

Hills Limited
Interim Financial Report
for the half year ended 31 December 2019

ABN 35 007 573 417

Hills Limited

ASX information

for the half year ended 31 December 2019

ABN 35 007 573 417

Lodged with the ASX under Listing Rule 4.2A.

This information should be read in conjunction with the Annual Report for the year ended 30 June 2019.

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Hills Limited

for the half year ended 31 December 2019

(previous corresponding period: half year ended 31 December 2018)

ABN 35 007 573 417

Results for announcement to the market

	Dec 2018		Change		Dec 2019
Revenue and profit from ordinary activities (A\$'000)					
Revenue from ordinary activities	132,254	down	4.2%	to	126,666
Profit after tax from ordinary activities attributable to owners	242	up	989%	to	2,636
Earnings per share (cents per share)					
Basic earnings per share	0.1	up	989%	to	1.1

Net tangible assets per share

The Company's net tangible assets per share at 31 December 2019 was \$0.09 (31 December 2018: \$0.19; 30 June 2019: \$0.14).

The application of AASB 16 Leases from 1 July 2019 has impacted the net tangible assets per share value as the lease liability forms part of the calculation however the right-of-use asset does not. The 31 December 2019 amount would be \$0.17 if calculated on a similar basis to the prior periods.

Dividends

The Company does not propose to pay any interim dividends.

Additional information

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

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

This Interim Financial Report should be read in conjunction with the Annual Report for the year ended 30 June 2019.

Hills Limited

Directors' report

For the half year ended 31 December 2019

The Directors present their report on the consolidated entity (referred to hereafter as Hills, the Company or the Group) consisting of Hills Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2019, and the independent auditor's report thereon.

Directors

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

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

Principal activities

The Principal activities of the Group are the valued-added distribution of technology products and services that connect, entertain and secure people's lives into the environments that people need and trust most: their homes, hospitals and healthcare facilities, places of learning, entertainment venues, retail spaces, houses of worship, workplaces and government institutions.

Hills business operations are focussed on three business segments:

- Hills Health Solutions is a market leader and comprises the design, supply and installation of health technology solutions, nurse call and patient engagement and other related solutions including security, Wi-Fi and telephony, into the health and aged care sectors.
- Hills Distribution which provides a diverse range of products and solutions to assist our customers support end users within the Security, Surveillance and IT market, and Technical Services.
- Corporate Corporate includes costs not allocated to a specific segment.

During the period the Group disposed of its Antenna, Audio Visual and STEP Electronics businesses within the Hills Distribution segment.

Review of operations

Statutory Result Overview

The Company recorded a net profit after tax attributable to owners of \$2.6 million for the half year ended 31 December 2019 which was an improvement of \$2.4 million on H1 FY19. Stronger margin performance and continued reduction in operating expenses were able to offset the impact of the 4.2% decline in sales revenue against the prior year due to a reduction in revenues from Antenna down by \$3.5 million and AV down \$2 million.

In December 2019, assets and liabilities of the Antenna, Audio Visual and STEP Electronics businesses were divested from the Distribution segment following a strategic and operational review. The disposals result in a net expense to the Group of \$0.25 million which is included in the consolidated statement of profit or loss within other expenses.

	Dec 2019 \$'000	Dec 2018 \$'000
Net profit after tax, attributable to the owners of the Company	2,636	242

Hills Limited

Directors' report

For the half year ended 31 December 2019

(continued)

Review of operations (continued)

Net Debt and Working Capital

Strong operating cashflow in the first half of \$7.6 million saw the Group decrease net debt by \$7.8 million in the first half of FY20, from \$28.4 million at 30 June 2019 to \$20.6 million at 31 December 2019.

Reduced Operating Expenses

Operating expenses¹ including depreciation in the half year to 31 December 2019 were \$3.3 million less than the prior year comparative period, a reduction of 8.2%.

Subsequent events

There have been no other events subsequent to balance date that would have a material effect on the Group's Interim financial statements at 31 December 2019.

Dividends

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

Significant changes in the state of affairs

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

Outlook

In line with previous guidance, Hills expects a continuation of solid results in the second half of FY20.

The group will continue to monitor the impact of the coronavirus, or COVID-19, on the supply chain of the Distribution and Health businesses. While the Distribution business has a strong inventory position today, some delays associated with products sourced from China are anticipated in the coming months and this has been catered for in our safety stock levels. The impact on the Health business is expected to be minimal given the low exposure to goods sourced from China.

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

Rounding of amounts

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

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

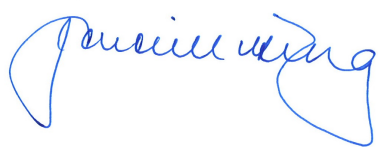
¹ Operating expenses referred to above excludes cost of goods sold (inventories), Direct costs of services provided and non operating net income / costs. This is a non-IFRS measure that is not subject to audit or review. This non-IFRS measure is relevant because it is consistent with the measures used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

Hills Limited

Directors' report

For the half year ended 31 December 2019

(continued)



Jennifer Hill-Ling
Chairman



David Lenz
CEO and Managing Director

Sydney
25 February 2020



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

To the Directors of Hills Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Hills Limited for the half-year ended 31 December 2019 there have been:

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

KPMG

Paul Cenko
Partner

Adelaide

25 February 2020

Interim financial statements for the half year ended 31 December 2019

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Hills Limited

Consolidated statement of profit or loss

For the half year ended 31 December 2019

	Notes	Dec 2019 \$'000	Dec 2018 \$'000
Continuing operations			
Revenue	2	126,666	132,254
Other income	3	43	376
		126,709	132,630
Expenses excluding net finance expenses	4b		
Cost of goods sold (inventories)		(76,027)	(81,148)
Direct costs of services provided		(8,864)	(9,133)
Labour and related expenses		(24,424)	(25,531)
Operational and equipment expenses		(2,411)	(3,307)
Property expenses		(757)	(3,960)
Depreciation and amortisation	4a	(4,560)	(3,323)
Other expenses		(5,126)	(4,470)
		4,540	1,758
Profit before net finance expense and income tax			
Finance income		30	68
Finance Costs – lease liability interest		(367)	-
Finance expenses		(1,567)	(1,582)
Net finance expenses	4a	(1,904)	(1,514)
Profit before income tax		2,636	244
Income tax expense from continuing operations	5	-	(2)
Profit from continuing operations		2,636	242
Profit for the period, attributable to owners of Hills Limited		2,636	242
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic and diluted earnings per share	6	1.1	0.1

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

Hills Limited

Consolidated statement of comprehensive income

For the half year ended 31 December 2019

	Dec 2019 \$'000	Dec 2018 \$'000
Profit for the half year	2,636	242
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges	187	(206)
Exchange differences on translation of foreign operations	24	239
Income tax relating to components of other comprehensive income	-	-
Other comprehensive income for the half year, net of tax	211	33
Total comprehensive profit for the half year, attributable to owners of Hills Limited	2,847	275

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 2019

	Notes	Dec 2019 \$'000	Jun 2019 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		8,793	10,867
Trade and other receivables		55,298	59,194
Inventories		35,996	41,636
Derivative financial instruments		82	-
Total current assets		100,169	111,697
Non-current assets			
Investments		2	2
Other receivables		812	-
Property, plant and equipment		13,449	15,281
Right-of-use asset	17	12,940	-
Intangible assets		2,857	2,072
Deferred tax assets		16,580	16,733
Total non-current assets		46,640	34,088
Total assets		146,809	145,785
LIABILITIES			
Current liabilities			
Trade and other payables		38,940	40,646
Borrowings	7	8,498	15,927
Provisions	11	5,358	8,731
Lease liabilities	17	3,187	-
Derivative financial instruments		-	106
Total current liabilities		55,983	65,410
Non-current liabilities			
Borrowings	7	20,942	23,331
Provisions	11	3,035	4,687
Lease liabilities	17	12,601	-
Total non-current liabilities		36,578	28,018
Total liabilities		92,561	93,428
Net assets		54,248	52,357
EQUITY			
Contributed equity	9	278,439	278,439
Reserves		11,343	11,128
Accumulated losses		(235,534)	(237,210)
Total equity		54,248	52,357

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 2019

Attributable to owners of Hills Limited			
Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000
278,439	11,053	(228,184)	61,308
-	-	(200)	(200)
-	33	242	275
-	-	-	-
278,439	11,086	(228,142)	61,383
278,439	11,128	(237,210)	52,357
-	-	(960)	(960)
-	211	2,636	2,847
-	4	-	4
278,439	11,343	(235,534)	54,248

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 2019

	Dec 2019 \$'000	Dec 2018 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	146,567	150,361
Payments to suppliers and employees (inclusive of goods and services tax)	(137,304)	(150,333)
	9,263	28
Net finance costs paid	(1,293)	(1,270)
Interest paid lease liabilities	(367)	-
Net cash flows from / (used in) operating activities	7,603	(1,242)
Cash flows from investing activities		
Payments for property, plant and equipment	(705)	(1,232)
Payments for intangible assets	(1,594)	(1,768)
Proceeds from sale of property, plant and equipment and intangible assets	6	20
Proceeds from divestments	4,652	-
Net cash flows from / (used in) investing activities	2,359	(2,980)
Cash flows from financing activities		
Proceeds from borrowings	697	3,008
Repayment of borrowings	(10,317)	(1,832)
Payment of lease liabilities	(2,393)	-
Net cash flows from / (used in) financing activities	(12,013)	1,176
Net decrease in cash and cash equivalents	(2,051)	(3,046)
Cash and cash equivalents at the beginning of the period	10,867	15,783
Effects of exchange rate changes on cash and cash equivalents	(23)	100
Cash and cash equivalents at end of the period	8,793	12,837

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

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2019

Section A: About this report

These consolidated interim financial statements are for the group consisting of Hills Limited (the "Company" or "parent entity") and its subsidiaries (together referred to as the "Group" or "Consolidated Entity" and individually as "Group Entities").

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

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

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

The consolidated financial statements were authorised for issue by the Directors on 25 February 2020. The Directors have the power to amend and reissue the consolidated financial statements.

Basis of preparation

These general purpose consolidated interim financial statements:

- are presented in Australian dollars;
- have been prepared in accordance with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*;
- have been prepared on the same basis and in accordance with the same accounting policies adopted in the previous financial year and corresponding interim financial reporting period other than adoption of AASB 16; and
- do not include all the notes normally included in an annual financial report and should be read in conjunction with the Annual Report for the year ended 30 June 2019 and any public announcements made by Hills Limited during the interim reporting period.

Key accounting estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis.

In preparing this consolidated interim financial report, the judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial report as at and for the year ended 30 June 2019 except for new significant judgements and key sources of estimation uncertainty related to the application of AASB 16, which are described in Note 17.

Rounding

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

Hills Limited
Notes to the consolidated financial statements
For the half year ended 31 December 2019
(continued)

Section B: Business performance

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

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

1 Segment information

The Group has three reportable segments as summarised below:

- Hills Health Solutions, a market leader and comprises the design, supply and installation of health technology solutions, nurse call and patient engagement and other related solutions including security, Wi-Fi and telephony, into the health and aged care sectors.
- Hills Distribution which provides a diverse range of products and solutions to assist our customers support end users within the Antenna, Audio Visual, Satellite, Security, Surveillance and IT markets.
- Corporate includes costs not allocated to a specific segment.

There have been no changes to Management's assessment of the Group's reportable operating segments during the half year ended 31 December 2019.

(a) Information about reportable segments

	Revenue ¹		EBITDA ²	
	Dec 2019 \$'000	Dec 2018 \$'000	Dec 2019 \$'000	Dec 2018 \$'000
Reportable segment				
Distribution	108,425	113,656	5,345	907
Health Solutions	18,241	18,598	5,535	5,676
Corporate	-	-	(1,780)	(1,502)
Total segment result	126,666	132,254	9,100	5,081

(b) Other segment information

Segment revenue

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

The Group did not derive 5% or more of its revenues from any single external customer.

¹ Total segment revenue represents revenue from external customers.

² Earnings before interest, tax, depreciation, amortisation and impairment of intangible assets, goodwill and other receivables (EBITDA) is a non-IFRS measure not subject to audit or review. The transition to AASB 16 has impacted this number in that the right of use asset depreciation detailed in Note 17 is now below this metric whereas in December 2018 the equivalent number would be included within EBITDA. This non-IFRS measure is relevant because it is consistent with the measures used internally by management and some in the investment community to assess the operating performance of the business.

Hills Limited
Notes to the consolidated financial statements
For the half year ended 31 December 2019
(continued)

1 Segment information (continued)

(b) Other segment information (continued)

Segment EBITDA

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

Segment EBITDA reconciles to the profit before income tax as follows:

	Notes	Dec 2019 \$'000	Dec 2018 \$'000
Segment EBITDA		9,100	5,081
Depreciation and amortisation	4	(4,560)	(3,323)
Net finance expenses	4	(1,904)	(1,514)
Profit before income tax from continuing operations		2,636	244

Segment assets and liabilities

	Total Assets	
	Dec 2019 \$'000	Jun 2019 \$'000
Reportable segment		
Distribution	82,647	91,166
Health	25,796	27,018
Corporate ¹	38,366	27,601
Total segment assets	146,809	145,785

Geographical information

Segment revenue and non-current assets (excluding financial instruments and deferred tax assets) by geographical location are shown in the following table. Segment revenues are allocated based on the country in which the customer is located. Segment assets are allocated based on where the assets are located.

¹ Corporate segment assets total includes the cash, deferred tax balances and right of use asset balances for the group.

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2019

(continued)

1 Segment information (continued)

	Revenue		Non-current assets	
	Dec 2019 \$'000	Dec 2018 \$'000	Dec 2019 \$'000	Jun 2019 \$'000
Australia	117,725	122,833	29,802	17,043
Other countries	8,941	9,421	258	312
	126,666	132,254	30,060	17,355

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.

2 Revenue

	Dec 2019 \$'000	Dec 2018 \$'000
Sales revenue		
Sale of goods	101,444	106,541
Services	25,222	25,713
Total revenue from continuing operations	126,666	132,254

3 Other income

	Dec 2019 \$'000	Dec 2018 \$'000
Net income / (loss) on disposal of non-current assets	7	(13)
Other income	36	389
	43	376

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2019

(continued)

4 Expenses

	Dec 2019 \$'000	Dec 2018 \$'000
(a) Profit before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	1,990	2,231
Right of use assets	2,468	-
Total depreciation	4,458	2,231
Amortisation		
Software	77	1,038
Development costs	25	54
Total amortisation	102	1,092
Total depreciation and amortisation	4,560	3,323
Finance expenses		
Interest and finance charges paid/payable	1,567	1,582
Finance Costs – lease liability interest	367	-
	1,934	1,582
Finance income		
Interest income	(30)	(68)
Net finance costs expensed	1,904	1,514

4 Expenses (continued)**(b) Information on expenses**

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

Cost of goods sold (inventories)	Cost of goods sold include expenses relating to the change in inventories of finished goods and work in progress, and raw materials used.
Direct costs of services provided	Direct costs of services provided include subcontractor costs, commissions and subscriptions payable, and other direct costs associated with provision of services by Group entities. This balance does not include internal labour costs related to carrying out services, which are included in labour and related expenses.
Labour and related expenses	Labour and related expenses include employee benefits expenses and other labour and related expenses such as third party logistics, labour hire, employee training and recruitment.
Operational and equipment expenses	Operational and equipment expenses include costs of freight, consumables, motor vehicle and other equipment expenses, repairs and maintenance.
Property expenses	Property expenses include rent, rates, utilities, cleaning and security expenses related to properties leased by the Group.
Other expenses	Other expenses include overhead expenses (such as insurance, advertising and marketing, professional and consulting fees, telecommunications and information technology related expenses). In FY20 the net loss on disposal of group assets and liabilities in the Consolidated statement of profit or loss was \$0.25 million.

5 Income tax

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

The Group's consolidated effective tax rate for the half year ended 31 December 2019 was 0% (31 December 2018: 1%).

6 Earnings per share

	Dec 2019 Cents	Dec 2018 Cents
(a) Basic and diluted earnings per share		
From earnings attributable to the ordinary equity holders of the Company	1.1	0.1
	Dec 2019 \$'000	Dec 2018 \$'000
(b) Reconciliation of earnings used in calculating earnings per share		
Earnings attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	2,636	242

Section C: Capital and financing

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

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

7 Borrowings

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

Further details are provided below:

Receivables Purchase Facility	The Recfin Nominees Pty Ltd facility totals \$36 million (denominated in AUD), with funding provided based upon the Group's accounts receivable book. The facility expires on 13 May 2021. The facility is secured on the Group's Accounts Receivable book, with a second mortgage over the other assets of the Group. Interest is charged at prevailing market rates plus a fixed margin. There have been no changes to this facility during the half year ended 31 December 2019.
CBA Facility	The previous facility has been replaced with a Bank Guarantee Facility Agreement with a limit of \$2.572 million. An issuance fee is payable in respect of bank guarantees issued.
DLL Financing	The Group has entered into Chattel Mortgage Agreements with DLL for the provision of finance for the supply and installation of equipment at hospitals in the Hills Health Solutions business. At 31 December 2019, the Group had drawn down \$2.622 million (30 June 2019: \$3.374 million).

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

	Dec 2019			Jun 2019		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Loans	8,498	21,611	30,109	15,927	24,245	40,172
Transaction costs	-	(669)	(669)	-	(914)	(914)
Total borrowings	8,498	20,942	29,440	15,927	23,331	39,258

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

Net debt

	Dec 2019 \$'000	Jun 2019 \$'000
Total borrowings	29,440	39,258
Less: cash and cash equivalents	(8,793)	(10,867)
Net debt	20,647	28,391

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2019

(continued)

8 Fair value measurements

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

(a) Fair value measurements for financial assets and liabilities

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

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

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

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

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2019				
Liabilities				
Derivative financial instruments	-	(106)	-	(106)
Total Liabilities	-	(106)	-	(106)
31 December 2019				
Assets				
Derivative financial instruments	-	82	-	82
Total Assets	-	82	-	82

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

The fair value of financial instruments that are not traded in an active market (for example, derivatives used for hedging) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. All significant inputs required to fair value derivatives used for hedging are observable, and hence the instruments are included in level 2. There have been no movements between levels during the half year ended 31 December 2019.

9 Contributed equity

There have been no changes to the capital structure of the Company since 30 June 2019.

10 Dividends

No dividends were paid during the half year ended 31 December 2019 (2018: nil) and no interim dividends have been declared.

Section D: Other disclosures

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

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

11 Provisions

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

	Dec 2019			June 2019		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Employee benefits	3,896	631	4,527	4,657	604	5,261
Outstanding claims	565	142	707	573	351	924
Restructuring costs	162	284	446	1,672	284	1,956
Other provisions	735	1,978	2,713	1,829	3,448	5,277
	5,358	3,035	8,393	8,731	4,687	13,418

Description of provisions and key movements

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

12 Property, plant & equipment and intangible assets

Acquisitions and disposals

Acquisitions	During the interim reporting period, the Group acquired plant, equipment and intangible assets costing \$2.3 million (Dec 2018: \$3.0 million).
Disposals	During the interim reporting period, the Group disposed of assets with a net book value of \$0.9 million (Dec 2018: \$0.03 million). Refer to Note 16 Business transactions for further detail on disposals.

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2019

(continued)

13 Capital commitments

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

	Dec 2019 \$'000	Dec 2018 \$'000
Plant, equipment and software	-	-

14 Contingencies

Contingent liabilities

The Group had contingent liabilities at 31 December 2019 in respect of:

Claims	<p>In consultation with the Environmental Protection Authority, ground water contamination potentially originating from the Company's former Edwardstown site continues to be monitored by the Company. It is anticipated that ongoing monitoring will be required to be undertaken by Hills. The Company has provided for the anticipated costs of ongoing assessments. There have been no material changes since 30 June 2019.</p> <p>The Group has various commercial legal claims common to businesses of its type that constitute contingent liabilities, none of which are deemed material to the Group's financial position including a third party claim in relation to a contract which is considered to be without merit.</p> <p>The Directors are of the opinion that provisions are not required in respect of these matters as it is not probable that a future outflow of economic benefits will be required.</p>
Guarantees	Bank guarantees in favour of customers and suppliers totalling \$2.572 million (30 June 2019: \$2.466 million).

15 Events occurring after the reporting period

There have been no events subsequent to the balance date that would have a material effect on the Group's interim financial statements at 31 December 2019.

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2019

(continued)

16 Business transactions

During the period the Group disposed of three businesses within the Hills Distribution segment following an Operational and Strategic review of the segment undertaken in the 2019 financial year. The sales of the Antenna, Audio Visual and STEP Electronics businesses (collectively Disposal Group) comprised sales of specific assets and liabilities of the disposed group with Hills retaining the trade debtor and trade creditor balances at the disposal date.

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

Distribution segment divestments	Dec 2019 \$ '000
Final sale price	8,073
<i>(Assets) / liabilities disposed:</i>	
Inventory	(8,060)
Other assets (prepayments, DTA)	(519)
Property, plant & equipment	(104)
Intangibles	(734)
Provisions (employee benefits)	1,097
Net assets disposed	(8,320)
<i>Net loss on sale of disposal group</i>	<i>(247)</i>
Breakdown of consideration	
Cash received	4,652
Debtors balance- current	2,609
Debtors balance- non current	812

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2019

(continued)

17 Changes in significant accounting policies

The accounting policies applied in these interim financial statements are consistent with those adopted and disclosed in the Group's annual financial report for the financial year ended 30 June 2019.

The Group has adopted AASB 16 Leases effective from 1 July 2019. The group applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly the comparative information presented is not restated. In the comparative period the only lease arrangements that the Group had were considered to be operating leases and therefore the lease payments were recognised in profit or loss on a straight line basis over the term of the lease. This now changes under AASB 16 and the details of the changes in accounting policies are disclosed below.

AASB 16 Leases

At the inception of a contract, 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 of time in exchange for consideration.

At the commencement 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 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 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.

The Group determined its incremental borrowing rate by obtaining indicative interest rates from its lenders.

The lease liability is 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.

The Group's leases consist of property leases for office and warehouse facilities as well as leases for cars and forklifts.

Short term leases

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

Impact on transition

On transition to AASB 16, the Group recognised right-of-use assets and lease liabilities. The difference between these two amounts was posted to retained earnings. The impact on transition is summarised below.

1 Jul 2019

\$'000

Right-of-use asset
Retained earnings- AASB 16 transition adjustment
Lease Liabilities

17,221
960
(18,181)

When measuring lease liabilities for leases that were previously classified as operating leases, the Group discounted lease payments using a borrowing rate of 4.6%.

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2019

(continued)

17 Changes in significant accounting policies (continued)

	1 Jul 2019 \$'000
Operating lease commitments at 30 June 2019 as disclosed in the Group's consolidated financial statements	20,855
Discounted using the incremental borrowing rate at 1 July 2019	18,181

The lease liability excludes leases with less than 12 months to expiry with options which are not reasonably certain to be renewed which is a requirement of AASB 16.

To assist with the understanding of the impact of the application of AASB 16 in this initial period refer to the following summary. Note that the lease liability has been discounted to present value.

Right-of-use assets

	Property \$'000	Cars and forklifts \$'000	Total \$'000
Balance at 1 July 2019	15,293	1,928	17,221
Onerous lease adjustment	(1,814)	-	(1,814)
Depreciation of right of use asset	(2,168)	(299)	(2,467)
Balance at 31 December 2019	11,311	1,629	12,940

Lease liabilities

	Total \$'000
Balance at 1 July 2019	18,181
Reduction in liability	(2,393)
Balance at 31 December 2019	15,788
Split between:	
Current lease liability	3,187
Non current lease liability	12,601
Balance at 31 December 2019	15,788

17 Changes in significant accounting policies (continued)**Comparison of previous AASB 117 accounting treatment and new AASB 16 treatment**

The following table has been included to compare the new accounting treatment under AASB 16 with how the same transactions would have been shown under the previous AASB 117 for the period from 1 July 2019 to 31 December 2019.

	Statement of profit or loss \$'000	Statement of cash flows \$'000
Previous AASB 117 accounting treatment		
Expenses (lease payments)	(2,760)	-
Expenses (lease payments short term leases)	(350)	-
Cash flows from operating activities	-	(3,110)
Total	(3,110)	(3,110)
New AASB 16 treatment		
Expenses (lease payments short term leases)	(350)	-
Interest expense	(367)	-
Depreciation right-of-use asset	(2,468)	-
Cash flows from operating activities	-	(717)
Cash flows from financing activities	-	(2,393)
Total	(3,185)	(3,110)

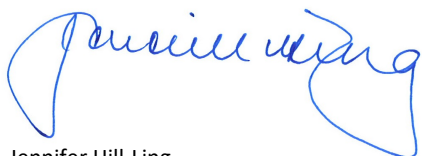
Directors' declaration

For the half year ended 31 December 2019

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

- (a) the consolidated interim financial statements and notes set out on pages 7 to 26 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the six month period ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Jennifer Hill-Ling
Chairman



David Lenz
CEO and Managing Director

Sydney
25 February 2020



Independent Auditor's Review Report

To the shareholders of Hills Limited

Report on the Interim Financial Report

Conclusion

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

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

- giving a true and fair view of the *Group's* financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The *Interim Financial Report* comprises:

- Consolidated statement of financial position as at 31 December 2019;
- Consolidated statement of profit or loss, Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half-year ended on that date;
- Notes 1 to 17 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' declaration.

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

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

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

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

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Hills Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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



KPMG



Paul Cenko
Partner

Adelaide

25 February 2020

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Chris Jacka, *Chief Financial Officer*

Non-Executive Directors

Jennifer Helen Hill-Ling

Fiona Rosalyn Vivienne Bennett

Philip Bullock AO

Kenneth James Dwyer

Company Secretary

David Fox

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