

Hills Limited

ABN 35 007 573 417

Interim Financial Report for the half year ended 31 December 2015

Hills Limited

ASX Half year information - 31 December 2015

Lodged with the ASX under Listing Rule 4.2A.
This information should be read in conjunction with the
30 June 2015 Annual report

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This Interim Financial Report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2015 and any public announcements made by Hills Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This Interim Financial Report is the consolidated financial statements for the consolidated entity consisting of Hills Limited (the "Company") and its subsidiaries (together referred to as the "Group" and individually as "Group Entities"). The Interim Financial Report is presented in the Australian currency.

Hills Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Hills Limited
Level 7, 130 Pitt Street
Sydney NSW 2000

A description of the nature of the Group's operations is included in Note 2.

The Interim Financial Report was authorised for issue by the Directors on 25 February 2016. The Company has the power to amend and reissue the Interim Financial Report.

Through the use of the internet, the Company has ensured that its corporate reporting is timely and complete. All press releases, financial reports and other information are available within Corporate Information on the Company website: www.hills.com.au.

For queries in relation to corporate reporting please call +61 2 9216 5510 or email info@hills.com.au

Hills Limited
For the half year ended 31 December 2015
(Previous corresponding period: half year ended 31 December 2014)

Results for Announcement to the Market
31 December 2015

	31 Dec 2014 A\$'000		Change A\$'000			31 Dec 2015 A\$'000
Revenue	227,030	down	62,892	28%	to	164,138
(Loss)/profit after tax attributable to owners from continuing businesses	9,016	down	77,967	%N/A	to	(68,951)
Underlying (loss)/profit after tax attributable to owners from continuing businesses¹	9,508	down	12,446	%N/A	to	(2,938)
Basic earnings/(loss) per share (cents per share)	3.9	down	33.6 cents	%N/A	to	(29.7)
Basic earnings/(loss) per share using underlying (loss)/profit (cents per share)¹	4.1	down	5.4 cents	%N/A	to	(1.3)
Dividends	Amount per security (cents)		Franked amount per security (cents)			
Final dividend (<i>Prior year</i>)	-		-			
Interim dividends						
- <i>current reporting period</i>	-		-			
- <i>previous corresponding period</i>	2.1		2.1			

Record date for determining entitlements to interim dividend

N/A

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

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

This Interim Financial Report should be read in conjunction with the 2015 Annual Financial Report.

¹ The report includes the following non-IFRS measures:

- Underlying loss after tax attributable to owners of \$2.938 million (half year ended 31 December 2014: \$9.508 million profit) is a non-IFRS measure which has been calculated as: loss for the half year of \$68.951 million (half year ended 31 December 2014: \$9.016 million profit) adjusted for the after tax impact of asset impairments of \$45.871 million, derecognition of tax losses of \$20.282 million and other sundry adjustments relating to prior period business acquisitions and disposals and restructure costs of (\$0.140) million (half year ended 31 December 2014: adjusted for the after tax impact of business combination acquisition transaction costs and costs of sale of properties of \$2.178 million and tax credits of \$1.686 million, net impact \$0.492 million.) Reconciliation is provided in Note 12(c).

The non-IFRS measures used by the Company are relevant because they are consistent with measures used internally by management and some in the investment community to assess the operating performance of the business in light of its change program. The non-IFRS measures have not been subject to audit or review.

Directors' report

The Directors present their report on the consolidated entity (referred to hereafter as the "Group" or "Hills") consisting of Hills Limited (the "Company") and the entities it controlled at the end of, or during, the half year ended 31 December 2015 and the independent auditor's review report thereon.

Directors

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

Name	Details
Jennifer Helen Hill-Ling <i>Chairman Non-Independent Non-Executive Director</i>	Appointed Director in August 1985. Appointed Deputy Chairman in June 2004. Appointed Chairman 28 October 2005.
Fiona Rosalyn Vivienne Bennett <i>Independent Non-Executive Director</i>	Appointed Director on 31 May 2010
Ian Elliot <i>Independent Non-Executive Director</i>	Appointed Director in August 2003.
David Moray Spence <i>Independent Non-Executive Director</i>	Appointed Director on 1 September 2010.
Philip Bullock <i>Independent Non-Executive Director</i>	Appointed Director on 23 June 2014.

Consolidated result

The consolidated (loss)/profit after tax for the half year attributable to owners of the Group was:

	31 December 2015 \$'000	31 December 2014 \$'000
(Loss)/profit for the half year attributable to the owners of the Group	(68,951)	9,016
Adjust for the after tax impact of asset impairments and other sundry adjustments relating to prior period business acquisitions and disposals and restructure costs (refer Note 12(c))	66,013	492
Underlying (loss)/profit for the half year attributable to the owners of the Group	(2,938)	9,508

Review of operations

A summary of consolidated revenues and operating results for the half year by operating segments is set out below:

	Segment revenues		Segment results ¹	
	31 December 2015 \$'000	31 December 2014 \$'000	31 December 2015 \$'000	31 December 2014 \$'000
Building Technologies Segment	146,863	165,534	5,982	14,428
Health Segment	15,467	17,614	(63)	2,567
Home Segment	1,020	27,258	923	3,862
Corporate Segment	788	1,575	(1,450)	(2,706)
Discontinued Businesses Segment	-	15,049	-	2,263
Total segment revenues / segment results	164,138	227,030	5,392	20,414

¹ Segment results are adjusted operating earnings before interest, tax, depreciation and amortisation, which is the measure of segment result that is reported to the Board of Directors to assess the performance of the operating segments. For a reconciliation to profit before tax refer to Note 2. Revenue and EBITDA in the prior period included discontinued operations, the Home Division as a trading business before it was converted to a brand licensing arrangement and Crestron sales.

Review of operations (continued)

Strategic Focus

As outlined at the 2015 Annual General Meeting of Shareholders, the Company has implemented a "Back to Basics" strategy to rebuild our businesses and address the Company's performance.

As part of the implementation of this strategy, our management structure, businesses and people have been aligned to four key business units within our Hills Building Technology and Hills Health Solutions Divisions to better service our customers and vendors:

Hills Building Technology

- Hills AV
- Hills Security, Surveillance & IT
- Hills Communications

Hills Health Solutions

- Hills Health

We have also segmented our customer base between small and medium enterprises; and large enterprise to ensure the service offering is appropriate to our customers.

Growth in our businesses will come from:

- partnering with the right vendors and growing with them. In many cases our key vendors are growing at double digits; and
- signing up a number of new distributors to freshen and widen our product offering.

This new structure will provide greater agility and focus around delivering the value that customers expect. The new structure will mean that our customers are immediately dealing with the right sales team to deliver the best solution for them.

As noted at the AGM our Health business restructure was 6 months behind our other business areas. However, we are pleased to advise that we have a new management team in place and this business now has a clear strategic vision in place focussed on:

- optimising the product and services portfolio;
- ensuring our "Go to Market Model" is appropriate; and
- operational excellence and quality.

Funding

Hills net debt as at 31 December 2015 was \$38.5m (30 June 2015: net debt of \$32.0m). Gearing, measured as net debt to net debt plus equity, stood at 36% at 31 December 2015 (19% at 30 June 2015).

During the period, Hills and its bankers agreed to amend the company's finance facilities, reducing the unsecured \$110m facility to a secured \$55million facility and agreed to work together to refinance its reduced facilities by the end of February 2016 to further align with the needs of the company. This will allow Hills to keep its funding requirements in line with the size of the business as it grows and save net financing costs. Hills and its bankers continue to work together towards this outcome and the revised facilities are now expected to be concluded before 30 April 2016. As a result of the change in debt structure, Hills borrowings has been classified as current in the half-year report. Notwithstanding this change, Hills has a \$33million surplus of current assets to current liabilities.

Impairment

The recent decline in the Hills share price has triggered a review of the carrying value of Hills assets. The company has determined that the accounting carrying values of goodwill, intangible assets, deferred tax assets and freehold property as at 31 December 2015 should be reduced by \$66 million in total. This has resulted in a non-cash impairment charge reflected in the half year results totalling \$66 million. Of this amount, \$20.3million relates to the further de-recognition of deferred tax assets. Even though the deferred tax assets have been derecognized from the balance sheet for accounting purposes, the economic benefit of using these carry forward tax losses as a shield against future income tax remains for the benefit of the business in the years ahead. Total unrecognised deferred tax assets of \$182.136million exist as at the date of this report.

Net tangible asset (NTA) backing

	31 December 2015 \$	31 December 2014 \$
Net tangible assets per ordinary share	0.25	0.39

Calculated as net assets less intangible assets and deferred tax assets over the total number of shares on issue

Dividends

Dividends paid to owners during the financial half year were as follows:

	31 December 2015 \$'000	31 December 2014 \$'000
No dividend was paid in the current half year. For the previous half year ended 31 December 2014 an interim ordinary dividend for the year ended 30 June 2014 of 3.6 cents per fully paid ordinary share was paid on 26 September 2014	-	8,402

Matters subsequent to the end of the financial half year

As part of the changes to Hills financing facilities as detailed in note 9, subsequent to the end of the half year, Hills granted a fixed charge over land and buildings and a fixed and floating charge over the other assets of the Group to its bankers.

Other than the above, no matter or circumstance has occurred subsequent to half year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years.

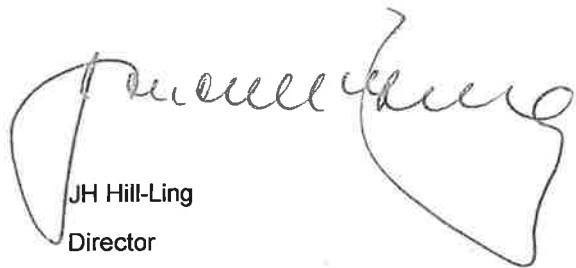
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

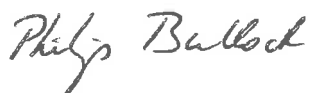
Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report and Interim Financial Report. Amounts in the Directors' report and Interim Financial Report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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

A large, stylized handwritten signature in black ink, appearing to read 'JH Hill-Ling'.

JH Hill-Ling
Director

A handwritten signature in black ink, appearing to read 'Philip Bullock'.

P Bullock
Director

Sydney
25 February 2016



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

To: the directors of Hills Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2015 there have been:

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

KPMG

Scott Fleming
Partner

Adelaide

25 February 2016

Hills Limited
Consolidated income statement
For the half year ended 31 December 2015

	Notes	31 December 2015 \$'000	31 December 2014 \$'000
Continuing operations			
Revenue	3	164,138	227,030
Other income		<u>1,804</u>	<u>2,440</u>
		165,942	229,470
Expenses excluding net finance expenses	4	(212,711)	(217,496)
(Loss)/profit before net finance expense and income tax		<u>(46,769)</u>	<u>11,974</u>
Finance income		63	89
Finance expenses		<u>(2,175)</u>	<u>(1,730)</u>
Net finance expenses	4	(2,112)	(1,641)
(Loss)/profit before income tax		<u>(48,881)</u>	<u>10,333</u>
Income tax expense from continuing operations	5	<u>(20,070)</u>	<u>(1,098)</u>
(Loss)/profit for the half year		<u>(68,951)</u>	<u>9,235</u>
(Loss)/profit is attributable to:			
Owners of Hills Limited		(68,951)	9,016
Non-controlling interests		<u>-</u>	<u>219</u>
		<u>(68,951)</u>	<u>9,235</u>
		Cents	Cents
(Loss)/earnings per share for (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	12	(29.7)	3.9
Diluted earnings per share	12	(29.7)	3.9

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

Hills Limited
Consolidated statement of comprehensive income
For the half year ended 31 December 2015

	Notes	31 December 2015 \$'000	31 December 2014 \$'000
(Loss)/profit for the half year		(68,951)	9,235
Other comprehensive (loss) / income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges		58	1,573
Exchange differences on translation of foreign operations		845	454
Income tax relating to components of other comprehensive income		(18)	(472)
Other comprehensive income for the half year that may be reclassified to profit or loss, net of tax		885	1,555
<i>Items that will not be reclassified to profit or loss</i>			
Reversal of previous revaluation of land and buildings	7	-	(5,395)
Income tax relating to components of other comprehensive income		-	1,618
Other comprehensive (loss) for the half year that will not be reclassified to profit or loss, net of tax		-	(3,777)
Other comprehensive income/(loss) for the half year, net of tax		885	(2,222)
Total comprehensive (loss)/income for the half year		(68,066)	7,013
Total comprehensive (loss)/income for the half year is attributable to:			
Owners of Hills Limited		(68,066)	6,794
Non-controlling interests		-	219
		(68,066)	7,013

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

Hills Limited
Consolidated statement of financial position
As at 31 December 2015

	Notes	31 December 2015 \$'000	30 June 2015 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	6	17,302	18,801
Trade and other receivables		66,334	92,136
Inventories		67,070	72,446
Derivative financial instruments		407	606
Total current assets		<u>151,113</u>	<u>183,989</u>
Non-current assets			
Trade and other receivables		593	653
Investments		3	3
Property, plant and equipment		28,175	32,822
Intangible assets		-	39,237
Deferred tax assets		10,600	30,833
Total non-current assets		<u>39,371</u>	<u>103,548</u>
Total assets		<u>190,484</u>	<u>287,537</u>
LIABILITIES			
Current liabilities			
Trade and other payables		47,286	67,690
Borrowings	9	55,761	5,831
Current tax liability		17	407
Provisions		14,648	27,133
Derivative financial instruments		308	310
Total current liabilities		<u>118,020</u>	<u>101,371</u>
Non-current liabilities			
Borrowings	9	-	45,000
Provisions		4,016	4,566
Total non-current liabilities		<u>4,016</u>	<u>49,566</u>
Total liabilities		<u>122,036</u>	<u>150,937</u>
Net assets		<u>68,448</u>	<u>136,600</u>
EQUITY			
Contributed equity	10	278,439	278,439
Reserves		11,266	10,467
(Accumulated losses)		(221,257)	(152,306)
Total equity		<u>68,448</u>	<u>136,600</u>

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

Hills Limited
Consolidated statement of changes in equity
For the half year ended 31 December 2015

	Notes	Attributable to owners of Hills Limited			Non-controlling interests \$'000	Total equity \$'000
		Contributed equity \$'000	Reserves \$'000	(Accumulated losses) \$'000		
Balance at 1 July 2014		281,624	28,900	(66,359)	1,063	245,228
Total comprehensive income for the half year		-	(2,222)	9,016	219	7,013
Transactions with owners in their capacity as owners:						
Share buy-back, net of transaction costs and tax		(3,185)	-	-	-	(3,185)
Dividends provided for or paid	11	-	(8,402)	-	-	(8,402)
Employee share schemes – value of employee services		-	34	-	-	34
Transfer current period profit to profits reserve		-	9,016	(9,016)	-	-
Balance at 31 December 2014		278,439	27,326	(66,359)	1,282	240,688
Balance at 1 July 2015		278,439	10,467	(152,306)	-	136,600
Total comprehensive income for the half year		-	885	(68,951)	-	(68,066)
Transactions with owners in their capacity as owners:						
Employee share schemes – value of employee services		-	(86)	-	-	(86)
Balance at 31 December 2015		278,439	11,266	(221,257)	-	68,448

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

Hills Limited
Consolidated statement of cash flows
For the half year ended 31 December 2015

	31 December 2015 \$'000	31 December 2014 \$'000
Notes		
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	205,989	264,563
Payments to suppliers and employees (inclusive of goods and services tax)	<u>(203,196)</u>	<u>(257,612)</u>
	2,793	6,951
Net finance costs paid	(2,111)	(1,641)
Net income taxes paid	<u>(247)</u>	<u>(1,285)</u>
Net cash flows from operating activities	<u>435</u>	<u>4,025</u>
Cash flows from investing activities		
Payments for acquisition of subsidiary / business operations, net of cash acquired	(2,653)	(16,768)
Payments for property, plant and equipment	(2,929)	(5,369)
Payments for intangible assets	(2,438)	(1,955)
Proceeds from sale of business operations	-	1,943
Proceeds from sale of property, plant and equipment and intangibles	213	13,736
Proceeds from sale of assets held for sale	-	7,570
Rent received	<u>788</u>	<u>1,575</u>
Net cash flows from investing activities	<u>(7,019)</u>	<u>732</u>
Cash flows from financing activities		
Proceeds from borrowings	12,836	-
Repayment of borrowings	(7,906)	(5,172)
Payments for shares bought back, inclusive of transaction costs	-	(3,184)
Dividends paid to the Company's shareholders	<u>-</u>	<u>(8,402)</u>
Net cash flows from financing activities	<u>4,930</u>	<u>(16,758)</u>
Net (decrease) in cash and cash equivalents	<u>(1,654)</u>	<u>(12,001)</u>
Cash and cash equivalents at the beginning of the half year	18,801	43,671
Effects of exchange rate changes on cash and cash equivalents	<u>155</u>	<u>19</u>
Cash and cash equivalents at end of the half year	<u>17,302</u>	<u>31,689</u>

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

1 Basis of preparation of Interim Financial Statements

(a) Basis of preparation

These general purpose Interim Financial Statements for the half year reporting period ended 31 December 2015 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These Interim Financial Statements do not include all the notes of the type normally included in the Annual Financial Statements. Accordingly, this report is to be read in conjunction with the Annual Financial Statements for the year ended 30 June 2015 and any public announcements made by Hills Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

These consolidated Interim Financial Statements were approved by the Board of Directors on 25 February 2016.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

(b) New and amended standards adopted by the Group

The Group has not applied any new standards and amendments for the first time in its annual reporting period commencing 1 July 2015.

(c) Critical accounting estimates

The preparation of the Interim Financial Report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated Interim Financial Report, the judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2015. These comprised:

- Valuation of land and buildings and measurement of the useful lives of property, plant and equipment and intangible assets
- Measurement of the recoverable amounts of cash generating units containing goodwill
- Provisions and contingencies
- Measurement of share based payments
- Measurement of fair value
- Business combinations and contingent consideration payable

(d) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the interim financial report. Amounts in the interim financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

2 Segment information

(a) Description of segments

The Group has determined that its chief operating decision maker (CODM) is the Board of Hills Limited. The Board of Hills Limited ultimately makes decisions regarding the allocation of resources to the operating segments of Hills and ultimately is the Group's "chief operating decision maker" within the meaning of AASB 8.

Hills has a number of operating segments. The Company's restructure and transformation program has resulted in a number of changes to the relative characteristics of Hills' segments. In the prior half year period, all of its remaining operating segments had characteristics that were materially so similar in nature that they could reasonably be expected to have had the same prospects. These operating segments had similar economic characteristics, provided similar products and services, had a similar production process, similar types of customers, similar methods for distribution and were subject to a materially similar regulatory environment. Hills operating segments were therefore aggregated into one reportable segment under AASB 8 called the Hills Technologies Segment. This was also borne out by the fact that after its restructure and transformation program, Hills had actively consolidated its operating structure into what is known as a 'One Hills' approach where the business operates as an integrated business rather than a holding company owning disparate operations.

In the last half of the previous financial year, the materiality of the Health and Home Segments were now such that these have been disaggregated from the single reportable segment and the comparative results have been adjusted accordingly.

In terms of reviewing the Group as it has gone through its restructuring and transformation program, the CODM is presented with information that separates Hills results into its continuing businesses (Building Technologies Segment, Health Segment, Home Segment, Corporate Segment) and discontinued business results in one category comprising the results of businesses that have been sold or closed. That information, 'through the eyes of management' has been presented in this Segment note in accordance with the principles of AASB 8.

The Group currently has the following reportable segments with the following summaries describing the operations of the Group's reportable segments:

Building Technologies Segment

Includes electronic security systems, closed circuit television systems, home and commercial automation and control systems, professional audio products, consumer electronic equipment, communications related products and services, domestic and commercial antennas, master antenna television systems, communications antennas and amplifiers.

Health Segment

Includes the supply and installation of health technology solutions, nurse call and patient entertainment systems to hospitals, aged care facilities and similar institutions. Hills earns ongoing revenue from patients utilising its patient entertainment systems on a daily rate basis.

Home Segment

Includes the results of the Hills Home Living business which was licensed to Woolworths Limited for a period of 7 years, extendable to 19 years. This converted the original manufacturing and distribution business that included products such as garden sprayers and washing lines into a brand licensing annuity stream.

Corporate Segment

This includes the costs of running Hills' Corporate, Compliance and Shared Services functions. In prior periods, this cost pool was directly recharged or allocated to Hills' other segments in whole or in part.

Discontinued Businesses

Businesses that have been closed or sold under Hills' restructure and transformation program whether they were classified as discontinued or not under IFRS are shown separately to enable the CODM to assess the true continuing operations of the Group.

2 Segment information (continued)

Geographic operations

Although the Group's divisions are managed on a products and services basis they operate in two main geographical areas:

Australia - comprises manufacturing facilities in South Australia and Victoria and sales offices and customers in all states and territories.

Overseas - Comprises sales offices and customers in New Zealand and customers in Europe, the Middle East, South Africa and North America.

2 Segment information (continued)

(b) Information about reportable segments

	Building Technologies Segment		Health Segment		Home Segment		Corporate Segment		Discontinued Business		Total	
	31 December 2015	31 December 2014 (restated)*	31 December 2015	31 December 2014 (restated)*	31 December 2015	31 December 2014 (restated)*	31 December 2015	31 December 2014 (restated)*	31 December 2015	31 December 2014 (restated)*	31 December 2015	31 December 2014 (restated)*
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total segment revenue	146,863	165,534	15,467	17,614	1,020	27,258	788	1,575	-	15,049	164,138	227,030
Revenue from external customers	146,863	165,534	15,467	17,614	1,020	27,258	788	1,575	-	15,049	164,138	227,030
Segment EBITDA	5,982	14,428	(63)	2,567	923	3,862	(1,450)	(2,706)	-	2,263	5,392	20,414
Segment Assets	128,777	182,139	21,531	57,213	320	9,221	11,544	23,415	-	9,172	162,172	281,160
Segment Liabilities	(42,284)	(47,839)	(5,328)	(12,523)	(142)	(6,558)	(8,637)	(18,307)	(4,558)	(10,230)	(60,949)	(95,457)

* During the second half of the prior year the Group has changed its internal organisation and composition of its reportable segments. Accordingly, the Group has restated the operating segment information for the half year ended 31 December 2014.

2 Segment information (continued)

(c) Other segment information

(i) Segment revenue

There are no sales between segments. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statement.

Segment revenue reconciles to the income statement.

(ii) Segment EBITDA

Segment EBITDA reconciles to profit before income tax as follows:

	31 December 2015 \$'000	31 December 2014 \$'000
Segment EBITDA	5,392	20,414
Depreciation and amortisation	(6,430)	(5,804)
Finance income	63	89
Finance expenses	(2,175)	(1,730)
Net costs not considered part of underlying profit	<u>(45,731)</u>	<u>(2,636)</u>
(Loss)/profit before income tax	<u>(48,881)</u>	10,333

Net costs not considered part of underlying profit are included in Other expenses (refer Note 4) and comprise:

Current Year

	\$'000
Impairment of goodwill	26,460
Impairment of intangible assets	12,697
Impairment of property, plant and equipment	3,815
Impairment of other receivables	2,899
Other net credits/reversals arising as a result of the Company's restructure and transformation program	<u>(140)</u>
	<u>45,731</u>

(iii) Segment assets

Reportable segments' assets are reconciled to total assets as follows:

	31 December 2015 \$'000	31 December 2014 \$'000 (Restated)
Segment assets	162,172	281,160
Unallocated assets:		
Deferred tax assets	10,600	57,261
Cash assets	17,302	31,689
Derivative financial instruments	407	1,477
Investments	<u>3</u>	<u>3</u>
Total assets as per the consolidated statement of financial position	<u>190,484</u>	371,590

2 Segment information (continued)

(c) Other segment information (continued)

(iv) Segment liabilities

Reportable segments' liabilities are reconciled to total liabilities as follows:

	31 December 2015 \$'000	31 December 2014 \$'000 (Restated)
Segment liabilities	60,949	95,457
Unallocated liabilities:		
Tax liabilities (including GST payable)	5,018	4,944
Current borrowings	55,761	-
Non-current borrowings	-	30,000
Derivative financial instruments	308	500
Total liabilities as per the consolidated statement of financial position	122,036	130,901

3 Revenue

	31 December 2015 \$'000	31 December 2014 \$'000
Revenue from continuing operations		
<i>Sales revenue</i>		
Sale of goods	132,508	208,223
Services	29,842	17,232
	162,350	225,455
<i>Other revenue</i>		
Rents and sub-lease rentals	788	1,575
License fee revenue	1,000	-
	1,788	-
Total revenue	164,138	227,030

4 (Loss) / profit for the half year

	31 December 2015 \$'000	31 December 2014 \$'000
Classification of expenses by function		
Cost of goods sold	92,285	134,799
Cost of services provided	15,040	9,715
Other expenses from ordinary activities:		
Sales and marketing expenses	37,735	33,054
Distribution expenses	9,308	12,417
Administration expenses	12,612	24,875
Other expenses	45,731	2,636
	212,711	217,496
(Loss)/profit before income tax includes the following specific expenses:		
	31 December 2015 \$'000	31 December 2014 \$'000
<i>Depreciation</i>		
Buildings	8	48
Plant and equipment	3,668	2,476
Total depreciation	3,676	2,524
<i>Amortisation</i>		
Patents and trademarks	2	31
Development costs	161	96
Customer contracts, relationships and brands	1,253	1,286
Software	1,338	1,867
Total amortisation	2,754	3,280
Total depreciation and amortisation	6,430	5,804
<i>Finance expenses</i>		
Interest and finance charges paid/payable	(2,175)	(1,730)
	(2,175)	(1,730)
<i>Finance income</i>		
Interest income	63	89
	63	89
Net finance costs expensed	(2,112)	(1,641)

5 Income tax expense

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 31 December 2015 was (41.1)% (for the six months ended 31 December 2014: 10.6%). During the half year ended 31 December 2015 the Group derecognised revenue tax losses of \$67.607 million (Deferred tax asset of \$20.282 million) following a review of the time period over which tax losses are expected to be utilised.

Revenue tax losses for which no deferred tax asset has been recognised total \$182.136 million (30 June 2015: \$104.733 million). The revenue tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because the period over which the Group can utilise the benefits from these items extends beyond 3 years (the time horizon during which their recovery is considered probable). Revenue losses for which a deferred tax asset has been recognised are nil.

6 Reconciliation of Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the period as shown in the consolidated statement of cash flows is reconciled to the related items in the consolidated statement of financial position as follows:

	31 December 2015 \$'000	31 December 2014 \$'000
Cash at bank and in hand	9,301	26,413
Deposits at call	8,001	5,276
	<u>17,302</u>	<u>31,689</u>

7 Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2015, the Group acquired assets with a cost of \$2.929 million (six months ended 31 December 2014: \$5.369 million). Assets, principally plant & equipment, with a net book value of \$0.1 million were disposed of during the six months ended 31 December 2015 (six months ended 31 December 2014: \$13.005 million), resulting in a gain on disposal of \$0.1 million (six months ended 31 December 2014: gain of \$0.337 million).

Revaluation of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. As at 31 December 2015 independent valuers reassessed the fair value of land and buildings taking into consideration current market assessments and the asset class was revalued. The Directors reviewed the assessment and determined a net revaluation decrement of \$2.675 million was appropriate. This amount was recognised within other expenses in profit or loss.

Capital commitments

Commitments for the purchase of plant and equipment, electronic equipment, leasehold improvements and software yet to be delivered as at 31 December 2015 were \$1.641 million (as at 31 December 2014: \$3.323 million).

8 Intangible Assets

(a) Impairment Tests for Goodwill

As part of the financial half year end process, the Group carried out a comprehensive review of the carrying value of its assets having due consideration to the Group's market capitalisation, market growth assumptions and cash flows from ongoing operations. Cash Generating Unit (CGU) impairment tests were based on value in use calculations which were determined by discounting the future cash flows generated from the continuing use of the unit and based on the following key assumptions:

- Cash flow projections have been based on the coming year's Board-approved forecast
- An explicit five year forecast period detailing projected sales, gross margins, operating expenses, capital expenditure and investment in working capital and other assets.
- Sales are based on management assessments with allowances for future growth based upon assessments of growth rates in the markets to which the assets belong.
- Gross margins, operating expenses and capital expenditure and working capital investment levels are based on past experience along with CGU specific assumptions about the future.
- A terminal value has been determined at the end of the five year strategic plan using a growth rate of 3.0% (2015: 3.0%), which is no greater than the long term average growth rate for the market to which the asset is dedicated.

Pre-tax discount rates of 18.7% (2015: 18.7%) for the Health Segment and 16.3% (2015: 16.3%) for the Building Technologies Segment were used in the value in use calculations. These were determined by reference to the Group's weighted average cost of capital and specific industry factors applied in determining the recoverable amount of the units. Where a range of outputs were established, the mid-point of the range was used. The following key Capital Asset Pricing Model (CAPM) assumption inputs were used in arriving at the applicable discount rates:

- Risk free rate: 3% throughout
- Asset Betas: 0.8 – 0.9 in Health; 0.9 – 1.0 in Building Technologies
- Equity Betas: 0.94 – 1.01 in Health; 0.97 – 1.08 in Building Technologies
- Equity Market Risk Premium: 6.5% throughout
- Alpha risk adjustment for company size: 4% - 5% in Health; 2% in Building Technologies
- Alpha risk adjustment for company specific factors: 1% in Health; 0% - 1% in Building Technologies
- Long term debt to value ratio: 20% - 15% in Health; 10% in Building Technologies
- Long term cost of debt: 6% - 7% in Health; 5.5% - 6.5% in Building Technologies
- Long term tax rate: 30% throughout

For the purpose of impairment testing, goodwill is allocated to the Group's operating units that represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

For the purposes of completing the value in use calculations, Hills' Corporate Segment costs are allocated to the Health and Building Technologies segments on a rational basis (directly where a direct utilisation is apparent, or otherwise on a relative revenue mix basis).

Hills' Home Segment has zero allocation of goodwill. The carrying value of the Home Segment CGU consists almost entirely of net monetary items (receivables, payables and accruals) owed to/from Woolworths Limited. In addition, Hills receives a minimum \$2m per annum license fee contribution from Woolworths in relation to this business. The carrying value of this CGU was therefore considered to be fully recoverable with reference to that counterparty analysis rather than with reference to a separate discounted cash flow calculation.

(b) Impairment Charges

Impairment of Goodwill

During the current half year, it was determined that the carrying values of the Health and Building Technologies Segments exceeded their recoverable amounts with reference to the value in use calculations described above and an impairment charge was recognised in the profit and loss statement.

8 Intangible Assets (continued)

(b) Impairment Charges (continued)

The aggregate carrying amounts of goodwill allocated to each CGU before and after impairment charges are as follows:

	Building Technologies		Health		Total	
	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Goodwill before impairment charge	24,312	50,061	2,148	31,572	26,460	81,633
Impairment charge	(24,312)	(25,929)	(2,148)	(29,424)	(26,460)	(55,353)
Carrying value of Goodwill after impairment charge	-	24,132	-	2,148	-	26,280

The change between balances at 30 June 2015 and balances prior to impairment at 31 December 2015 is due to changes in NZD AUD exchange rates between 30 June 2015 and 31 December 2015.

Impairment of Other Intangible Assets

At the same time as performing the CGU value in use calculation, the carrying values of other intangible assets were reviewed. These assets include patents, trademarks and other similar rights, distribution agreements, customer contracts and brands, internally generated software and development costs. During the current half year, it was determined that the carrying values of other intangible assets were impaired and an impairment charge was recognised in the profit and loss statement. These are expensed within other expenses in note 4.

9 Borrowings

	31 December 2015			30 June 2015		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Unsecured						
Bills payable	55,000	-	55,000	-	45,000	45,000
Other loans	761	-	761	5,831	-	5,831
Total unsecured borrowings	55,761	-	55,761	5,831	45,000	50,831
Total borrowings	55,761	-	55,761	5,831	45,000	50,831

During the period, Hills and its bankers agreed to amend the Company's finance facilities, reducing the unsecured \$110m facility to a secured \$55million facility and agreed to work together to refinance its reduced facilities by the end of February 2016 to further align with the needs of the Company. This will allow Hills to keep its funding requirements in line with the size of the business as it grows and save net financing costs. Hills and its bankers continue to work together towards this outcome and this is now expected to be concluded before 30 April 2016. As a result of the change in debt structure, Hills borrowings has been classified as current in the half-year report.

Hills granted a fixed charge over its land and building assets and a fixed and floating charge over the assets of the Group to its bankers in January 2016.

10 Contributed equity

31 December 2015 Shares '000	30 June 2015 Shares '000	31 December 2015 \$'000	30 June 2015 \$'000
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(a) Share capital

Ordinary shares – fully paid	231,986	231,986	278,439	278,439
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(b) Ordinary shares

During the half year to 31 December 2015 there was no change to share capital. For the half year ended 31 December 2014 the Company bought back 2.207 million shares for a total cost of \$3.185 million (inclusive of transaction costs) under an on-market share buy-back as announced on 15 August 2014.

11 Dividends

31 December 2015 \$'000	31 December 2014 \$'000
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(a) Ordinary shares

No dividend was paid for the half year ended 31 December 2015 (2014: 3.6 cents fully franked based on tax paid 30% paid on 26 September 2014)

-	8,402
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(b) Dividends not recognised at the end of the half year

Following the end of the half year, the Directors did not recommend the payment of an interim dividend. (2014: 2.1 cents fully franked based on tax paid 30% paid on 30 April 2015)

-	4,866
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12 Earnings per share

31 December 2015 Cents	31 December 2014 Cents
------------------------------	------------------------------

(a) Basic (loss)/earnings per share

From (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company

(29.7)	3.9
--------	-----

From underlying (loss)/profit attributable to the ordinary equity holders of the Company ¹

(1.3)	4.1
-------	-----

(b) Diluted (loss)/earnings per share

From (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company

(29.7)	3.9
--------	-----

From underlying (loss)/profit attributable to the ordinary equity holders of the Company ¹

(1.3)	4.1
-------	-----

12 Earnings per share (continued)

(c) Reconciliations of earnings used in calculating earnings per share

	31 December 2015 \$'000	31 December 2014 \$'000
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(Loss)/profit used in basic (loss)/earnings per share

(Loss)/profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per share

	(68,951)	9,016
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(Loss)/profit used in diluted (loss)/earnings per share

(Loss)/profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share

	(68,951)	9,016
--	----------	-------

Underlying (loss)/profit used in basic and diluted (loss)/earnings per share ¹

(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted (loss)/earnings per share

	(68,951)	9,016
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Items not considered part of underlying profit ¹

	66,013	492
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Underlying (loss)/profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted (loss)/earnings per share ¹

	(2,938)	9,508
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¹ Underlying (loss)/profit has been calculated after adjusting (loss)/profit attributable to the ordinary equity holders of the Company for asset impairments of 45.871 million, derecognition of tax losses of 20.282 million and other sundry adjustments relating to prior period business acquisitions and disposals and restructure costs of (\$0.140) million in the current half year and business combination acquisition transaction costs and costs of disposing of properties in the previous half year of \$2.178 million and tax credits of \$1.686 million (net impact \$0.492 million). Underlying profit is relevant because it is consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business in light of its change program.

13 Business combination

(a) Current period

There have been no acquisitions in the current half year.

(b) Previous year

Summary of Acquisition

On 1 July 2014 the Group acquired 100% of the issued shares in EMG Finance Pty Ltd and Audio Products Group Pty Ltd (together "APG"). The acquisition complements and extends the Group's Building Technologies business in the specialised audio market. The contribution of revenues and net profit to the Group is not separately determinable because APG has been integrated into the Building Technologies segment during the year.

On 6 February 2015 the Group acquired 100% of the issued shares in Hospital Communications Pty Ltd ("Hostel"). The acquisition is consistent with Hills stated strategy to be the number one provider of interactive patient care solutions to hospitals and aged care facilities in Australia. Hostel contributed revenues of \$1.7 million and net profit of \$0.330 million from the date of acquisition to 30 June 15. If the acquisition had been on 1 July 2014, consolidated revenue and consolidated loss for the year ended 30 June 2015 would have been \$430.422 million and \$85.350 million respectively.

13 Business Combination (continued)

(b) Previous year (continued)

Details of the purchase consideration, the net assets acquired and goodwill is set out below. The acquisition accounting for Hostel is classified as provisional as the measurement period has not ended.

	APG \$'000	Hostel \$'000
Purchase consideration		
Cash paid	13,692	9,311
Contingent consideration / retention	1,000	-
Total purchase consideration	14,692	9,311
Fair value of net identifiable assets acquired (refer below)	5,418	4,567
Goodwill (refer below)	9,274	4,744

The goodwill was attributable to the synergies expected to arise within the Hills Technologies and Health divisions but has been fully impaired as at 31 December 2015.

Assets and Liabilities Acquired

The assets and liabilities recognised as a result of the acquisitions are as follows:

	Fair value APG \$'000	Fair Value Hostel \$'000
Cash / (overdraft)	247	66
Trade and other receivables	4,147	687
Inventories	3,589	157
Plant and equipment	315	2,953
Intangible assets: software	-	534
Intangible assets: customer contracts / relationships / brands	-	1,779
Trade creditors and other liabilities	(2,389)	(786)
Provision for income tax	(4)	-
Deferred tax liability (net)	613	(626)
Provision for employee benefits	(1,100)	(197)
Net identifiable assets acquired	5,418	4,567
Add: Goodwill	9,274	4,744
Net assets acquired	14,692	9,311

Contingent Consideration

Contingent consideration comprised retention and was payable to the former owners of APG twelve months after the acquisition was completed. Contingent consideration of \$1.0m was paid in the current half year.

Acquisition Related Costs

Acquisition-related costs of \$0.948 million relating to legal fees and due diligence costs were included in other expenses in profit or loss and in operating cash flows in the consolidated statement of cash flows in the previous half year.

14 Contingencies

There have been no material changes in contingent liabilities or contingent assets since 30 June 2015.

15 Financial instruments

(a) Carrying amounts versus fair values

The carrying amounts of financial assets and financial liabilities in the consolidated statement of financial position approximate their fair values.

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2015.

(b) Financial instruments carried at fair value

The Group measures and recognises the following financial assets and financial liabilities at fair value on a recurring basis:

- Derivative financial instruments
- Contingent consideration payable

(i) Fair value hierarchy

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

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

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value:

At 31 December 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Derivatives used for hedging	-	407	-	407
Total financial assets	-	407	-	407
Financial liabilities				
Derivatives used for hedging	-	308	-	308
Total financial liabilities	-	308	-	308
At 31 December 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Derivatives used for hedging	-	1,477	-	1,477
Total financial assets	-	1,477	-	1,477
Financial liabilities				
Derivatives used for hedging	-	500	-	500
Contingent consideration payable	-	-	3,048	3,048
Total financial liabilities	-	500	3,048	3,548

15 Financial instruments (continued)

(b) Financial instruments carried at fair value (continued)

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

The fair value of derivative financial instruments that are not traded in an active market (derivatives used for hedging) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. All significant inputs required to fair value derivatives used for hedging are observable, and hence the instruments are included in level 2.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Contingent consideration	
	31 December 2015 \$'000	31 December 2014 \$'000
Balance at 1 July	3,048	4,450
Provision released to profit and loss	(395)	-
Payment of contingent consideration	(2,653)	(2,000)
Arising from business combination	-	598
Balance at 31 December	-	3,048

16 Related party transactions

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 30 June 2015 Annual Financial Statements.

17 Events occurring after the reporting period

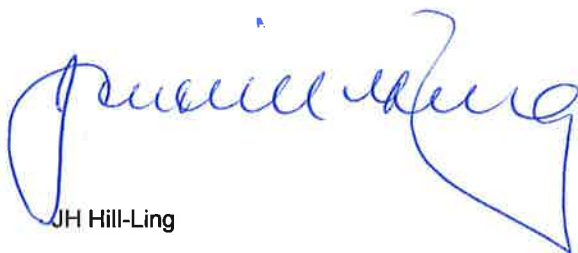
As part of the changes to Hills financing facilities as detailed in note 9, subsequent to the end of the half year, Hills granted a fixed charge over land and buildings and a fixed and floating charge over the other assets of the Group to its bankers.

Other than the above, no matter or circumstance has occurred subsequent to half year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years.

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

- (a) the consolidated financial statements and notes set out on pages 8 to 27 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half year ended on that date, and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



JH Hill-Ling

Director

Sydney

25 February 2016



Independent auditor's review report to the members of Hills Limited

We have reviewed the accompanying interim financial report of Hills Limited, which comprises the consolidated statement of financial position as at 31 December 2015, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 17 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Hills Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Hills Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to read 'A. C. Fleming'.

Scott Fleming
Partner

Adelaide

25 February 2016