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Hills Limited

ABN 35 007 573 417

Interim Financial Report for the half year ended 31 December 2016

Hills Limited ABN 35 007 573 417

ASX half year information – 31 December 2016

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 2016.

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Hills Limited

For the half year ended 31 December 2016

(Previous corresponding period: half year ended 31 December 2015)

Results for announcement to the market

	Dec 2015		Change			Dec 2016
<i>Revenue and profit from ordinary activities (A\$'000)</i>						
Revenue from ordinary activities	164,138	down	6,842	4%	to	157,296
Profit / (loss) after tax attributable to owners from ordinary activities	(68,951)	up	69,165	>100%	to	214
<i>Earnings per share (cents per share)</i>						
Basic earnings / (loss) per share	(29.7)	up	29.8	>100%	to	0.1
<i>Net tangible assets per share (A\$ per share)</i>						
Net tangible assets per share	0.25		-			0.25

The Company does not propose to pay any interim dividends.

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 4 of this Interim Financial Report for an explanation of the figures reported above.

This Interim Financial Report should be read in conjunction with the 2016 Annual Financial Report.

Hills Limited

Directors' report

For the half year ended 31 December 2016

(continued)

The Directors present their report on the consolidated entity (referred to hereafter as Hills or the Company) consisting of Hills Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2016, and the independent auditor's 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:

Jennifer Helen Hill-Ling
Fiona Rosalyn Vivienne Bennett
Philip Bullock

Kenneth James Dwyer was appointed a director on 20 September 2016 and continues in office at the date of this report.
David Moray Spence was a director from the beginning of the period until his retirement on 20 September 2016.
Ian Elliot was a director from the beginning of the period until his retirement on 4 November 2016.

Principal activities

The principal activities of Hills during the course of the half year are outlined within the Review of operations.

Review of operations

Statutory result overview

The Company recorded a net profit after tax attributable to owners of \$0.214 million for the half year ended 31 December 2016. This profit reflects the Company's results after the impact of costs associated with the proposed demerger of the Hills Health Solutions business and other net costs associated with the Company's prior restructure and transformation program.

One Hills, One Vision

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

- A common target base, covering building contractors, consultants and system integrators.
- Products and services sold primarily through common channels: building contractors and system integrators.

With one reportable segment moving forward, our vision today is to be a business that is solely focused on value added distribution of technology and services in building technologies that "connect, entertain and secure people's lives", with product offerings in:

- Security, Surveillance & IT
- Audio Visual
- Communications & Satellite
- Health Solutions, nurse call and patient engagement

Platform for Growth

In addition to a program of talent acquisition and ensuring the right people are in the right role to provide the best service and sourced products to our customers, we will continue to support and strengthen our business by:

- Continuing improvement in customer service and engagement
- Growing and developing new and existing vendor relationships
- Continue with tight capital management
- Focus on profitable growth opportunities
- The digital transformation project, transitioning us from a product centric company to a customer centric company

Hills Limited
Directors' report

For the half year ended 31 December 2016

(continued)

Review of operations (continued)

Outlook

With the successful transition of the Hills Home Living assets from Woolworths to AMES Australasia and the retention of the Hills Health Solutions business, Hills can move beyond the recent stabilisation phase and focus on profitable growth opportunities in the remainder of FY17 and beyond.

Subsequent events

No matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

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 interim financial report.

Significant changes in the state of affairs

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

Likely developments and expected results of operations

For likely developments please refer to the Review of operations section of the Directors' report.

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 5.

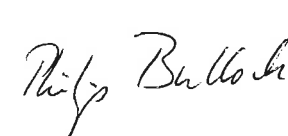
Rounding of amounts

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

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



Jennifer Helen Hill-Ling
Director



Philip Bullock
Director

Sydney
21 February 2017

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 2016 there have been:

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

A handwritten signature in dark ink, appearing to be 'KPMG'.

KPMG

A handwritten signature in dark ink, appearing to be 'Scott Fleming'.

Scott Fleming
Partner

Adelaide

21 February 2017

Interim financial report

for the half year ended 31 December 2016

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Corporate directory

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Hills Limited
Consolidated income statement
For the half year ended 31 December 2016

	Notes	Dec 2016 \$'000	Dec 2015 \$'000
Continuing operations			
Revenue	2	157,296	164,138
Other income	3	12,672	1,804
		169,968	165,942
Expenses excluding net finance expenses	4	(167,983)	(212,711)
Profit / (loss) before net finance expense and income tax		1,985	(46,769)
Finance income		15	63
Finance expenses		(1,685)	(2,175)
Net finance expenses	4	(1,670)	(2,112)
Profit / (loss) before income tax		315	(48,881)
Income tax expense from continuing operations	5	(101)	(20,070)
Profit / (loss) from continuing operations		214	(68,951)
Profit / (loss) for the period		214	(68,951)
Profit / (loss) is attributable to:			
Owners of Hills Limited		214	(68,951)
		214	(68,951)
		Cents	Cents
Earnings per share for profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company:			
Basic and diluted earnings per share	6	0.1	(29.7)

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 2016

	Dec 2016 \$'000	Dec 2015 \$'000
Profit / (loss) for the period	214	(68,951)
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges	378	58
Exchange differences on translation of foreign operations	49	845
Income tax relating to components of other comprehensive income	(114)	(18)
Other comprehensive income for the year that may be reclassified to profit or loss, net of tax	313	885
Total comprehensive profit / (loss) for the period	527	(68,066)
Total comprehensive profit / (loss) for the period is attributable to:		
Owners of Hills Limited	527	(68,066)
	527	(68,066)

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 2016

Notes	Dec 2016 \$'000	Jun 2016 \$'000
ASSETS		
Current assets		
	13,516	3,994
Cash and cash equivalents	62,099	71,911
Trade and other receivables	51,430	55,617
Inventories	246	183
Current tax assets	490	103
Derivative financial instruments		
Total current assets	127,781	131,808
Non-current assets		
Trade and other receivables	2,251	534
Investments	2	2
Property, plant and equipment	17,450	19,948
Intangible assets	2,090	753
Deferred tax assets	10,649	10,808
Total non-current assets	32,442	32,045
Total assets	160,223	163,853
LIABILITIES		
Current liabilities		
Trade and other payables	40,937	50,400
Borrowings	319	472
Provisions	12,125	12,512
Total current liabilities	53,381	63,384
Non-current liabilities		
Borrowings	34,075	27,695
Provisions	3,148	3,697
Total non-current liabilities	37,223	31,392
Total liabilities	90,604	94,776
Net assets	69,619	69,077
EQUITY		
Contributed equity	278,439	278,439
Reserves	11,577	11,249
Accumulated losses	(220,397)	(220,611)
Total equity	69,619	69,077

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 2016

	Attributable to owners of Hills Limited			
	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2015	278,439	10,467	(152,306)	136,600
Total comprehensive income / (loss) for the period	-	885	(68,951)	(68,066)
Transactions with owners in their capacity as owners:				
Employee share schemes	-	(86)	-	(86)
Balance at 31 December 2015	278,439	11,266	(221,257)	68,448
Balance at 1 July 2016	278,439	11,249	(220,611)	69,077
Total comprehensive income for the period	-	313	214	527
Transactions with owners in their capacity as owners:				
Employee share schemes	-	15	-	15
Balance at 31 December 2016	278,439	11,577	(220,397)	69,619

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 2016

	Notes	Dec 2016 \$'000	Dec 2015 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		187,227	205,989
Payments to suppliers and employees (inclusive of goods and services tax)		(186,256)	(203,196)
		971	2,793
Net finance costs paid		(1,670)	(2,111)
Net income taxes paid		(110)	(247)
Net cash flows from operating activities		(809)	435
Cash flows from investing activities			
Payments for acquisitions of subsidiaries / business operations, net of cash acquired		-	(2,653)
Payments for property, plant and equipment	11	(769)	(2,929)
Payments for intangible assets	11	(1,645)	(2,438)
Proceeds from sale of property, plant and equipment and intangible assets		6,515	213
Rent received		4	788
Net cash flows from investing activities		4,105	(7,019)
Cash flows from financing activities			
Proceeds from borrowings		10,818	12,836
Repayment of borrowings		(4,590)	(7,906)
Net cash flows from financing activities		6,228	4,930
Net increase / (decrease) in cash and cash equivalents		9,524	(1,654)
Cash and cash equivalents at the beginning of the period		3,994	18,801
Effects of exchange rate changes on cash and cash equivalents		(2)	155
Cash and cash equivalents at end of the period		13,516	17,302

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

Hills Limited

Notes to the condensed consolidated financial statements

For the half year ended 31 December 2016

Section A: About this report

These condensed 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 condensed 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 condensed consolidated financial statements were authorised for issue by the Directors on 21 February 2017. The Directors have the power to amend and reissue the consolidated financial statements.

Basis of preparation

These general purpose condensed 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; 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 2016 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 2016.

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 condensed consolidated financial statements

For the half year ended 31 December 2016

(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

During the half year ended 31 December 2016, there were changes to elements of the business that lead to a review of the Group's reportable operating segments. These changes include:

Lincor merger

On 13 September 2016, Hills announced that it had entered into a conditional merger agreement to combine its Hills Health Solutions (HHS) business with international healthcare technology business, Lincor Solutions, to create a new ASX listed company, Lincor Limited. As announced, the conditional merger agreement was terminated in December 2016. Following the termination, Management have commenced the transition of HHS into the operational activities of the remainder of the Group.

Sale of Hills Home Living assets

The Hills Home Living (HHL) business was operated by Woolworths Limited (Woolworths) under a licencing arrangement until October 2016, when the agreement was terminated after the decision by Woolworths to exit its home improvement business and close its Masters stores.

In December 2016, Hills entered into an agreement with AMES Australasia (AMES) to take over the manufacture and sale of HHL products. The transaction with AMES involved the sale of tooling equipment and trademarks related to HHL products, which are no longer used by the continuing Hills business.

No further revenue or profit is expected for the benefit of the Group from this business and Hills no longer operates in this segment.

In light of the above changes, the Board of Directors (being the Chief Operating Decision Maker) consider that there is only one reportable segment for the half year ended 31 December 2016, the Hills Group.

(a) Information about reportable segment

	Segment revenue		Segment EBITDA	
	Dec 2016 \$'000	Dec 2015 \$'000 (restated)	Dec 2016 \$'000	Dec 2015 \$'000 (restated)
Reportable segment				
Hills Building Technology	157,296	164,138	8,435	5,392
Total segment result	157,296	164,138	8,435	5,392

(b) Other segment information

Segment revenue

The revenue from external parties 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 derived revenue of \$20.124 million from a single external customer during the period. The Group did not derive 10% or more of its revenues from any other single external customer.

Hills Limited

Notes to the condensed consolidated financial statements

For the half year ended 31 December 2016

(continued)

1 Segment information (continued)

(b) Other segment information (continued)

Segment EBITDA

The CODM assesses performance based on a measure of EBITDA¹. This excludes the effects of non-recurring expenditure from the operating segment such as restructuring costs and goodwill and other intangible asset impairments when the impairment is the result of an isolated, non-recurring event and business combination acquisition transaction costs which, although expensed under IFRS, are considered to otherwise distort the operational view of the business.

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

	Notes	Dec 2016 \$'000	Dec 2015 \$'000
Segment EBITDA		8,435	5,392
Depreciation and amortisation	4	(3,530)	(6,430)
Finance income	4	15	63
Finance expenses	4	(1,685)	(2,175)
Non-recurring corporate costs		(2,920)	(45,731)
Profit / (loss) before income tax		315	(48,881)
Non-recurring corporate costs comprise:			
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
Costs relating to proposed demerger of business		2,207	-
Other net costs / (credits) arising from the Company's restructure and transformation program		713	(140)
		2,920	45,731

Segment assets and liabilities

The assets and liabilities of the reportable operating segment are as shown in the balance sheet.

2 Revenue

	Dec 2016 \$'000	Dec 2015 \$'000
Revenue from continuing operations		
<i>Sales revenue</i>		
Sale of goods	119,216	132,508
Services	37,576	29,842
	156,792	162,350
<i>Other revenue</i>		
Rents and sub-lease rentals	4	788
Licence fee revenue	500	1,000
Total revenue from continuing operations	157,296	164,138

¹ Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-IFRS measure and has not been subject to audit or review.

Hills Limited

Notes to the condensed consolidated financial statements

For the half year ended 31 December 2016

(continued)

3 Other income

	Dec 2016 \$'000	Dec 2015 \$'000
Net gain on disposal of non-current assets	6,427	100
Other	6,245	1,704
	12,672	1,804

The net gain on disposal of non-current assets for the half year to 31 December 2016 includes a gain on the sale of Hills Home Living assets comprising intellectual property of \$4.000 million and tooling, goodwill and other assets of \$2.400 million, to AMES Australasia.

Other income for the half year to 31 December 2016 includes income received from Woolworths on termination of the licence arrangement in relation to Hills Home Living products of \$6.000 million. Deferred costs of \$0.651 million have been reflected in operating expenses for the period.

Other income in the prior half year included income relating to the termination of Hills' distribution agreement with Crestron, which ceased during the 2016 financial year.

4 Expenses

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

	Dec 2016 \$'000	Dec 2015 \$'000
<i>Employee benefits expense</i>	35,069	39,394
<i>Depreciation and amortisation</i>		
Depreciation	2,964	3,676
Amortisation		
Software	554	1,338
Research and development	12	161
Customer contracts, relationships and brands	-	1,253
Patents and trademarks	-	2
Total amortisation	566	2,754
Total depreciation and amortisation	3,530	6,430
<i>Net finance costs</i>		
Finance expenses: interest and finance charges paid/payable	1,685	2,175
Finance income: interest income	(15)	(63)
Net finance costs expensed	1,670	2,112

During the half year ended 31 December 2016, the Group recognised an expense of \$4.395 million on the impairment of inventory (comprising inventory purchased on signing a distribution agreement with Tyco in February 2015 of \$3.461 million and other exited brands of \$0.934 million).

Hills Limited

Notes to the condensed consolidated financial statements

For the half year ended 31 December 2016

(continued)

5 Income tax

The Group's consolidated effective tax rate for the half year to 31 December 2016 is 32% (31 December 2015: -41.1%). The low tax rate in the prior half year is due to the Group derecognising deferred tax assets of \$20.282 million following a review of the time period over which the tax losses were expected to be utilised.

6 Earnings per share

	Dec 2016 Cents	Dec 2015 Cents
(a) Basic and diluted earnings per share		
From profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company	0.1	(29.7)
(b) Reconciliation of earnings used in calculating earnings per share		
	Dec 2016 \$'000	Dec 2015 \$'000
<i>Basic and diluted earnings per share</i>		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	214	(68,951)

Hills Limited

Notes to the condensed consolidated financial statements

For the half year ended 31 December 2016

(continued)

Section C: Capital and financing

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

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

7 Borrowings

An update on the Group's financing arrangements is provided below:

Bilateral Facility

The Group has a Bilateral Facility with Commonwealth Bank of Australia (CBA), which was amended in December 2016.

Facility before amendment

A \$10 million multi-option facility for bank loans and contingent liabilities (bank guarantees / letters of credit).

Facility after amendment

A facility for an overdraft and contingent liabilities with the following sub-limits:

- Overdraft: \$3 million
- Contingent liabilities (bank guarantees / letters of credit): \$4.472 million.

CBA continues to hold a fixed and floating charge over the assets of the Group (excluding accounts receivable).

Receivables Purchase Facility

The Group has a \$36 million Receivables Purchase Facility with The Recfin Nominees Pty Ltd, with funding provided based upon the Group's accounts receivable book. There have been no changes to this facility during the interim reporting period.

(a) Borrowings

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

	Dec 2016			Jun 2016		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Other loans	319	34,075	34,394	472	27,695	28,167
Total borrowings	319	34,075	34,394	472	27,695	28,167

(b) Net debt

At the period end, the Group's net debt position was as follows:

	Dec 2016 \$'000	Jun 2016 \$'000
Cash and cash equivalents	13,516	3,994
Current borrowings	(319)	(472)
Non-current borrowings	(34,075)	(27,695)
	(20,878)	(24,173)

Hills Limited

Notes to the condensed consolidated financial statements

For the half year ended 31 December 2016

(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 financial 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 instruments 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 2	
	Dec 2016 \$'000	Jun 2016 \$'000
Assets		
Derivatives used for hedging	490	103
	490	103

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 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.

9 Contributed equity

There have been no changes to the capital structure of the Company since 30 June 2016.

10 Dividends

No dividends were paid during the half year ended 31 December 2016 (2015: nil) and no interim dividends have been declared.

Hills Limited

Notes to the condensed consolidated financial statements

For the half year ended 31 December 2016

(continued)

Section D: Other disclosures

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

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

11 Property, plant & equipment and intangible assets

Acquisitions and disposals

Acquisitions	During the interim reporting period, the Group acquired plant, equipment and intangible assets costing \$2.414 million (Dec 2015: \$2.929 million).
Disposals	During the interim reporting period, the Group disposed of assets with a net book value of \$0.1 million (Dec 2015: \$0.1 million).

12 Capital commitments

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

	Dec 2016 \$'000	Jun 2016 \$'000
Plant, equipment and software	802	426

13 Interests in other entities

Investments in subsidiaries

During the reporting period, a new wholly-owned subsidiary, Lincor Limited, was incorporated for the purpose of the proposed merger of the HHS business with Lincor Solutions.

14 Related party transactions

Arrangements with related parties continue to be in place and are set out in the Group's Annual Report for the year ended 30 June 2016.

15 Contingencies

Contingent liabilities

The Group had contingent liabilities at 31 December 2016 in respect of:

Claims [AMES Australasia](#)

Under the agreement with AMES Australasia for the sale of the HHL assets, Hills has agreed to pay AMES Australasia USD 0.785 million in respect of HHL inventory the subject of a dispute concerning a third party if AMES Australasia is unable to take possession of such inventory. The parties are in settlement discussions and Hills' expectation is that the dispute will be resolved and the obligation to pay released.

Hills Limited

Notes to the condensed consolidated financial statements

For the half year ended 31 December 2016

(continued)

15 Contingencies (continued)

Contingent liabilities (continued)

Claims (continued)	Edwardstown site 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. There have been no material changes since 30 June 2016.
Guarantees	Bank guarantees in favour of customers and suppliers totalling \$4.307 million (30 June 2016: \$5.788 million).

16 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to the interim reporting period 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 reporting periods.

Directors' declaration

For the half year ended 31 December 2016

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

- (a) the condensed consolidated interim financial statements and notes set out on pages 6 to 20 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 2016 and of its performance for the six month period 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.



Jennifer Helen Hill-Ling
Director



Philip Bullock
Director

Sydney
21 February 2017

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 2016, 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 16 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.

Responsibility 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 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 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 2016 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 2016 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*.



KPMG



Scott Fleming
Partner

Adelaide

21 February 2017

Corporate directory

Registered office

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Facsimile: (02) 9216 5999

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Executives

David Lenz, *Chief Executive Officer*

Chris Jacka, *Chief Financial Officer*

Non-executive directors

Jennifer Helen Hill-Ling

Fiona Rosalyn Vivienne Bennett

Philip Bullock

Kenneth James Dwyer

Company secretary

David Fox

Share registry

Link Market Services Limited

Level 12, 680 George Street, Sydney NSW 2000

Telephone

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- International: +61 2 8280 7100

Facsimile

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Web: www.linkmarketservices.com.au

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