better align the executive with the long-term outcomes of the company and their leadership of it. The incentive is 100% equity-based vesting over time periods on achievement of financial hurdles. This further aligns the executive with the generation of shareholder returns over time, encouraging consistency, year on year performance and rewarding a focus on longer-term results.

3.2. Remuneration Mix

To achieve this alignment, senior executive remuneration is comprised of Fixed Remuneration (made up of base salary, other benefits, and superannuation), and variable incentive. Senior executives have a split of approximately 55–80% Fixed Remuneration and 20–45% Variable Incentive, dependent on their role.

3.3. Chief Executive Officer (CEO) Remuneration

Fixed Remuneration is reviewed annually by the Board with reference to performance of the Company, performance of the CEO and market information.

Mr David Clarke

The CEO, Mr David Clarke has a fixed remuneration of $350,000 per annum (inclusive of superannuation) and a variable incentive opportunity of $275,000 per annum split between a short-term incentive (STI) of $150,000 and a long-term incentive (LTI) of $125,000.

The short-term incentive is based on the achievement of financial and non-financial measures as per note 3.5. The incentive is paid 50% as cash and 50% as performance rights (unless the Board determines otherwise), with vesting to take place one year after achievement of the measures.

The long-term incentive is based on the achievement of the combination of financial performance targets and service conditions. The performance conditions will include an absolute test based on earnings per share growth and a relative test based on total shareholder return. On commencement (17 May 2021), Mr Clarke was issued three tranches of performance rights with each valued at $125,000, and total value of $375,000. The total number of rights at grant date was determined by the 30-day VWAP, the equivalent of which was $125,000 for each tranche, or $375,000 in total. The following table outlines the vesting profile of each tranche should the financial performance targets and service conditions be achieved.

Tranche	Vesting Profile	Vesting Date
1	100%	30/06/2024
2	100%	30/06/2025
3	100%	30/06/2026

3.4. Senior Executive Remuneration FY22

The CFO & GM of Operations, Ms Natalie Scott has a fixed remuneration of $273,750 per annum (Inclusive of superannuation) and a variable short-term incentive opportunity of $150,000 per annum. Ms Scott's fixed remuneration increased on the 18 May 2022 aligned with the additional responsibility of General Manager of Operations.

The short-term incentive is based on the achievement of financial and non-financial measures as per note 3.5.

On commencement (22 March 2021), Ms Scott was issued 125,000 performance rights with vesting staged over a three-year period as follows:

Tranche	Vesting Profile	Vesting Date
1	20%	22/03/2022
2	30%	22/03/2023
3	50%	22/04/2024

In recognition of Ms Scott additional responsibilities of GM of Operations, Ms Scott was issued a long-term incentive which is based on the achievement of the combination of financial performance targets and service conditions. The performance conditions will include an absolute test based on earnings per share growth and a relative test based on total shareholder return. Related to this LTI, Ms Scott will be issued three tranches of performance rights with each valued at $82,000. The total number of rights at grant date will be determined by the 30-day VWAP, the equivalent of which is $82,000 for each tranche, or $246,000 in total.

The following table outlines the vesting profile of each tranche should the financial performance targets and service conditions be achieved. These performance rights will be granted in September 2022.

Tranche	Vesting Profile	Vesting Date
1	100%	30/06/2023
2	100%	30/06/2024
3	100%	30/06/2025

3.5. Variable Incentive FY21

The variable incentive that was in place throughout the financial year is an at-risk component of remuneration and is designed to reward performance against the achievement of financial and non-financial objectives that are aligned to the Company's strategic plan. Each senior executive has specific objectives which are relevant to the divisions in which they operate, and a component tied to the overall company performance.

The maximum variable incentive available to each senior executive was set at a level based on role, responsibilities, and market data for the achievement of targets against specific KPIs. The maximum variable incentive opportunity for each senior executive is listed at section 3.5 as an absolute dollar amount and as a percentage of the senior executive's fixed remuneration.

The following table summarises the potential FY22 variable incentive payments where a senior executive ceased employment with Hills:

Resignation and retirement	Any entitlement to a payment was subject to the participant being employed by Hills at the time of payment unless specifically agreed otherwise by the board.
Company initiated termination	Any entitlement to a payment would be for completed months, with no pro-rata for partly completed months. The calculation of an entitlement was based on actual results for the year and paid on the scheduled date.
Summary dismissal	If summarily dismissed, a participant forfeits all rights to any payments under the FY22 variable incentive which had not already vested or been made.

Assessment of Performance and Approval of Payment

The Remuneration and Nomination Committee assessed the individual senior executive's performance based on the CEO's recommendations, against the KPIs set at the beginning of the financial year. The assessment of individual performance was combined with the achievement of financial results to determine the amount of payment for each senior executive. The Remuneration and Nomination Committee recommended the variable incentive payment outcome to the Board for approval. Variable incentive payments for FY22 are delivered as cash payments or performance rights following associated vesting criteria and approval by the Board.

FY22 Variable Incentive Performance and Outcomes

The incentive structure used to determine actual STI potential for the CEO and CFO & GM of Operations were set at 80% financial and 20% non-financial measures and outcomes. However, this was reassessed following a review of the priorities and change in nature of activities undertaken by the CEO and CFO as directed by the Board during the year. Accordingly, the Board has determined that for FY22 the STI potential for the CEO and CFO & GM of Operations be based on 40% financial and 60% non-financial measures. As a result, the outcomes and the STI and LTI achievement for FY22 are:

Executive	Target Variable Incentive opportunity $	% of fixed remuneration %	Financial outcome $	Non-financial outcome $	Total variable Incentive outcome $	Achieved %	Forfeited %
D Clarke – STI	150,000	39%	–	90,000	90,000	60%	40%
D Clarke – LTI	125,000	32%	–	–	–	0%	100%
N Scott – STI	150,000	48%	–	90,000	90,000	60%	40%
Total	**425,000**	**61%**	**–**	**180,000**	**180,000**		

1 D Clarke STI is delivered as 50% cash payments during FY23 following approval of the Board and 50% performance rights with vesting to take place 1 year after achievement of the measures based on meeting continuation of service criteria.
2 N Scott STI is delivered as 100% cash payments during FY23 following approval of the Board.

3.6. Five Year Snapshot – Business and Remuneration Outcomes

The following is a summary of financial performance and share price information over the last five years.

Key Financials		FY22	FY21	FY20 Restated*	FY19 Restated*	FY18
Shareholder funds	$000	9,252	33,232	43,089	51,180	61,308
Statutory net (loss)/profit	$000	(23,953)	(10,224)	(6,530)	(10,003)	359
Basic (loss)/earnings per share	cents	(10.3)	(4.4)	(2.8)	(4.3)	0.2
Dividends	cents	–	–	–	–	–
Share price – as at 30 June	$	0.070	0.140	0.165	0.180	0.230
Variable Incentive Payments – % of Target Opportunity	%	42%	19%	22%	40%	30%

FY23 Variable Short-Term Incentive for CEO and senior executives

For FY23, the Variable Incentive plan continues to be based on a mix of financial and non-financial objectives specific to the executive and their role in driving overall company performance.

The CEO's short-term incentive is paid 50% in cash and 50% as performance rights that vest after 1 year of entitlement. The annual performance against the CEO for FY23 will be measured in accordance with the balanced scorecard which has the following measure:

Element	Measure
Financial 80% of variable incentive	FY23 Net Profit After Tax (NPAT) Cumulative Divisional EBIT performance Other Board determined measures
Non-financial 20% of variable Incentive	Board determined measures

Other executives have similar scorecards which reflect their specific roles. Senior executives have a split of approximately 70–80% Fixed Remuneration and 30–20% Variable Incentive, dependent on their role.

The Board holds the final discretion to amend and reward achievement and payment of short-term incentives.

Divisional executives' financial measures include both overall Group results and contribution from their own division.

4. EXECUTIVE CONTRACTS AND TERMINATION ARRANGEMENTS

The remuneration and other terms of employment for the CEO , and senior executives are covered in their individual employment contracts, the key terms of which are summarised below:

Chief Executive Officer	• Contract is an ongoing employment unless terminated by either party with no less than four months written notice. • The employee is subject to a post-employment non-solicit and non-compete restraint of up to 12 months. • Other terms are standard under Australian law for a position of this nature.
Senior Executives	• The contracts may be terminated by either party by giving three or four months written notice.
General	• There are no guaranteed base pay increases included in any senior executive contract. • In the instance of serious misconduct, Hills may terminate employment at any time. The executive will only receive payment to the date of termination and any statutory entitlements. • Retirement benefits comprise employer contributions to nominated superannuation funds.

5. REMUNERATION OF EXECUTIVE KEY MANAGEMENT PERSONNEL

5.1. Remuneration tables

Details of the nature and amount of each element of remuneration are as follows:

	Short-term benefits			Long-term benefits	Post-employment benefits	Departure benefits	Share-based payments	
	Salary package[1] $	Cash Bonus[2] $	Other short-term benefits[3] $	Long service leave[4] $	Super-annuation benefits[5] $	Departure Payments $	Performance Rights[6] $	Total remuner-ation $
2022								
D Clarke	324,098	45,000	28,128	5,977	27,500	–	61,212	491,915
N Scott	250,817	105,000	28,750	4,781	27,207	–	10,107	426,662
	574,915	**150,000**	**56,877**	**10,758**	**54,707**	**–**	**71,319**	**918,577**
2021								
D Lenz	320,887	50,000	(1,132)	5,323	25,817	113,246	6,315	520,456
D Clarke	30,733	–	2,964	642	2,919	–	11,171	48,429
C Jacka	73,591	–	4,367	957	11,224	57,078	–	147,217
N Scott	62,498	–	4,307	1,140	5,937	–	2,882	76,764
A Hall	264,917	50,228	–	4,591	25,000	–	–	344,736
	752,626	**100,228**	**10,506**	**12,653**	**70,897**	**–**	**20,368**	**1,137,602**

1 Salary package amounts include salary sacrificed superannuation.
2 The cash bonus amount is net of any superannuation required to be contributed by the Company. Ms Scott cash bonus includes a $15,000 bonus relating to FY21.
3 Other short-term benefits represent net annual leave accrued during the year.
4 Net long service leave accrued during the year.
5 Superannuation benefits include the amount required to be contributed by the Company and exclude amounts salary sacrificed.
6 Performance right represents the value of the rights expensed over the financial period. Further details are set out below in section 5.2. The value does not represent cash received.

5.2. Performance Rights

No performance rights were awarded in the current financial year to existing executives.

Performance rights awarded in the previous financial year were in respect to the new employment agreements to CEO Mr Clarke and CFO & GM of Operations Ms Scott.

The cost of these equity settled transactions is determined by reference to the fair value at the date at which they are granted. The expense recognised for these equity-settled performance rights is recognised over the vesting period.

Performance Rights	Opening balance	Granted	Vested	Forfeited	Closing balance
2022					
D Clarke	2,614,059	–	–	–	2,614,059
N Scott	125,000	–	(25,000)	–	100,000
	2,739,059	**–**	**(25,000)**	**–**	**2,714,059**
2021					
D Clarke	–	2,614,059	–	–	2,614,059
N Scott[1]	–	125,000	–	–	125,000
D Lenz	162,242	–	(122,917)	(39,325)	–
	162,242	**2,739,059**	**(122,917)**	**(39,325)**	**2,739,059**

1 Ordinary shares for the performance rights vested during the current financial year will be issued in September 2022.

The vesting profiles of the performance rights granted:

Executive	Grant Date	FY22	FY23	FY24	FY25	FY26	FY27
D Clarke							
Tranche 1	17/05/2021	–	–	100%	–	–	–
Tranche 2	17/05/2021	–	–	–	100%	–	–
Tranche 3	17/05/2021	–	–	–	–	100%	–
N Scott							
Tranche 1	22/03/2021	20%	–	–	–	–	–
Tranche 2	22/03/2021	–	30%	–	–	–	–
Tranche 3	22/03/2021	–	–	50%	–	–	–

Remuneration report (audited)

For the year ended 30 June 2022

The Performance Rights that vested in the current financial year which include grants from the previous years are as follows:

Performance Rights which vested during the year	Total grant	% vested	Number vested
2022			
FY21 grant	125,000	20%	25,000
			25,000
2021			
FY18 grant	198,646	50%	99,323
FY19 grant	78,649	30%	23,595
			122,918

6. REMUNERATION OF NON-EXECUTIVE DIRECTORS

The Board sets Non-executive director Remuneration at a level that enables the attraction and retention of high calibre directors, while incurring a cost that is acceptable to shareholders. The remuneration of the non-executive directors is determined by the Board on recommendation from the Nomination and Remuneration Committee.

Non-executive directors receive a fee that includes any statutory superannuation contributions. Non-executive directors do not receive any performance-based pay.

6.1. Fee Pool

The maximum amount of fees that can be paid to non-executive directors is capped by a pool approved by shareholders. At the 2011 Annual General Meeting, shareholders approved the current fee pool of $1.2 million.

	Chair fee $	Member fee $
	From 15 February 2021	
Board	85,000	60,000
Audit and Risk Committee	10,000	–
Nomination and Remuneration Committee	–	–

6.2. Non-executive directors' remuneration details

	Fees	Non-monetary benefits $	Superannuation $	Total remuneration $
2022				
D Chambers	76,581	–	7,658	84,239
P Steel	63,645	–	6,365	70,010
J Muir [2]	36,713	–	3,671	40,385
K Dwyer [2]	54,553	–	5,455	60,008
J Hill-Ling [2]	18,752	–	8,677	27,429
	250,245	**–**	**31,826**	**282,071**
2021				
J Hill-Ling	56,726	–	25,952	82,678
D Chambers [1,2]	73,880	–	7,019	80,899
K Dwyer	36,881	–	3,504	40,385
P Steel [2]	14,207	–	1,355	15,561
F Bennett [2]	31,769	–	–	31,769
P Bullock AO [2]	10,537	–	1,001	11,539
	224,000	**–**	**38,830**	**262,830**

1 Mr D Chambers' fees included $43,880 of fees to provide additional support to the senior leadership team in the health division.
2 Directors appointed and retired during the year. Refer to key management personnel table on pg 16.

6.3. Retirement Allowance for Non-executive Directors

Ms J Hill-Ling is entitled to receive benefits on retirement under a scheme that was discontinued on 1 August 2003. Under the scheme, Ms J Hill-Ling is entitled to a maximum retirement benefit of twice her annual Director's fee (calculated as an average of her fees over the last three years) with a vesting period of eight years, which has been achieved. The value of the benefit is $280,000 of which $50% was paid during the period, with the balance to be paid in FY23. The benefit was accrued and included in non-executive director remuneration in prior periods.

Since the scheme was discontinued, no new Directors have become entitled to any benefit and the benefit multiple (up to a maximum of two times fees) remains fixed.

7. EQUITY HOLDING OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

The number of shares in the Company held during the financial year by each Director of Hills Limited and other key management personnel of the Company, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

From 1 July 2018, the Board has adopted a practice requiring each Director to acquire (directly or indirectly) Hills' securities over a reasonable period having regard to fluctuations in share price to an approximate value equivalent to one year's director's fees (post tax). For newly appointed directors, this period will commence from the date of appointment.

	Balance at start of the year	Received during the year on the exercise of rights	Other changes during the year	Balance at the end of the year	Balance at the date of report
Ordinary shares					
Non-executive directors					
D Chambers	75,000	–	346,000	421,000	421,000
P Steel	260,000	–	149,000	409,000	409,000
J Muir	–	–	–	–	–
K Dwyer [2]	900,000	–	–	900,000	900,000
J Hill-Ling [1,2]	18,346,677	–	25,517,442	43,864,119	43,864,119
	19,581,677	–	26,012,442	45,594,119	45,594,119
Senior executives					
D Clarke	–	–	–	–	–
N Scott [3]	–	–	–	–	–

1 Direct: Jennifer Helen Hill-Ling: 248,666; Indirect: (i) Poplar Proprietary Limited: 16,550,845 (ii) Hills Associates Limited: 13,455,689 (iii) Greybox Holdings Pty Ltd, 7,373,738 (iv) Hills Associates Pty Ltd: 3,212,752 (v) Silky Oak Nominees Pty Ltd, 1,202,550 (vi) Poplar Proprietary Limited and Hills Associates Ltd (joint holding): 1,188,918 (vii) Jar-rah Group Pty Limited, 265,000 (viii) JHL Superannuation Pty Ltd 160,000 (ix) Ling Nominees Pty Ltd; 105,961 (x) Mulga (SA) Pty Ltd: 100,000.
2 Directors retired during the year. Refer to key management personnel table on pg 17.
3 Ordinary shares relating to performance rights vested during the current financial year will be issued in September 2022.

7.1. Loans to Key Management Personnel

There were no loans to KMP or their related parties at the reporting date.

7.2. Other Transactions with Key Management Personnel

Several KMP or their related parties hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

From time to time, KMP purchase goods or services from Hills or make sales of goods or services to Hills. These purchases or sales are on the same terms and conditions as those entered into by Hills employees, customers or suppliers and are trivial and domestic in nature.

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 audit of Hills Limited for the financial year ended 30 June 2022 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Julie Cleary
Partner

Sydney

26 September 2022

Contents

Consolidated financial statements

Notes to the consolidated financial statements

SECTION 1: BASIS OF PREPARATION

SECTION 2: BUSINESS PERFORMANCE

SECTION 3: OPERATING ASSETS AND LIABILITIES

SECTION 4: CAPITAL AND FINANCING

SECTION 5: GROUP STRUCTURE

SECTION 6: UNRECOGNISED ITEMS

SECTION 7: OTHER

SIGNED REPORTS

ASX INFORMATION

Hills Limited

Consolidated statement of profit or loss and comprehensive income

For the year ended 30 June 2022

	Notes	2022 $'000	2021 Restated* $'000
Revenue	2.3	**47,267**	49,260
Cost of sales	2.5	**(23,398)**	(23,532)
Gross Margin		**23,869**	25,728
Other income	2.4	**155**	160
Expenses excluding net finance expenses			
Labour and related expenses	2.5	**(16,049)**	(14,766)
Operational and equipment expenses	2.5	**(418)**	(462)
Depreciation and amortisation	2.5, 3.5	**(3,887)**	(4,364)
Other expenses	2.5	**(8,438)**	(9,490)
Expenses excluding net finance expenses		**(28,792)**	(29,082)
Loss before net finance expense and income tax		**(4,768)**	(3,194)
Finance income	2.6	**9**	44
Finance expenses	2.6	**(1,714)**	(2,376)
Net finance expenses	2.6	**(1,705)**	(2,332)
Loss before income tax		**(6,473)**	(5,526)
Income tax (expense)/benefit	2.7	**(1,852)**	368
Loss after tax from continuing operations		**(8,325)**	(5,158)
Loss from discontinued operation (net of tax)	2.2	**(15,628)**	(5,065)
Total loss for the year attributable to members of the Company		**(23,953)**	(10,224)
		Cents	Cents
Earnings per share			
Basic and diluted (loss) per share	2.8	**(10.33)**	(4.41)
Basic and diluted (loss) per share from continuing operations		**(3.59)**	(2.22)
		$'000	$'000
Other comprehensive income			
Loss for the year		(23,953)	**(10,224)**
Items that may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		**14**	2
Cash flow hedges – effective portion of changes in fair value		**–**	493
Income tax relating to components of other comprehensive income	2.7	**–**	(148)
Other comprehensive income for the year, net of tax		**14**	347
Total comprehensive income/(loss) for the year, attributable to owners of Hills Limited		**(23,939)**	(9,876)

* During FY22, the Group divested the security and IT distribution business, and it is presented as a discontinued operation. As a result, the comparative numbers have been re-presented to conform with the current year presentation.

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

Consolidated statement of financial position

As at 30 June 2022

	Notes	2022 $'000	2021 $'000
ASSETS			
Current assets			
Cash and cash equivalents	3.1	**6,458**	6,835
Trade and other receivables	3.2	**13,512**	31,517
Inventories	3.3	**3,153**	22,001
Total current assets		**23,123**	60,353
Non-current assets			
Investments		**2**	2
Property, plant, and equipment	3.5	**7,844**	10,797
Right-of-use asset	3.6	**3,256**	7,256
Intangible assets	3.7	**1,597**	3,077
Deferred tax assets	2.7	**–**	13,916
Total non-current assets		**12,699**	35,048
Total assets		**35,822**	95,401
LIABILITIES			
Current liabilities			
Trade and other payables	3.4	**12,626**	24,333
Lease liabilities	3.6	**2,850**	4,162
Borrowings	4.4	**3,096**	533
Provisions	3.8	**3,025**	5,120
Total current liabilities		**21,597**	34,148
Non-current liabilities			
Lease liabilities	3.6	**3,266**	6,318
Borrowings	4.4	**120**	19,475
Provisions	3.8	**1,587**	2,228
Total non-current liabilities		**4,973**	28,021
Total liabilities		**26,570**	62,169
Net assets		**9,252**	33,232
EQUITY			
Contributed equity	4.1	**278,439**	278,439
Reserves	4.2	**10,979**	10,894
Accumulated losses		**(280,054)**	(256,101)
Non-controlling interests		**(112)**	–
Total equity		**9,252**	33,232

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

Consolidated statement of changes in equity

For the year ended 30 June 2022

	Notes	Contributed equity $'000	Equity compensation reserve $'000	Translation & other reserves $'000	Accumulated losses $'000	Non-Controlling Interests $'000	Total $'000
		Attributable to owners of Hills Limited					
Balance at 1 July 2020		278,439	762	9,765	(245,877)	–	43,089
Loss for the year ended 30 June 2021		–	–	–	(10,224)	–	(10,224)
Other comprehensive income							
Foreign currency translation differences		–	–	2	–	–	2
Net change in fair value of hedges net of tax		–	–	345	–	–	345
Employee share schemes	2.5	–	20	–	–	–	20
Balance at 30 June 2021		278,439	782	10,112	(256,101)	–	33,232
Loss for the year ended 30 June 2022		–	–	–	(23,953)	–	(23,953)
Other comprehensive income							
Foreign currency translation differences		–	–	14	–	–	14
Acquisition of subsidiary		–	–	–	–	(112)	(112)
Employee share schemes	2.5	–	71	–	–	–	71
Balance at 30 June 2022		278,439	853	10,126	(280,054)	(112)	9,252

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

Consolidated statement of cash flows

For the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
Cash flows from operating activities			
Receipts from customers		**167,982**	206,847
Payments to suppliers and employees		**(164,417)**	(203,433)
		3,565	3,414
Net finance costs paid		**(1,410)**	(2,221)
Net income taxes paid		**–**	–
Net cash flows from operating activities	3.1	**2,155**	1,193
Cash flows from investing activities			
Payments for property, plant and equipment		**(2,512)**	(2,078)
Proceeds from sale of business operations and subsidiaries		**21,267**	–
Proceeds from sale of property plant and equipment		**154**	10
Payments for acquisitions of subsidiaries/business operations, net of cash acquired		**(1)**	–
Payments for intangible assets		**–**	(955)
Net cash flows from/(used in) investing activities		**18,908**	(3,023)
Cash flows from financing activities			
Proceeds from borrowings	4.4	**3,437**	26,114
Repayment of borrowings	4.4	**(20,543)**	(26,762)
Payment of lease liabilities		**(4,394)**	(3,402)
Payments to non-controlling interests in subsidiaries		**(99)**	–
Net cash flows used in financing activities		**(21,599)**	(4,050)
Net (decrease) in cash and cash equivalents		**(536)**	(5,880)
Cash and cash equivalents at the beginning of the year		**6,835**	12,236
Effects of exchange rate changes on cash and cash equivalents		**159**	479
Cash and cash equivalents at end of the year	3.1	**6,458**	6,835

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

Notes to the consolidated financial statements

For the year ended 30 June 2022

Section 1: Basis of Preparation

1.1. REPORTING ENTITY

These consolidated 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 year ended 30 June 2022 and were authorised for issue in accordance with a resolution of the Directors on 26 September 2022.

Hills Limited is a for profit company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

The Group operates in Australia and New Zealand and during the period the Principal activities of the Group was 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. During the period, the Group undertook the divestment of security and IT distribution business which was concluded in May 2022.

1.2. BASIS OF PREPARATION

These general purpose consolidated financial statements:

- are presented in Australian dollars, which is the Company's functional and presentation currency.
- have been prepared in accordance with Australian Accounting Standards (AASBs), other authoritative pronouncements of the Australian Accounting Standards Board, and the Corporations Act 2001.
- comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).
- have been prepared based on historical costs, except for financial instruments (derivatives) at fair value. The methods used to measure fair values are discussed further in note 4.6.

1.3. GOING CONCERN

The financial statements have been prepared on the going concern basis of accounting, which assumes the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Group has reported a loss after tax for the year ended 30 June 2022 of $23.95m (2021: loss after tax of $10.22m), included within this is the loss from discontinued operations divested in May 2022 of $15.63m (2021: loss from discontinued operations of $1.87m). As at 30 June 2022, the Group has net current assets of $1.52m, included within this is are bank borrowings of $2.3m which have a maturity of 30 September 2022.

The directors believe the use of the going concern assumption is appropriate in the preparation of the financial report, having regard to the following:

- Subsequent to year-end, the Group has entered into a binding agreement to refinance its bank borrowings with an alternative financier. The refinancing will provide the Group with additional funding to repay bank borrowings maturing on 30 September 2022 and to invest in the Hills Health Solutions segment.
- The Group's projections forecast an improvement in underlying performance for financial year 2023 and beyond, included within this projection is an increase in forecast profitability and operating cash inflows.
- The Group has completed the divestment of the security and IT distribution business in May 2022, through this divestment and other cost saving initiatives, the Group has reduced its operating costs, the effects of which are expected to be greater realised in financial year 2023.

After considering the above, the directors consider that the Group will be able to continue to fulfil all obligations as and when they fall due for the foreseeable future, being at least one year from the date of approval of these financial statements, and accordingly, that the Group's financial statements are prepared on a going concern basis.

1.4. KEY ACCOUNTING ESTIMATES

In preparing these 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 these consolidated 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 2021. During the year ended 30 June 2022 management reassessed its estimates in respect of:

- On 1 November 2021, the Group announced the decision to exit its loss-making New Zealand security distribution operations as part of the Company's strategy to focus on cash generation and areas of long-term growth potential. As a result, non-operating costs of $0.7 million relating to impairments of inventory and assets were recorded in the Group results.
- On 4 November 2021, the Group acquired Extensia Pty Ltd, a small software development company (refer note 5.4). The purchased goodwill is attributable to the technical development of the software and the synergies expected to be achieved from integrating the company into the Group's health offering. Due to the start-up nature of the business, management has not recognised the $0.2 million of goodwill in the financial statements.
- A non-cash tax expense of $13.9 million was reported reflecting the reversal of timing differences and tax losses in the deferred tax asset. Significant carried forward tax losses are expected to result in the Company having no tax payable in the foreseeable future. Given the substantial carried forward tax losses, the length of the forecast period over which they would be recouped, and the uncertainty in the economy, the deferred tax asset has been impaired in full in the current year.
- On 21 February 2022, the Group announced it had signed a conditional Business Sales Agreement ("BSA") to divest its security and IT distribution business to ASX-listed company Dicker Data Limited (ASX:DDR). As a result:
  - Management assessed the useful lives of the IT development and software assets and wrote down those assets by $0.9 million to reflect the change in the economic benefits that will be derived from those assets.
  - Management assessed the useful life of property, plant and equipment and wrote down those assets by $0.2 million to reflect the change in the economic benefits that will be derived from those assets.
- On 2 May 2022, the divestment of security and IT distribution business to Dicker Data Limited was completed for consideration of $21.3 million (refer note 2.2). Under the terms of the business sales agreement (BSA) Dicker Data acquired the business for cash consideration structured as a partial net asset sale. Upon completion Dicker Data acquired the business, inventory, customer and vendor relationships, employees and their entitlement obligations, and certain net assets of the SIT division. Hills retained the Hills' brands, and trade receivables and payables existing at completion. The purchase price represented a premium to the net assets sold representing a profit before tax of $1.0 million. Most of the proceeds from the divestment was immediately applied to reducing the Group's debt.

1.5. PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2022 and the results of all subsidiaries for the year then ended. A list of subsidiaries is included in note 5.1.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and have the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control was obtained by the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances, and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Hills.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

1.6. FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Australian dollar is the Company's functional and presentation currency and the functional and presentation currency of most of the Group.

Transactions and balances

Transactions in foreign currencies are translated to the respective functional currencies of Group Entities using exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

Group entities

The results and financial position of all Group Entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

Closing rate:	Assets and liabilities for each statement of financial position.
Average rate:	Income and expenses for each income statement: average rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions dates (in which case, the rates on the transaction dates are used). All resulting exchange differences are recognised in other comprehensive income.

1.7. 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

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

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. During the reporting period the Group had three reportable segments as summarised below:

Hills Health Solutions	Designs, supplies and installs 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 Technical Solutions	Provides technology installation and maintenance services for residential and commercial premises across Australia and New Zealand.
Hills Distribution	The Distribution business provided a diverse range of products and solutions to assist our customers support end users within the security, surveillance and IT markets. During the period, the business was divested (refer note 2.2).

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 2.3.

Major customers

Revenues from one customer of the Groups HTS segment represents approximately $14 million (2021 $13 million) of the Group's total revenues.

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.

INFORMATION ABOUT REPORTABLE SEGMENTS

	HTS		Health		Corporate		Total Continuing operations		Operations divested (the "Disposal group")		Total operations	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000	2022 $'000	2021 $'000	2022 $'000	2021 $'000	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Sales revenue	**16,230**	15,286	**30,036**	33,974	**1,000**	–	**47,267**	49,260	**89,032**	130,891	**136,299**	180,151
Segment EBITDA	**744**	424	**3,837**	9,694	**(2,487)**	(3,888)	**2,094**	6,230	**1,606**	5,803	**3,700**	12,033
Depreciation and amortisation	**(9)**	(100)	**(3,586)**	(4,263)	**(292)**	–	**(3,887)**	(4,364)	**(4,625)**	(5,467)	**(8,512)**	(9,830)
Profit on sale of business	**–**	–		–	**–**	–	**–**	–	**1,002**	–	**1,002**	–
Write-off of assets relating to exited businesses	**–**	–	**–**	–	**–**	–	**–**	–	**(396)**	(592)	**(396)**	(592)
Write-off of liabilities relating to exited businesses	**–**	–	**–**	–	**–**	–	**–**	–	**190**	–	**190**	–
Write-off of assets relating to exited vendors	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(175)	**–**	(175)
Aged, slow-moving & demonstration stock write-offs	**–**	–	**–**	(256)	**–**	–	**–**	(256)	**–**	(1,144)	**–**	(1,400)
Reassessment of asset lives & property settlements	**–**	–	**–**	(337)	**–**	–	**–**	(337)	**(1,600)**	(213)	**(1,600)**	(550)
Foreign exchange losses	**–**	–	**–**	–	**–**	(1,656)	**–**	(1,656)	**–**	–	**–**	(1,656)
Other income	**–**	–	**121**	161	**34**	–	**155**	161	**278**	59	**433**	220
Other expense	**–**	–	**–**	–	**(3,131)**	(2,970)	**(3,131)**	(2,970)	**–**	(138)	**(3,131)**	(3,108)
Net financing expense	**–**	–	**–**	–	**(1,705)**	(2,333)	**(1,705)**	(2,333)	**(19)**	–	**(1,724)**	(2,333)
Net profit/(loss) before income tax	**736**	324	**372**	4,998	**(7,581)**	(10,847)	**(6,473)**	(5,525)	**(3,564)**	(1,866)	**(10,037)**	(7,391)

2.2. DISCONTINUED OPERATION

During the current period, the Group divested the Hills security and IT distribution business. The divestment is part of the Company's ongoing strategy to focus on the strong growth prospects associated with the Hills Health Solutions division and Hills Technical Services operation.

Under the terms of the business sales agreement (BSA) Dicker Data acquired the business for cash consideration structured as a partial net asset sale. Upon completion Dicker Data acquired the business, inventory, customer and vendor relationships, employees and their entitlement obligations, and certain net assets of the SIT division. Hills retained the Hills' brands, and trade receivables and payables existing at completion.

The purchase price represented a premium to the net assets sold with the final amount largely dependent on inventory-related balances at the completion date. The divestment was completed in May 2022 for final consideration of $21.3 million.

The majority of the proceeds from the divestment was immediately applied to reducing the Company's debt. Profit before tax on the divestment was $1.0 million.

	Notes	2022 $'000	2021 $'000
A. Results of Discontinued operation			
Revenue from discontinued operations		89,032	130,891
Expenses from discontinued operations		(92,596)	(132,756)
Profit / (loss) before tax from discontinued operations		(3,564)	(1,865)
Income tax expense from discontinued operations		(12,064)	(3,200)
Profit / (loss) from discontinued operation (net of tax)		(15,628)	(5,065)
Gain on sale of discontinued operation		1,002	–
Income Tax on gain on sale of discontinued operation		–	–
Post tax gain on disposal of discontinued operations		1,002	–

	Notes	Cents	Cents
Earnings per share			
Basic and diluted (loss) per share	2.8	(6.74)	(2.18)

	Notes	$'000	$'000
B. Cash flows from (used in) discontinued operation			
Net cash from operating activities		10,795	4,366
Net cash from investing activities		21,267	(1,185)
Net cash flows for the year		32,062	3,181
C. Effect of disposal on the financial position of the Group			
Property, plant and equipment		614	–
Inventories		21,323	–
Trade and other receivables		1,664	–
Trade and other payables		(2,334)	–
Net assets and liabilities		21,267	–
Consideration received, satisfied in cash		21,267	–
Net Cash inflows		21,267	–

Notes to the consolidated financial statements

For the year ended 30 June 2022

2.3. REVENUE

	Continuing operations		Discontinued operation		Total	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Sales revenue						
Sale of goods	**1,565**	1,909	**88,836**	130,323	**90,401**	132,232
Services	**45,702**	47,351	**196**	568	**45,898**	47,919
	47,267	49,260	**89,032**	130,891	**136,299**	180,151

RECOGNITION AND MEASUREMENT

Revenue is recognised when performance obligations are satisfied, and the control of goods or services is transferred.

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

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 occurs at the point of sale or when the goods are collected/delivered.

Rendering of services

During the year, the Group generated revenue from the provision of various services including design and installation of health technology solutions, information technology, audio visual and customer support services. Revenue relating to design, installation, and IT is principally recognised on a point in time basis, which occurs upon completion of the service given the short time over which the services are provided. Revenue relating to longer term installation services and customer support services is recognised over time as services and work is completed. Amounts collected for services not yet provided are recorded as deferred revenue in the balance sheet.

2.4. OTHER INCOME

	Continuing operations		Discontinued operation		Total	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Net gain/(loss) on disposal of non-current assets	**32**	(15)	**154**	33	**186**	18
Other income	**123**	175	**124**	27	**247**	202
	155	160	**278**	60	**433**	220

The net gain on disposal of non-current assets relates to gains on the sale of motor vehicles as well as furniture and fittings.

2.5. EXPENSES CONTINUING OPERATIONS

Profit/(loss) before income tax includes the following specific expenses:

	2022 $'000	2021 Restated* $'000
Cost of Sales		
Cost of goods sold	3,790	4,849
Direct cost of services provided	19,608	18,683
Total cost of sales	23,398	23,532
Employee benefits expenses		
Wages and salaries	12,576	12,570
Superannuation contributions	1,140	1,080
Other employee benefit expense	1,589	579
Equity settled share-based payment transactions	71	20
Temporary staff and other costs	673	517
Total employee benefit expenses	16,049	14,766
Operational and equipment expenses		
Repairs and maintenance	340	429
Freight	78	33
Total operations and equipment expenses	418	462
Depreciation		
Plant and equipment	2,362	2,133
Right of use assets	983	1,331
Total depreciation	3,345	3,464
Amortisation		
Software	542	321
Development costs	–	579
Total amortisation	542	900
Total depreciation and amortisation	3,887	4,364
Other		
General and administrative expenses	5,308	4,269
Foreign exchange losses – ineffective portion of changes in fair value	–	1,656
Aged, slow moving, and demonstration stock	–	256
Reassessment of asset lives and property settlements	–	337
Other costs	3,130	2,972
Total Other	8,438	9,490

* During FY22, the Group divested the security and IT distribution business, and it is presented as a discontinued operation. As a result, the comparative numbers have been re-presented to conform with the current year presentation.

INFORMATION ON EXPENSES

Accounting standards require that an analysis of expenses is presented using a classification based on either their nature or their function. The Group presents expenses classified by nature in order to provide information that is relevant and consistent with how management monitors business performance.

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

Cost of goods sold	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 decreased in the current year (FY22 $0.4m compared to FY21 $1.3m). Government grants are recognised when there is reasonable assurance that they will be received, and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised, as reduction in the related expense.
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.
Depreciation and amortisation	Refer note 3.5, 3.6 and 3.7.
Other expenses	General and administrative expenses include overhead expenses (such as legal costs, insurance, advertising and marketing, professional and consulting fees, telecommunications, and information technology related expenses).

2.6. FINANCE AND INCOME AND EXPENSES

	2022 $'000	2021 $'000
Finance expenses		
Interest and finance charges paid/payable	**634**	515
Amortisation of deferred borrowing costs	**314**	111
Lease finance costs	**411**	558
Other financing costs	**355**	1,192
Total finance expenses	**1,714**	2,376
Finance income		
Interest income	**(9)**	(44)
Net finance costs expensed	**1,705**	2,332

2.7. INCOME TAX

INCOME TAX EXPENSE

	2022 $'000	2021 $'000
Income tax expense:		
Income tax (benefit) / expense comprises:		
Current tax	–	–
Deferred tax	1,852	(368)
	1,852	(368)
Numerical reconciliation of income tax (benefit) / expense to prima facie tax payable:		
(Loss) from continuing operations before income tax expense	(6,473)	(5,526)
Tax at the Australian tax rate of 30% (2020: 30%)	(1,942)	(1,658)
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Non-deductible expenses	(68)	116
Derecognition / (recognition) of deferred tax assets	1,852	(279)
Tax losses for which no deferred tax asset is recognised	2,010	1,453
Total income tax expense / (benefit)	1,852	(368)
Difference in overseas tax rates	–	–
Total income tax expense / (benefit)	1,852	(368)
Income tax expense relating to items of other comprehensive income:		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to other comprehensive income:		
Income / (losses) on cash flow hedges	–	(148)
Aggregate income tax expense	–	(148)

INCOME TAX RECEIVABLE/(PAYABLE)

Income tax receivable / (payable) is nil. (2020: nil).

Notes to the consolidated financial statements

For the year ended 30 June 2022

DEFERRED TAX ASSETS AND LIABILITIES

	Balance at 1 July $'000	Recognised in profit or loss Continuing operations $'000	Recognised in profit or loss Discontinuing operations $'000	Recognised in other comprehensive income $'000	Balance at 30 June $'000
Movements 2021					
Property, plant, and equipment	3,627	139	(1,338)	–	2,428
Inventories	3,162	129	(286)	–	3,005
Employee benefits	1,344	63	(281)	–	1,126
Receivables	(155)	(1)	310	–	154
Payables	(225)	–	209	–	(16)
Provisions	1,177	–	(167)	–	1,010
Other accruals	287	43	31	–	361
Derivative financial instruments	1,373	–	(1,225)	(148)	–
Other	687	(5)	(30)	–	652
Tax losses	5,467	–	(271)	–	5,196
	16,733	**368**	**(3,048)**	**(148)**	**13,916**
Movements 2022					
Property, plant, and equipment	2,428	79	(2,507)	–	–
Inventories	3,005	(1,261)	(1,744)	–	–
Employee benefits	1,126	(613)	(513)	–	–
Receivables	154	(14)	(140)	–	–
Payables	(16)	1	16	–	–
Provisions	1,010	(1)	(1,010)	–	–
Other accruals	361	(43)	(318)	–	–
Other	652	–	(652)	–	–
Tax losses	5,196	–	(5,196)	–	–
	13,916	**(1,852)**	**(12,064)**	**–**	**–**

UNRECOGNISED TAX LOSSES

The Company has estimated tax losses across the Group as follows:

	Jurisdiction	
	Australia AUD $'000	New Zealand NZD $'000
Non-recognised tax losses – revenue items		
Balance at the beginning of the period	240,359	6,442
Movement during the period	17,424	1,387
Balance at the end of the period	257,783	7,829
Non-recognised tax losses – capital items		
Balance at the beginning of the period	31,012	–
Movement during the period	–	–
Balance at the end of the period	31,012	–
Total revenue and capital losses not recognised	288,795	7,829
Total potential tax benefit	86,634	2,192
Rate of income tax	30%	28%

Revenue and capital tax losses do not expire under current legislation but must continue to satisfy the requirements of the relevant tax legislation relating to continuity of ownership and same business test.

Revenue losses	Deferred tax assets related to revenue losses have been recognised where taxable profits are considered probable.
Capital losses	Deferred tax assets have not been recognised in respect of capital losses because it is not probable that future capital gains will be available against which the Group can utilise the benefits from these items.

TAX CONSOLIDATION LEGISLATION

Tax funding agreement

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each reporting period. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables and eliminated on consolidation.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Notes to the consolidated financial statements

For the year ended 30 June 2022

RECOGNITION AND MEASUREMENT

Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and subsidiaries operate and generate taxable income.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax consolidation

The head entity, Hills Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts arising from temporary differences. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Hills Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

KEY ESTIMATE: UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets are only recognised for deductible temporary differences and tax losses to the extent that it is probable that taxable profits will be available to utilise them. The financial projections used in assessing the probability of taxable profits are inherently subject to management judgement. During the period, the Group reversed $13.9 million of deferred tax assets, reporting a non-cash tax expense. Significant carried forward tax losses is expected to result in the Company having no tax payable in the foreseeable future.

GOODS AND SERVICES TAX (GST)

Revenues, expenses, and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities that are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

2.8. EARNINGS PER SHARE

	Continuing operations		Discontinued operation		Total	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Earnings used in calculating earnings per share						
Basic and diluted loss – attributable to the ordinary equity holders of the Company	**(8,325)**	(5,158)	**(15,628)**	(5,065)	**(23,953)**	(10,224)

	2022 Number	2021 Number
Weighted average number of ordinary shares used as the denominator	**231,985,526**	231,985,526

	Continuing operations		Discontinued operation		Total	
	2022 Cents	2021 Cents	2022 Cents	2021 Cents	2022 Cents	2021 Cents
Basic and diluted earnings per share						
Attributable to the ordinary equity holders of the Company	**(3.59)**	(2.22)	**(6.74)**	(2.18)	**(10.33)**	(4.41)
From continued and discontinued operations	**(3.59)**	(2.22)	**(6.74)**	(2.18)	**(10.33)**	(4.41)

Section 3: Operating assets and liabilities

This section provides information on the operating assets used and the operating liabilities incurred by the Group:

3.1. CASH AND CASH EQUIVALENTS

	2022 $'000	2021 $'000
Cash at bank and in hand	**4,753**	3,300
Short term deposits	**1,705**	3,535
	6,458	6,835

	2022 $'000	2021 $'000
Reconciliation of cash flows from operating activities		
Loss for the period	**(23,953)**	(10,224)
Adjustments to reconcile loss to net cash flows:		
Depreciation and amortisation	**8,512**	9,831
Net gain on sale of non-current assets	**(154)**	(18)
Net gain on assets & liabilities sold during sale of business	**(1,567)**	–
Impairment of property plant and equipment/intangibles	**1,160**	–
Impairment of other receivables	**(215)**	–
Impairment of inventories	**(187)**	630
Impairment of goodwill	**261**	–
Share-based payments	**71**	20
Amortisation of capitalised borrowing costs	**314**	111
Other non-cash items	**(280)**	326
Change in operating assets and liabilities:		
Decrease in trade and other receivables	**18,210**	7,810
(Increase)/decrease in inventories	**(1,854)**	2,731
Decrease in trade and other payables	**(11,613)**	(5,791)
Decrease in financial derivatives	**–**	(6,234)
Decrease in provisions	**(474)**	(831)
Decrease in deferred tax assets	**13,916**	2,832
Net cash flows from operating activities	**2,147**	1,193

There has been a significant decrease in trade and other receivables, inventory, and payables from the prior year. This is principally due to the divestment as described in note 2.1 Segment information and note 2.2 Discontinued operation.

RECOGNITION AND MEASUREMENT

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

3.2. TRADE AND OTHER RECEIVABLES

	2022 $'000	2021 $'000
Trade receivables	**9,578**	26,493
Less: Provision for impairment of receivables	**(307)**	(523)
	9,271	25,970
Other receivables	**3,257**	3,866
Prepayments	**984**	1,681
	13,512	31,517
The ageing of the Group's trade receivables at the reporting date is as follows:		
Not past due	**1,996**	18,106
Past due 0–30 days	**4,195**	5,763
Past due 31–90 days	**2,705**	1,415
Past due more than 90 days	**682**	1,209
Total trade receivables	**9,578**	26,493
Movements in the provision for impairment of receivables are as follows:		
At 1 July	**523**	683
Provision for impairment recognised/(released)	**(456)**	(143)
Receivables written back/(off) during the period	**240**	(17)
At 30 June	**307**	523

TRADE RECEIVABLES

The balances on the 30 June 2022 included trade debtors that belong to the disposed business.

Impairment

The provision for impaired receivables for the Group is $0.31 million (2021: $0.52 million).

The Group uses an allowance for credit loss matrix to measure the Expected Credit Loss (ECL) of trade receivables that incorporates an aging analysis as well as case by case assessment of receivables where appropriate.

Management has specifically reassessed trade receivables and the adequacy of the ECL considering the COVID-19 pandemic and its expected future economic impact. Up to the 30 June 2022 reporting date, management has not observed any material change in the payment behaviour of customers and the ageing profile of trade receivables, consequently COVID-19 has not had a significant impact on the ECL provisions. However, the Group has anticipated in its ECL provision calculations, the possibility of a future adverse impact.

Credit insurance has been in place for several years, which should if required, reduce any impact of COVID-19 related default.

Notes to the consolidated financial statements

For the year ended 30 June 2022

OTHER RECEIVABLE AND PREPAYMENTS

Prepayments of $0.98 million relates to property outgoings, software support and licenses for the Group.

FINANCIAL RISK

Refer note 4.5 for information about the Group's exposure to foreign currency risk, interest rate risk and credit risk in relation to trade and other receivables. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The fair value of securities held for certain trade receivables is insignificant as is the fair value of any collateral sold or re-pledged.

RECOGNITION AND MEASUREMENT

Trade receivables are non-derivative financial instruments that are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 to 90 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

Collectability of trade receivables is reviewed on an ongoing basis. The amount of the impairment loss is recognised in profit or loss. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against expenses in profit or loss.

3.3. INVENTORIES

	2022 $'000	2021 $'000
Raw materials and work in progress	**1,138**	1,052
Finished goods	**3,783**	25,106
Total inventory	**4,921**	26,158
Less provision [1]	**(1,768)**	(4,157)
Net inventory	**3,153**	22,001
Movements in the provision for impairment of inventory is as follows:		
At 1 July	**(4,157)**	(3,419)
Provision for impairment (recognised)/reversed	**119**	(1,792)
Provision utilised during the period	**2,270**	1,054
At 30 June	**(1,768)**	(4,157)

1 Provision includes stock items held for spare parts greater than 2 years old.

KEY ESTIMATE: CARRYING VALUE OF INVENTORY

The assessment of the carrying value of inventory requires management judgement based on experience and industry practice. Management re-assesses the carrying value when there are indications of a change in economic circumstances that may impact the inventory.

RECOGNITION AND MEASUREMENT

Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value.

Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the reclassification from equity of any gains/losses on qualifying cash flow hedges relating to purchases of inventory.

Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

3.4. TRADE AND OTHER PAYABLES

	2022 $'000	2021 $'000
Trade payables	**4,453**	16,816
Other payables and accrued expenses	**8,173**	7,517
	12,626	24,333

The balances on the 30 June 2022 included trade payables that belong to the disposed business.

Other payables and accrued expenses include amounts payable in respect of employee benefits (including wages and salaries, superannuation/pension contributions, commissions and bonuses, payroll tax), Goods and Services Tax (GST), customer rebates and other sundry accrued expenses.

RECOGNITION AND MEASUREMENT

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the reporting period that are unpaid. The amounts are unsecured and are paid in accordance with the Group's terms of trade. Trade and other payables are presented as current liabilities unless payment is not due within twelve months after the reporting period.

Notes to the consolidated financial statements

For the year ended 30 June 2022

3.5. PROPERTY, PLANT AND EQUIPMENT

	2022 $'000	2021 $'000
Property plant and equipment – at cost	**46,395**	56,867
Less accumulated depreciation	**(38,551)**	(46,070)
Total property plant and equipment	**7,844**	10,797
Reconciliation of movement		
Opening balance	**10,797**	12,276
Additions	**2,512**	2,507
Depreciation	**(3,952)**	(3,745)
Disposals sale of Business	**(614)**	–
Disposals other	**(613)**	–
Exchange differences	**(8)**	(7)
Impairment	**(278)**	(234)
Closing balance	**7,844**	10,797

IMPAIRMENT TESTING

The Group has undertaken impairment testing over its cash generating units at 30 June 2022. At period end, the Group has two cash generating units being Hills Health Solutions and Hills Technical Services. The recoverable value of cash generating units was determined in accordance with the value in use methodology. Cash flows are forecast for five years after which a terminal value calculated. No impairment has been identified at 30 June 2022. Significant assumptions used to determine value in use are:

- Forecast cash flows are based on Board approved budgets for FY23 and assumed growth rates derived from business plans for future years.
- Post tax discount rate: 12.1%.
- Terminal growth rate: 2.5%.

KEY ESTIMATE: USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

The assessment of the useful lives of property, plant and equipment requires management judgement based on experience and industry practice. Management re-assesses the useful lives when there are indications of a change in economic circumstances that may impact the assets.

RECOGNITION AND MEASUREMENT

Property, plant and equipment

Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation

Plant and equipment, including leasehold improvements	7.8% to 50%

Impairment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to the profits reserve.

Notes to the consolidated financial statements

For the year ended 30 June 2022

3.6. LEASES

AMOUNTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION	2022 $'000	2021 $'000
Right-of-use asset		
Buildings	**2,821**	6,253
Plant, machinery, and equipment	**435**	1,003
Total right-of-use assets	**3,256**	7,256
Reconciliation of movement		
Opening balance at 1 July 2021	**7,257**	10,821
Additions	**1,884**	913
Leases reassigned as part of disposal	**(1,711)**	–
Impairment	**(243)**	–
Depreciation charge for the year	**(3,925)**	(4,477)
Exchange differences	**(6)**	–
Closing balance at 30 June 2022	**3,256**	7,256
Lease liabilities		
Current	**2,850**	4,162
Non-current	**3,266**	6,318
Total lease liabilities	**6,116**	10,480
Maturity analysis – undiscounted		
Less than one year	**2,920**	4,162
One to five years	**3,541**	7,086
More than five years	**–**	–
Total undiscounted lease liabilities at 30 June 2022	**6,461**	11,248
AMOUNTS RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS		
Interest on lease liabilities	**(411)**	(558)
Depreciation of right-of-use asset	**(3,925)**	(4,477)
Impairment	**(243)**	–
Exchange Differences	**(6)**	–
Lease payments relating to leases of low value and short-term leases not included in lease liabilities	**(39)**	(154)
AMOUNTS RECOGNISED IN THE STATEMENT CASH FLOWS		
Total cash outflow for leases	**(4,394)**	(3,960)

The Group leases various offices, warehouses, equipment, and vehicles.

RECOGNITION AND MEASUREMENT

Leases

At the inception of a lease arrangement, the Group assesses whether a contract is, or contains, a lease which will be the case if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

At inception or modification of a contract that contains a lease, the Group recognises a right-of-use asset and a lease liability.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying assets or to restore the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate and the Group determined its incremental borrowing rate by obtaining indicative interest rates from its lenders.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in index or rate or if the Group changes its assessment of whether it will exercise an extension option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short term and low value leases

The Group has elected to not recognise a right-of-use asset and lease liability for short term and low value leases. For these leases the Group recognises the lease payments as an expense on a straight-line basis over the lease term.

KEY ESTIMATE: LEASE TERM AND DISCOUNT RATE

The assessment of the lease term and discount rate requires management judgement based on past experience and industry practice. Management reassesses the lease terms and discount rates when there are indications of a change in economic circumstances that may impact the assets.

Notes to the consolidated financial statements

For the year ended 30 June 2022

3.7. INTANGIBLE ASSETS

	2022 $'000	2021 $'000
Intangible assets – at cost	**26,900**	26,593
Less accumulated amortisation	**(25,303)**	(23,516)
Total intangible assets	**1,597**	3,077
Reconciliation of movement		
Opening balance	**3,077**	3,749
Additions	**37**	937
Additions – goodwill[1]	**263**	–
Amortisation	**(635)**	(1,609)
Impairment[2]	**(882)**	–
Impairment – goodwill[1]	**(263)**	–
Closing balance	**1,597**	3,077
Comprising		
Software	**–**	981
Product development	**1,597**	2,096
Closing net book value	**1,597**	3,077

1 Relates to the purchase of Extensia. Due to the start-up nature of the business, management has not recognised the $0.26 million of goodwill in the financial statements.
2 Related to software utilised in discontinued business.

KEY ESTIMATE: USEFUL LIVES OF INTANGIBLE ASSETS

The assessment of the useful lives of intangible assets requires management judgement based on experience and industry practice. Management re-assesses the useful lives when there are indications of a change in economic circumstances that may impact the assets.

RECOGNITION AND MEASUREMENT

IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems.

Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 5 years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which is estimated to be 2 to 5 years.

Notes to the consolidated financial statements

For the year ended 30 June 2022

3.8. PROVISIONS

	2022 $'000	2021 $'000
Current		
Employee benefits	1,939	3,315
Warranty claims	200	553
Environmental and other	886	1,252
Total provisions – current	3,025	5,120
Non-current		
Employee benefits	216	450
Warranty claims	121	104
Restructuring	–	44
Environmental and other	1,250	1,630
Total provisions – non-current	1,587	2,228
Total provisions	4,612	7,348
Reconciliation of movement – Employee benefits		
Opening net book amount	3,765	4,348
Provisions made during the year	2,021	2,080
Provisions used during the year	(3,631)	(2,663)
Total employee benefits provision	2,155	3,765
Reconciliation of movement – Warranty claims		
Opening net book amount	657	578
Provisions made during the year	271	331
Provisions used during the year	(337)	(75)
Write back of unused provisions	(270)	(177)
Total outstanding warranty claims provision	321	657
Reconciliation of movement – Restructuring		
Opening net book amount	44	1,238
Provisions made during the year	–	70
Provisions used during the year	(44)	(1,168)
Write back of unused provisions	–	(96)
Total restructuring provision	–	44
Reconciliation of movement – Environmental and other		
Opening net book amount	2,882	2,182
Provisions made during the year	413	1,380
Provisions used during the year	(776)	(173)
Write back of unused provisions	(383)	(507)
Total environmental and other provisions	2,136	2,882
Total provisions	4,612	7,348

Employee provisions	Provisions for employee benefits include liabilities for annual leave and long service leave.
Warranty claims	Warranty provisions includes amounts set aside for estimated warranty claims associated with the existing legacy product range.
Restructuring provision	Includes costs associated with onerous lease.
Environmental & other Provisions	Includes environmental monitoring and clean-up costs associated with several sites in South Australia and make good provisions for leased properties.

RECOGNITION AND MEASUREMENT

Provisions

Provisions for service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation because of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Warranty provisions are recognised when the underlying products or services are sold. Restructuring provisions are recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or been announced publicly.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long-term employee benefits obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds rates with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when settlement is expected to occur.

Retirement benefit obligations

A defined contribution plan is a post-employment benefit plan which receives fixed contributions from Group Entities and the Group's legal or constructive obligation is limited to these contributions.

Contributions to defined contribution plans are recognised as an expense as they become payable.

Profit-sharing and bonus plans

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably, or where there is past practice that has created a constructive obligation.

Section 4: Capital and financing

This section provides information on how the Group manages its capital structure and financing, including exposure to financial risk:

4.1 Contributed equity
4.2 Reserves
4.3 Dividends
4.4 Borrowings
4.5 Financial instruments: Measurement and financial risk management

4.1. CONTRIBUTED EQUITY

	2022 Number	2021 Number	2022 $'000	2021 $'000
Ordinary shares – fully paid	**231,985,526**	231,985,526	**278,439**	278,439

Ordinary shares	Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Ordinary shares have no par value. The Company does not have a limited amount of ordinary share capital.

RECOGNITION AND MEASUREMENT

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. If the Company reacquires its own equity instruments, for example as the result of a share buyback, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

Notes to the consolidated financial statements

For the year ended 30 June 2022

4.2. RESERVES

	2022 $'000	2021 $'000
Hedging reserve – cash flow hedges	–	–
Equity compensation reserve	853	782
Foreign currency translation reserve	(7)	(21)
Profits reserve	10,133	10,133
Total reserves	10,979	10,894
Reconciliation of movement		
Hedging reserve – cash flow hedges		
Opening balance	–	(345)
Revaluation	–	345
Closing balance	–	–
Equity compensation reserve		
Opening balance	782	762
Employee share plan expense/(credit)	71	20
Closing balance	853	782
Foreign currency translation reserve		
Opening balance	(21)	(23)
Currency translation differences arising during the year	14	2
Closing balance	(7)	(21)
Profits reserve		
Opening balance	10,133	10,133
Movement	–	–
Closing balance	10,133	10,133

Hedging reserve – cash flow hedges	The hedging reserve is used to record changes in the fair value of derivative financial instruments designated in a cash flow hedge relationship that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.
Equity compensation reserve	The equity compensation reserve represents the value of performance rights held by an equity compensation plan of the Group. This reserve will be reversed against share capital when the underlying performance rights are exercised and shares vest in the employee. No gain or loss is recognised in profit or loss on the purchase, sale, issue, or cancellation of the Group's own equity instruments.
Foreign currency translation reserve	Exchange differences arising on translation of the financial statements of a foreign controlled entity are recognised in other comprehensive income and accumulated in this reserve. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.
Profits reserve	Realised profits are transferred from retained earnings and other reserves to the profits reserve and dividends are paid out of the profits reserve.

4.3. DIVIDENDS

	2022 $'000	2021 $'000
Dividends	–	–
Franking credits available	1,787	1,787

No dividends were paid during the year and no final dividend has been declared.

Franking credits available for subsequent reporting periods are based on an income tax rate of 30% (2021: 30%). The franking credits arise from:

- the payment of the amount of the provision for income tax.
- the payment of dividends recognised as a liability at the reporting date.
- the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the Company if distributable profits of subsidiaries were paid as dividends.

4.4. BORROWINGS

	2022 $'000	2021 $'000
Current		
Borrowings	3,096	533
Total current borrowings	3,096	533
Non-current		
Borrowings	120	19,789
Less capitalised borrowing costs	–	(314)
Total non-current borrowings	120	19,475
Total borrowings	3,216	20,008
Reconciliation of movement		
Opening balance	20,008	20,413
Proceeds from loans and borrowings	3,437	26,114
Repayment of borrowings	(20,543)	(26,762)
Amortisation of capitalised borrowing costs	314	495
Other	–	(252)
Closing balance	3,216	20,008

Capitalised transaction costs are directly attributable to the borrowings. As at 30 June 2022, unamortised borrowing costs totalled Nil with the borrowings facility due to expire in September 2022. (2021: $0.314 million).

Notes to the consolidated financial statements

For the year ended 30 June 2022

BORROWING FACILITIES

Secure Revolving Borrowing Base Bilateral Facility	The Commonwealth Bank of Australia facility totals $2.3 million (denominated in AUD), with funding provided based upon the Group's accounts receivable and inventory book. The facility expires on 30 September 2022. The facility is secured on the Group's Accounts Receivable and Inventory balances, with a second mortgage over the other assets of the Group. Interest is charged at prevailing market rates plus a fixed margin. During the period, the Group was in a breach of an undertaking in relation to the facility. The Group obtained a waiver for the breach and entered into the revised agreement as per the terms outlined above.
CBA Guarantee Facility	The Group has a Bank Guarantee Facility Agreement with a limit of $2.6 million. An issuance fee is payable in respect of bank guarantees issued.
DLL Financing	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 30 June 2022, the Group had drawn down $0.92 million (2021: $1.6 million).

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

The Company and its wholly owned subsidiaries have provided an interlocking guarantee and indemnity to its financiers for these facilities. An assessment of the contractual maturities of financial liabilities is provided in note 4.5, together with details of undrawn borrowing facilities at the period end.

RECOGNITION AND MEASUREMENT

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fees paid on the establishment of loan facilities are capitalised as a prepayment and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

4.5. FINANCIAL INSTRUMENTS: MEASUREMENT AND FINANCIAL RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT

Framework

The Group is involved in activities that expose it to a variety of financial risks including:

i. Capital risk management,

ii. Credit risk,

iii. Liquidity risk, and

iv. Market risk related currency fluctuations, interest rates and commodity pricing.

The Board has overall responsibility for the establishment and oversight of the financial risk management framework of the Group. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of financial instruments and investment of excess liquidity.

Management identifies, evaluates, and manages financial risks in close cooperation with the Group's business units, under policies approved by the Board.

The objective of the financial risk management strategy is to minimise the impact of volatility in financial markets on the financial performance, cash flows and shareholder returns. This requires the identification and analysis of relevant financial risks and possible impact on the achievement of the Groups objectives.

The Group normally uses derivative financial instruments such as foreign exchange contracts exclusively for risk mitigation and not as trading or other speculative instruments. The Group holds the following financial instruments:

	2022 $'000	2021 $'000
Financial assets		
Cash and cash equivalents	**6,458**	6,835
Trade and other receivables	**13,512**	31,517
Investments	**2**	2
	19,972	38,354
Financial liabilities		
Trade and other payables	**12,626**	24,332
Lease liabilities	**6,116**	10,480
Borrowings	**3,216**	20,008
	21,958	54,820

The Group uses different methods to measure different types of risk, including sensitivity analysis (for interest rate, foreign exchange, and other price risks) and aging analysis (for credit risk). The identified financial risks are discussed below.

(i) CAPITAL RISK MANAGEMENT

The Group's objective when managing capital is to safeguard its ability to continue as a going concern to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

To maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital by assessing its gearing ratio. The gearing ratio is calculated as:

$\dfrac{\textbf{net debt}}{\textbf{net debt + total equity}}$	**Net debt**	Total borrowings as shown in the consolidated statement of financial position less cash and cash equivalents
	Total equity	Equity as shown in the consolidated statement of financial position

The Group's strategy is to maintain a target gearing ratio of less than 40% excluding the impact of AASB16 Leases:

	Note	2022 $'000	2021 $'000
Total borrowings	4.4	**(3,216)**	(20,008)
Less: cash and cash equivalents	3.1	**6,458**	6,835
Net cash/(Net debt)		**3,242**	(13,173)
Total equity		**9,252**	33,232
Gearing ratio		**N/A**	65.7%

(ii) CREDIT RISK

Nature of the risk	Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's customers.
Risk management	Credit risk is managed at a Group level through a credit policy. New customers are assessed for creditworthiness including review of external credit risk ratings before the Group's standard terms and conditions are offered. Purchase limits are established for each customer and reviewed periodically to ensure credit worthiness is continually monitored. In most cases, goods are sold subject to retention of title clauses and this security is registered on the Personal Property Securities Register, so that in the event of non-payment the Group may have a priority claim. Depending upon the Group's assessment of industry or company risk, the Group may require personal guarantees from customer company directors and charging clauses over real property. The ageing of the Group's trade receivables is analysed in note 3.2.

(iii) LIQUIDITY RISK

Nature of the risk	Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.
Risk management	The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

Financing arrangements

Details of the Group's borrowings are discussed in note 4.4. The Group had access to the following undrawn borrowing facilities from its bankers at the end of the reporting period:

	Note	2022 $'000	2021 $'000
Floating rate			
Expiring within one year		–	–
Expiring beyond one year (loans)		–	3,789
		–	3,789

Maturities of financial liabilities

The following tables analyse the Group's financial liabilities, including derivative financial instruments, into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 6 months $'000	6–12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
At 30 June 2022						
Trade and other payables	12,626	–	–	–	12,626	12,626
Borrowings	3,096	–	120	–	3,216	3,216
Lease liabilities	1,511	1,408	2,448	1,094	6,461	6,116
Total	**17,233**	**1,408**	**2,568**	**1,094**	**22,303**	**21,958**
At 30 June 2021						
Trade and other payables	24,332	–	–	–	24,332	24,332
Borrowings	320	320	439	19,434	20,513	20,322
Lease liabilities	2,136	2,120	3,277	3,715	11,248	10,480
Total	**26,788**	**2,440**	**3,716**	**23,149**	**56,093**	**55,134**

Notes to the consolidated financial statements

For the year ended 30 June 2022

(iv) MARKET RISK

Price risk	The Group has no material financial exposure to other market price risk as it is not exposed to equity securities price risk. The Group does not enter commodity contracts other than to meet the Group's expected usage requirements.
Foreign exchange risk	Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in currencies other than the Group's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. The Group's main foreign exchange risk exposure is to US dollars. Group Entities and business units can hedge their foreign exchange risk exposure using forward exchange contracts. The Group's policy provides for management to hedge approximately three months of anticipated cash flows (mainly purchases of inventories).
Interest rate risk	Borrowings issued at variable rates expose the Group to interest rate risk. See details of the Group's borrowings in note 4.4.

Foreign exchange risk

The Group's exposure to foreign exchange risk at the reporting date, expressed in Australian dollars at the closing exchange rates was:

	Note	USD A$'000	EUR $'000	JPY $'000	Total $'000
30-Jun-22					
Cash at bank		**46**	**–**	**–**	**46**
Trade receivables		**122**	**–**	**–**	**122**
Trade payables		**(1,370)**	**–**	**–**	**(1,370)**
30-Jun-21					
Cash at bank		17	–	–	17
Trade receivables		92	–	–	92
Trade payables		(10,103)	(209)	(5)	(10,317)

Interest rate risk

During 2022 and 2021, the Group's cash and borrowings at variable rate were denominated in Australian Dollars and NZ Dollars. As at the end of the reporting period, the Group had the following variable rate cash and borrowings outstanding:

	2022		2021	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Bank overdrafts and loans	**3.08%**	**3,216**	1.70%	(20,008)
Cash and cash equivalents	**0.08%**	**6,458**	0.08%	6,835

An analysis by maturities is provided in section (iii) above.

Sensitivity analysis

Foreign exchange rates	The sensitivity of profit or loss to changes in exchange rates arises mainly from US dollar denominated procurement instruments and the impact of financial instruments and other components of equity arises from forward exchange contracts designated as cash flow hedges.
Interest rates	Profit or loss is sensitive to higher/lower interest income and interest expense from cash and cash equivalents and borrowings respectively, as a result of changes in interest rates. Other components of equity change as a result of an increase/decrease in the fair value of the cash flow hedges of borrowings.

The sensitivity of the Group's profit and loss and Other equity to a possible 100 basis point change in interest rates and a possible 5% strengthening or weakening in the US dollar exchange rate are shown in the table below. The analysis assumes that all other variables remain constant.

		Interest rate risk		Foreign exchange risk			
		-100 bps	+100 bps	-5%		+5%	
	Carrying amount $'000	Profit $'000	Profit $'000	Profit $'000	Other equity $'000	Profit $'000	Other equity $'000
30-Jun-22							
Financial assets							
Cash and cash equivalents	**6,458**	**(2)**	**67**	**2**	**–**	**(2)**	**–**
Trade and other receivables	**13,512**	**–**	**–**	**6**	**–**	**(6)**	**–**
Total increase/(decrease) in financial assets		**(2)**	**67**	**8**	**–**	**(8)**	**–**
Financial liabilities							
Trade & other payables	**(12,626)**	**–**	**–**	**(71)**	**–**	**64**	**–**
Borrowings	**(3,216)**	**32**	**(32)**	**–**	**–**	**–**	**–**
Total increase/(decrease) in financial liabilities		**32**	**(32)**	**(71)**	**–**	**64**	**–**
Total increase/(decrease)		**30**	**35**	**(62)**	**–**	**57**	**–**
30-Jun-21							
Financial assets							
Cash and cash equivalents	6,835	(5)	68	1	–	(1)	–
Trade and other receivables	31,517	–	–	5	–	(4)	–
Total increase/(decrease) in financial assets		(5)	68	6	–	(5)	–
Financial liabilities							
Trade & other payables	(24,333)	–	–	(543)	–	492	–
Borrowings	(20,008)	200	(200)	–	–	–	–
Total increase/(decrease) in financial liabilities		200	(200)	(543)	–	492	–
Total increase/(decrease)		195	(132)	(537)	–	487	–

Section 5: Group structure

This section provides information on the Hills Limited Group structure, including business acquisitions and disposals, controlled entities, and related parties:

5.1. INTERESTS IN OTHER ENTITIES

INVESTMENTS IN SUBSIDIARIES

The controlled entities of the Group listed below were wholly owned during the current and prior year, unless otherwise stated.

Australia	ACN 091 954 442 Pty Ltd ■
Hills Finance Pty Ltd ▲	ACN 099 403 139 Pty Ltd ■
Hills Group Operations Pty Ltd ▲	Zen 99 Pty Ltd ■
Hills Integrated Solutions Pty Ltd ▲	ACN 010 853 817 Pty Ltd ■
Audio Products Group Pty Ltd ▲	ACN 094 103 090 Pty Ltd ■
EMG Finance Pty Ltd	ACN 093 760 895 Pty Ltd ■
Pacific Communications (PACOM) Pty Ltd ■	Access Television Services Pty Ltd ■
Pacom Security Pty Ltd ▲	ACN 614 478 090 Pty Ltd
Hills Health Solutions Pty Ltd ▲	ACN 051 628 810 Pty Ltd ■
New-Tone (Aust) Pty Ltd ▲	ACN 010 583 810 Pty Ltd ■
T.V. Rentals Pty Ltd ▲	Hills Technology Solutions Pty Ltd
Hospital Telecommunications Pty Ltd ▲	Hills Group Employees Share Plan Pty Ltd
Hills Share Plans Pty Ltd	ACN 607 134 869 Pty Ltd
Step Electronics 2005 Pty Ltd (50%) ●	Extensia Pty Ltd (70%)
Lan 1 Pty Ltd ▲	**New Zealand**
Woodroffe Industries Pty Ltd ■	Hills NZ Limited

▲ These controlled entities are a party to a Deed of Cross Guarantee between those group entities and the Company pursuant to ASIC Corporations (wholly owned Companies) Instrument 2016/785 and are not required to prepare and lodge financial statements and directors' report refer note 5.3). The Company and those group entities are the "Closed Group."
● Step Electronics 2005 Pty Ltd is controlled by virtue of the Company's control of this entity's Board through the Chair's casting vote, effective management of the entity and exposure to the risks and benefits of ownership, or control of voting rights through the dilution the minority shareholders. This is a dormant entity.
■ These entities were disposed 6 April 2021. They were included in the closed group until this date.

5.2. PARENT ENTITY FINANCIAL INFORMATION

SUMMARY FINANCIAL INFORMATION

The individual financial statements for the parent entity show the following aggregate amounts:

	2022 $'000	2021 $'000
Balance sheet		
Current assets	**21,493**	57,095
Non-current assets	**13,636**	35,058
Total assets	**35,129**	92,153
Current liabilities	**18,380**	31,744
Non-current liabilities	**7,926**	27,586
Total liabilities	**26,306**	59,330
Net assets	**8,823**	32,823
Shareholders' equity		
Contributed equity	**278,439**	278,439
Reserves		
Hedging reserve – cash flow hedges	**–**	–
Equity compensation reserve	**853**	782
Profits reserve	**8,074**	8,091
Retained earnings	**(278,543)**	(254,489)
Total equity	**8,823**	32,823
Loss for the year	**(9,094)**	(5,693)
Total comprehensive income	**(23,625)**	(7,721)

PARENT ENTITY GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS

Guarantees	Bank guarantees given by the Company in favour of property lease landlords amounted to $1.5 million (2021: 1.99 million). Cross guarantees are given by the Company and its wholly owned subsidiaries as described in note 5.3. Under the terms of the Deed of Cross Guarantee the Company and its wholly owned subsidiaries have guaranteed the debt in each other's companies.
Contingent liabilities	The parent entity had a contingent liability in respect of claims, as disclosed in note 6.1. For information about guarantees given by the parent entity, please see above.
Contractual commitments	As at 30 June 2022, the Company had $nil contractual commitments for the acquisition of plant, equipment or intangible assets (2021: $nil).

5.3. DEED OF CROSS GUARANTEE

The Company and each of the wholly owned subsidiaries identified in note 5.1 are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial report pursuant to *ASIC Corporations (Wholly owned Companies) Instrument 2016/785*.

The Company and each of these subsidiaries have entered a Deed of Cross Guarantee ('the Deed') under which each company guarantees the debt of the others. No entities have become a party to the Deed during the reporting period.

A summarised consolidated income statement, a summarised consolidated statement of comprehensive income, a summary of movements in consolidated retained earnings for the year ended 30 June 2022 and a summarised consolidated statement of financial position as at 30 June 2022 of the Company and controlled entities that are a party to the Deed (the Closed Group), after eliminating all transactions between parties is set out as follows:

	2022 $'000	2021 $'000
Summarised consolidated income statement		
Revenue from continuing operations	**44,849**	46,492
Other income	**155**	160
Finance costs	**(1,705)**	(2,332)
Other expenses	**(50,541)**	(50,381)
Loss before income tax	**(7,242)**	(6,061)
Income tax expense	**(1,852)**	368
Profit/(Loss) for continuing operations	**(9,094)**	(5,693)
Loss from discontinuing operations	**(14,531)**	(2,373)
Total Profit/(Loss)	**(23,625)**	(8,066)
Summarised other comprehensive income		
Items that may be reclassified to profit or loss:		
Changes in the fair value of cash flow hedges	**–**	493
Income tax relating to these items	**–**	(148)
Other comprehensive profit/(loss) for the period, net of tax	**–**	345
Total comprehensive profit/(loss) for the year	**(23,625)**	(7,721)
Summary of movements in consolidated retained earnings		
Accumulated losses at the beginning of the reporting period	**(254,489)**	(246,423)
Profit/(Loss) for the year	**(23,625)**	(8,066)
Accumulated losses at the end of the reporting period	**(278,114)**	(254,489)

SUMMARISED STATEMENT OF FINANCIAL POSITION

	2022 $'000	2021 $'000
Current assets		
Cash and cash equivalents	5,733	6,051
Trade and other receivables	13,057	30,623
Inventories	2,703	20,421
Total current assets	21,493	57,095
Non-current assets		
Investments	383	814
Property, plant and equipment	7,829	10,604
Right-of-use asset	4,256	6,649
Intangible assets	1,597	3,075
Deferred tax assets	–	13,916
Total non-current assets	14,065	35,058
Total assets	35,558	92,153
Current liabilities		
Trade and other payables	12,743	22,466
Lease liabilities	2,744	3,744
Borrowings	–	533
Provisions	2,893	5,001
Total current liabilities	18,380	31,744
Non-current liabilities		
Lease liabilities	3,223	6,085
Borrowings	3,216	19,475
Provisions	1,487	2,026
Total non-current liabilities	7,926	27,586
Total liabilities	26,306	59,330
Net assets	9,252	32,823
Equity		
Contributed equity	278,439	278,439
Reserves	8,927	8,873
Accumulated losses	(278,114)	(254,489)
Total equity	9,252	32,823

Notes to the consolidated financial statements

For the year ended 30 June 2022

5.4. BUSINESS TRANSACTIONS

On 1 November 2021, the group announced the decision to exit its loss-making New Zealand security distribution operations as part of the Company's strategy to focus on cash generation and areas of long-term growth potential. The exit was completed in December 2021. The Group retains the technical services and health related businesses in New Zealand.

On 2 May 2022, the Group completed the divestment of the Hills security and IT distribution business in Australia, details of which are contained within note 2.2.

On 4 November 2021, the Group acquired 70% of the shares in Extensia Pty Ltd ("Extensia"), a small software development company. Extensia is an emerging software company whose cloud-based software creates and delivers a permission-based, individual-centric Community Health Record, enabling medical and other data to be updated at the point of care, and shared with individuals' trusted ecosystem of care, on demand and in real time. Taking control of Extensia will enable the Group to augment its health solutions offering in both the Nurse Call and GetWell suite of products, as well as providing a high margin offering that provides a vehicle to increase recurrent revenue streams.

IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED – EXTENSIA

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition of:

	$
Property, plant and equipment	2,227
Trade and other receivables	7,166
Cash and cash equivalents	2,339
Non-current liabilities	(42,703)
Borrowings	(226,673)
Trade and other payables	(117,159)
Net liabilities acquired	**(374,803)**

GOODWILL – EXTENSIA

Goodwill arising from the acquisition has been recognised as follows:

	$
Total consideration transferred	700
Non-controlling interest (30%)	(112,441)
Fair value of identifiable net liabilities	374,803
Goodwill	**263,062**

The goodwill is attributable to the technical development of the software, and the synergies expected to be achieved from integrating the company into the Group's health offering. Due to the start-up nature of the business, goodwill was impaired at the time of purchase.

Section 6: Unrecognised items

This section contains information about items that are not recognised in the financial statements but may have a significant impact on the Group's financial position or performance.

6.1. CONTINGENCIES

The Group had contingent liabilities at 30 June 2022 in respect of:

Legal Claims	One claim is outstanding as at 30 June 2022, which was against a Group company and related to a dispute concerning a third-party contract. This claim has been dismissed by the Court, with costs awarded in favour of the Group. The decision has been appealed by the other party. The appeal is currently listed for hearing in November 2022. Based on legal advice, the Directors are of the opinion that provisions are not required in respect of the one outstanding matter 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. Two other claims were discontinued by agreement during the period.
Environmental	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 \$1.5 million (2021: \$1.993 million).

6.2. COMMITMENTS

There are no commitments as at 30 June 2022.

Section 7: Other information

This section contains disclosures required for the Group to comply with the accounting standards and other pronouncements, the *Corporations Act 2001* or the Corporations Regulations but are not considered to be significant in understanding the financial position or performance of the Group:

7.1. SHARE-BASED PAYMENTS

EMPLOYEE PERFORMANCE RIGHTS

In 2010, the Group established the Incentive Share Plan. The Incentive Share Plan was designed to provide long-term incentives to eligible senior employees of the Group and entitled them to acquire shares in the Company, subject to the successful achievement of performance hurdles related to earnings per share (EPS) and total shareholder returns (TSR).

The current participants are the CEO, Mr David Clarke and the CFO & GM of Operations, Ms Natalie Scott.

Details of performance rights under the Incentive Share Plan are as follows:

Grant date	Expiry date	Share price at grant date	Balance at start of the year	Granted during the year	Exercised/ vested during the year	Forfeited/ cancelled during the year	Balance at the end of the year	Vested & un-issued at the end of the year
		$	Number	Number	Number	Number	Number	Number
2022								
17/5/21	30/6/26	0.143	2,614,059	–	–	–	2,614,059	–
22/3/21	22/3/24	0.152	125,000	–	(25,000)	–	100,000	25,000
Total			2,739,059	–	(25,000)	–	2,714,059	25,000
2021								
17/5/21	30/6/26	0.143	–	2,614,059	–	–	2,614,059	–
22/3/21	22/3/24	0.152	–	125,000	–	–	125,000	–
27/8/18	30/6/21	0.195	99,323	–	(99,323)	–	–	–
30/8/19	30/8/22	0.195	62,919	–	(23,595)	(39,324)	–	
Total			162,242	2,739,059	(122,918)	(39,324)	2,739,059	–

The fair value is assessed in accordance with AASB 2 *Share Based Payments* at the grant date of the performance rights.

EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

Total expense arising from share-based payment transactions recognised during the period as part of employee benefit expense were $71,319 (2021: $20,368), as disclosed in note 2.5.

RECOGNITION AND MEASUREMENT

Share-based payments

Share based compensation benefits are provided to employees via the Incentive Share Plan – see below:

Incentive Share Plan

The Incentive Share Plan allows Group executives to acquire shares of the Company.

The fair value of performance rights granted under the Incentive Share Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted, measured at the grant date, which includes any market performance conditions and the impact of any non-vesting conditions but includes the probability of meeting any service and non-market performance vesting conditions.

The valuation method considers the exercise price of the performance right, the life of the performance right, the current price of the underlying shares, the expected volatility of the share price, the dividends expected of the shares and the risk-free interest rate for the life of the performance right.

Non-market vesting conditions are included in assumptions about the number of rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of rights that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. No change is made for changes in market conditions.

7.2. RELATED PARTY TRANSACTIONS

NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

The Group has a related party relationship with its controlled entities (Note 5.1). The Company and its controlled entities engage in a variety of related party transactions in the ordinary course of business. These transactions are conducted on normal terms and conditions.

Loans

Group entity trading transactions and borrowings result in balances arising in respect of current and non-current assets and liabilities. These balances are eliminated in full on consolidation.

Transactions

Amounts for any related party transactions are billed and payable under normal commercial terms and conditions as a supplier and as a customer.

KEY MANAGEMENT PERSONNEL DISCLOSURES

	2022 $	2021 $
Key remuneration disclosures		
Short-term employee benefits (fixed and variable incentive remuneration)	**1,032,037**	1,087,360
Post-employment benefits (superannuation)	**86,533**	109,727
Long term benefits (cash variable component under the Incentive Share Plan and accrued long service leave)	**10,758**	12,653
Termination benefits	**–**	170,324
Share-based payments (performance rights variable component under the Incentive Share Plan and employee share bonus plan expense)	**71,319**	20,368
	1,200,647	1,400,432

Detailed remuneration disclosures are provided in the Remuneration Report.

Notes to the consolidated financial statements

For the year ended 30 June 2022

Loans and other transactions with Key Management Personnel

No KMP have loans to or from the Group (2021: nil).

During the current financial year, there were no related party transactions with KMP or their related entities (2021: nil). From time to time, KMP of the Company or its controlled entities, or their related entities, may purchase goods or services from Hills or make sales of goods or services to Hills. These purchases or sales are on the same terms and conditions as those entered by Hills employees, customers or suppliers and are trivial or domestic in nature.

7.3. EVENTS AFTER THE REPORTING PERIOD

On 21 September 2022, the Group entered into a $6 million debt finance facility with Causeway Financial Pty Ltd that will deliver both working capital finance and provide funding for growth opportunities. The facility expires in September 2025.

The facility is secured on the Group's assets. Interest is charged at a fixed rate. The facility will replace the secure borrowing base bilateral facility and guarantee facility held with the Commonwealth Bank of Australia.

Other than the above, there are no subsequent events to report.

7.4. REMUNERATION OF AUDITORS

During the year, the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

KPMG AUDIT AND NON-AUDIT SERVICES	2022 $	2021 $
Audit and other assurance services		
KPMG Australia[1] – audit and review of the financial statements	**351,000**	251,803
Overseas KPMG firms – audit and review of the financial statements	–	43,500
Total remuneration for audit and other assurance services	**351,000**	295,303
Taxation and other services		
KPMG Australia – taxation and other services	–	43,203
Total remuneration for taxation and other services	–	43,203
Total remuneration of KPMG	**351,000**	338,506

1 KPMG Australia audit includes the audit of both the Australian and New Zealand entities within the Hills Group in relation to FY22.

7.5. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED BY THE GROUP

During the year, the Group has applied a number of new and revised accounting standards issued by the Australian Accounting Standards Board (AASB) that are effective for an accounting period that begins on or after 1 July 2021, as follows:

- AASB 2020-8 Amendments to Australian Accounting Standards AASB 9, AASB 139, AASB 7, AASB 4 and AASB 16 – Interest Rate Benchmark Reform – Phase 2.
- AASB 2021-3 Amendments to Australian Accounting Standards AASB 16 – COVID-19 related Rent Concessions beyond 30 June 2021.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Certain new accounting standards and interpretations have been published that are not mandatory for annual reporting periods beginning on or after 1 July 2021 and have not been early adopted by the Group. The impact of these new standards and interpretations is not considered material.

Directors' declaration

For the year ended 30 June 2022

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

(a) the consolidated financial statements and notes set out on pages 30 to 79 and the Remuneration Report on pages 16 to 26 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(ii) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the financial year 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; and

(c) there are reasonable grounds to believe that the Company and the Group Entities identified in note 5.1 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the Deed of Cross Guarantee between the Company and those Group Entities pursuant to *ASIC Corporations (Wholly owned Companies) Instrument 2016/785*.

Section 1 of the notes confirms that the consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer, and Chief Financial Officer required by section 295A of the Corporations Act 2001.

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

David Chambers
Chairman

Peter Steel
Director

Sydney
26 September 2022

Independent Auditor’s Report

To the shareholders of Hills Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Hills Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2022;
- 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 year ended 30 June 2022;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *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 Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Impairment assessment of non-financial assets;
- Going concern basis of accounting; and
- Revenue recognition.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of non-financial assets (including property, plant and equipment - $7.8m, right-of-use assets - $3.2m, intangible assets - $1.6m)

Refer to Note 3.5, 3.6 and 3.7 to the Financial Report

The key audit matter	How the matter was addressed in our audit
The Group's policy is to test the Group's cash generating units (comprising non-financial assets) at each reporting date when there is an indication of possible impairment. A key audit matter for us was the Group's impairment assessment for non-financial assets, given the size of the balance (being 35% of total assets). Certain conditions, described below, impacting the Group increased the judgement applied by us when evaluating the evidence available. The Group assessed impairment using an estimate of future cash flows for each CGU which uses forward looking assumptions in a value in use model. The Group's value in use model is internally developed and uses a range of internal and external data as inputs. There is significant judgement applied when evaluating these forward-looking assumptions, including: • Forecast cash flows, growth rates, and terminal growth rates applied to those forecasts. The Group have not met prior forecasts, raising our concern for reliability of current forecasts. Furthermore, the Group incurred a loss during the year, as a result of COVID-19 trading conditions, inflationary increases on operating costs and the cost of exiting the distribution business. COVID-19 trading conditions have	Our procedures included: • Considering the appropriateness of the value in use method applied by the Group against the requirements of accounting standards; • Using our knowledge of the Group, their past performance, business and customers, and our industry experience we evaluated the Group's impairment indicator assessment and key inputs used in the Group's value in use model by: - Comparing forecast cash flows and growth rates in the value in use model to Board approved forecasts and checking the consistency of these to the Group's stated plans and strategy; - Challenging the Group's forecast cash flow and growth rate assumptions. We used the Group's performance in historical economic downturns to inform our assessment of the Group's recovery and assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the model. We applied increased scepticism to assumptions in areas where previous forecasts were not achieved. We also compared terminal growth rates to published studies of industry trends and expectations, and considered differences for the Group's operations; - Considering the sensitivity of the value in use model by varying key assumptions, such as forecast cash flows, discount rates and growth rates within a reasonably possible range. This identified those assumptions at higher risk of bias and to focus our further procedures;

KPMG

impacted the Group through a reduction in the demand for products and services and project deferrals. The current economic conditions increase the risk of inaccurate forecasts for us to consider. • Growth rates and terminal growth rates. The Group's value in use model is sensitive to changes in these assumptions. Such assumptions have a significant impact on the recoverable amount of the assets of the identified CGUs. This drives additional audit effort to assess the assumptions adopted by the Group. • Discount rate - the Group's modelling is highly sensitive to small changes in the discount rate. We involve our valuations specialists with the assessment. We involved valuation specialists in assessing this key audit matter.	• Working with our valuation specialists, we: – independently developed a discount rate range considered comparable using publicly available financial data for comparable entities, adjusted by risk and industry factors specific to the Group; and, – assessed the integrity of the value in use model including the accuracy of the underlying calculation formulas; and • Assessing the disclosures in the Group's financial report using our understanding obtained from our testing and against the requirements of accounting standards.

Going concern basis of accounting

Refer to Note 1.3 to the Financial Report

The key audit matter	How the matter was addressed in our audit
The Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required by us in evaluating the Group's assessment of going concern and the events or conditions that may cast significant doubt on their ability to continue as a going concern. These are outlined in Note 1.3 The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated a number of assumptions and significant judgements, and the Directors have concluded that the range of possible outcomes considered in arriving at this judgement does not give rise to a material uncertainty casting significant doubt on the	Working with our risk management partners, our procedures included: • We analysed the cash flow projections by: • Evaluating the underlying data used to generate the projections. We looked for their consistency with those used by the Directors, and tested by us, as set out in the impairment of intangible assets key audit matter, their consistency with the Group's intentions, as outlined in Directors minutes, and their comparability to past practices; • Analysing the impact of reasonably possible changes in projected cash flows and their timing, to the projected periodic cash positions. Assessing the resultant impact to the ability of the Group to pay debts as and when they fall due and continue as a going concern. The specific areas we focused on were the sensitivity analysis on key cash flow projection assumptions and what scenarios constitute reasonably possible; • Assessing the Group's significant cash inflow assumptions

Group's ability to continue as a going concern. We critically assessed the levels of uncertainty, as it related to the Group's ability to continue as a going concern, within these assumptions and judgements, focusing on the following: • the Group's significant cash inflow assumptions particularly, the forecast growth rate in light of economic and market conditions and the risk of changing customer behaviour; • the Group's planned levels of operational and capital expenditures incorporating future impacts resulting from business restructure on the Group, and the ability of the Group to manage cash outflows within available funding; In assessing this key audit matter, we involved our risk management partners and senior audit team members who understand the Group's business, industry and the economic environment it operates in.	and judgements for feasibility and timing. We used our knowledge of the client, its industry, published views of market and customers trends and conditions to assess the level of associated uncertainty; • Assessing the planned levels of operating and capital expenditures for consistency of relationships and trends to the Group's actual results, results since year end, and our understanding of the business and industry; • We assessed significant non-routine forecast cash inflows and outflows including the impact of divestment for feasibility, quantum and timing, and their impact to going concern. We used our knowledge of the client, its industry and status to assess the level of associated uncertainty. • We read correspondence with existing and potential financiers to understand and assess the options available to the Group including renegotiation of existing debt facilities, waivers in meeting financial loan covenants and negotiation of revised funding arrangements; • We read Directors minutes and relevant correspondence with the Group's advisors to understand and assess the Group's ability to raise additional shareholder funds; • We evaluated the Group's going concern disclosures in the financial report by comparing them to our understanding of the, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements.

Revenue recognition (revenue - $47.2 million)	
Refer to Note 2.2 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
Revenue recognition, specifically the risk of the Group recognising revenue in the incorrect financial period at year end (cut-off), is a key audit matter due to the: • The high number of transactions; and, • Extent of judgement involved in recording revenue in the correct financial period including: - consideration of when the Group satisfies a performance obligation	Our procedures included: • Obtaining understanding of the Group's key processes for recognition of revenue from contracts with its customers; • Assessing the Group's revenue recognition policies against the requirements of the accounting standards and our understanding of the business; • Testing a sample of significant sales of goods recorded immediately before and after year end. We evaluated the timing and amount of revenue recognised by the Group in comparison to underlying records including, terms and

KPMG

- and customer obtains control of the goods. - consideration of the stage of completion for services rendered for revenue earned from projects. We involved our senior audit team members in assessing this key audit matter.	conditions in the underlying customer contract, sales invoices and proof of delivery; • Checking the stage of completion at year end for a sample of projects where the performance obligation is satisfied over time. We performed this by obtaining evidence of contract value, amount invoiced for completed work and stage of completion, directly from the customer and comparing to revenue recorded by the Group; • Assessing the disclosures in the financial report using our understanding obtained from our testing against the requirements of the accounting standard.

Other Information

Other Information is financial and non-financial information in Hills Limited’s annual reporting which is provided in addition to the Financial Report and the Auditor’s Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor’s Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report

KPMG

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Hills Limited for the year ended 30 June 2022, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 16 to 26 of the Directors' report for the year ended 30 June 2022.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Julie Cleary
Partner

Sydney

26 September 2022

Shareholder information

The shareholder information set out below was applicable as at 14 September 2022.

DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of ordinary shareholders by size of holding:

Size of holding	Number of holders	Percentage
100,001 and over	224	2.04%
10,001 to 100,000	1,451	13.20%
5,001 to 10,000	1,452	13.21%
1,001 to 5,000	4,295	39.06%
1 to 1,000	3,573	32.50%
Total	**10,995**	**100%**

- All shares above are fully paid ordinary shares. Each fully paid ordinary share carries one voting right.
- There were 8,650 holders of less than a marketable parcel of ordinary shares.

TWENTY LARGEST SHAREHOLDERS

The names of the 20 largest holders of ordinary shares are listed below:

Name	Number of shares	% of shares issued
POPLAR PTY LIMITED	16,550,845	7.13%
HILLS ASSOCIATES LIMITED	13,455,689	5.80%
GREYBOX HOLDINGS PTY LTD	7,373,738	3.18%
MR JOHN ROSTYN HOMEWOOD	7,303,292	3.15%
BNP PARIBAS NOMS (NZ) LTD	7,007,252	3.02%
CARISTE PTY LTD	6,891,872	2.97%
JACARANDA PASTORAL PTY LTD	5,868,699	2.53%
CAMBROSE PTY LIMITED	4,676,510	2.02%
MR ALAN RICHARD BIGNELL & MRS GLENDA ELLEN BIGNELL	4,000,000	1.72%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,597,855	1.55%
MR JOHN GASSNER & MR NATHAN ROTHCHILD	3,500,001	1.51%
HILLS ASSOCIATES PTY LTD	3,212,752	1.38%
CARRIER INTERNATIONAL PTY LIMITED	3,071,698	1.32%
MR JOSEPH ZANCA & MRS SZERENKE ZANCA	3,050,000	1.31%
MR TERRY JOHN MURPHY	3,000,000	1.29%
MR ORLANDO BERARDINO DI IULIO & MS CATHARINA MARIA KOOPMAN	2,550,000	1.10%
MR RAHMON CHARLES COUPE & MRS JULIA DEBORAH COUPE	2,009,000	0.87%
W K SUPER PTY LTD	1,870,000	0.81%
MR PETER HOWELLS	1,583,608	0.68%
PARKS AUSTRALIA PTY LTD	1,500,000	0.65%
	102,072,811	**44.00%**

Shareholder information

SUBSTANTIAL SHAREHOLDERS

Hills Limited has been notified of the following substantial shareholdings:

Name	Number held	% of shares issued
Ms Jennifer Hill-Ling, Ms Bronwyn Marie Veal & Mr Gregory Mark Hill-Ling	46,175,613	19.90%
Poplar Pty Limited [2]	17,739,763	7.65%
Hills Associates Limited [2]	17,957,359	7.74%

1 These substantial shareholders control the other substantial shareholders.
2 Includes 1,188,918 shares held jointly by Poplar Pty Limited and Hills Associates Limited.

Argent Proprietary Limited is an owner of Hills Associates Limited.

Pallarenda Pty Limited controls Poplar Pty Limited.

Ling Nominees Pty Limited is an upstream owner of Poplar Pty Limited.

UNQUOTED EQUITY SECURITIES

There are 2,614,059 performance rights over unissued ordinary shares, with an additional 25,000 rights vested and unissued. There are two holders of these rights, which have been issued pursuant to the Company's Employee Incentive Share Plan.

SECURITIES EXCHANGE

The Company is listed on the Australian Securities Exchange (ASX) under code HIL.

Corporate directory

Registered office

Unit 1, Building F, 3–29 Birnie Avenue Lidcombe NSW 2141

Australia

Telephone: +61 2 9216 5510

Facsimile: +61 2 9216 5999

Web: http://www.hills.com.au

Executives

David Clarke, *Chief Executive Officer*

Natalie Scott, *Chief Financial Officer*

Non-executive directors

David Chambers

Janet Muir

Peter Steel

Company Secretary

Geoffrey Stirton

Share registry

Link Market Services Limited

Locked Bag A14

Sydney South NSW 1235 Australia

Telephone

- Australia: 1300 554 474

Facsimile

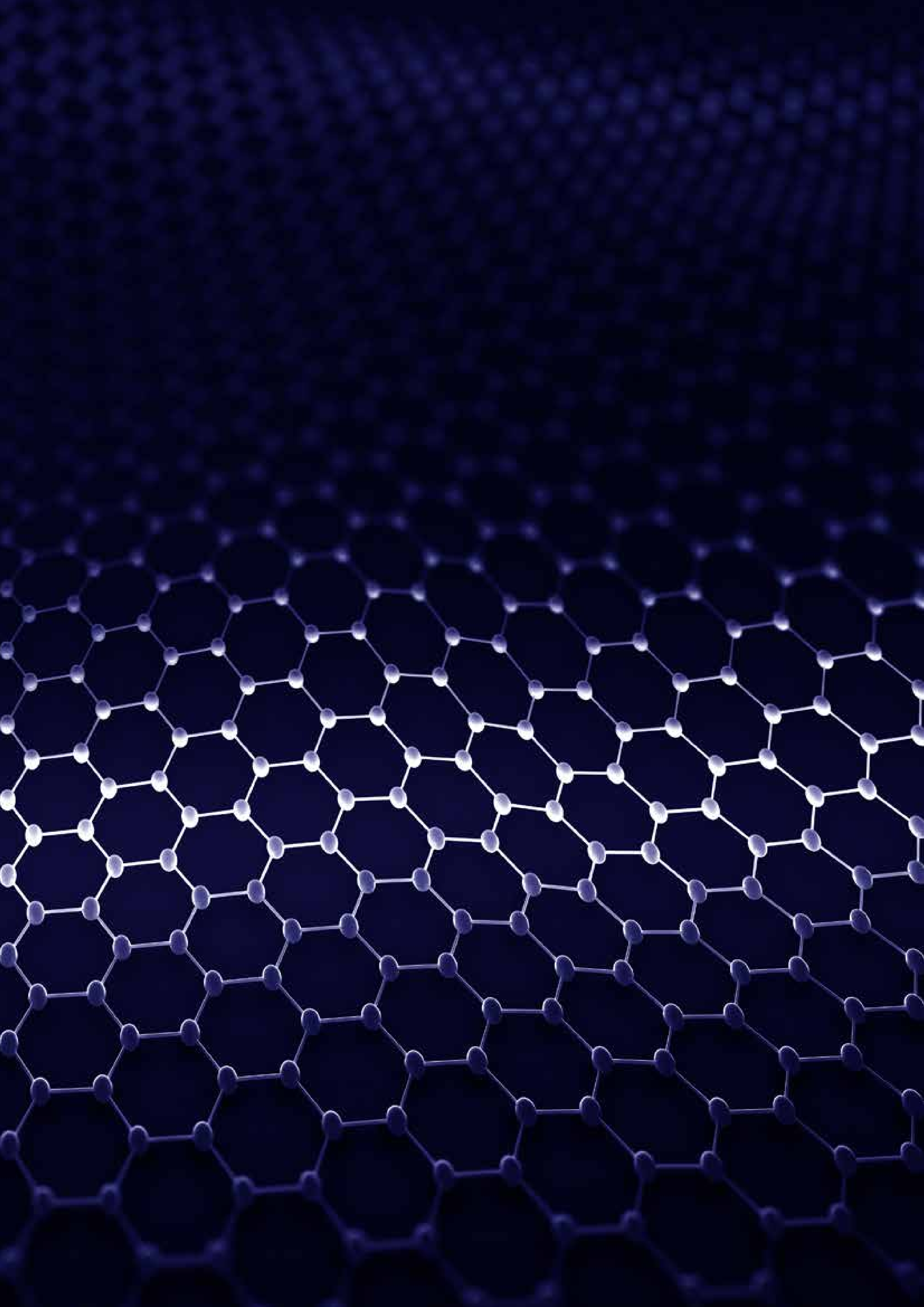
- Australia and International: +61 2 9287 0303

ASX code: HIL

Email: registrars@linkmarketservices.com.au

Web: www.linkmarketservices.com.au

This page is intentionally left blank.



Hills Limited
ABN 35 007 573 417

Registered Office
Unit 1, Building F
3–29 Birnie Avenue
Lidcombe NSW 2141

+61 2 9216 5510
info@hills.com.au
hills.com.au

2022 Annual Report | Hills Limited | ABN 35 007 573 417