

Appendix 4D

Hills Limited
ABN 35007 573 417

Results for announcement to market

For the half year ended 31 December 2021

(Previous corresponding period 31 December 2020)

| | 31/12/2020 | | Change | | | 31/12/2021 |
|--|--------------|------|--------------|-------|----|--------------|
| Revenue | A\$'000 | | A\$'000 | % | | A\$'000 |
| Revenue from ordinary activities | 93,159 | down | (13,180) | (14%) | to | 79,979 |
| Net loss for the period attributable to members | (6,453) | down | (13,589) | 211% | to | (20,042) |
| Loss per share | cents | | cents | | | cents |
| Basic loss per share | (2.78) | down | (5.86) | 211% | to | (8.64) |
| Net Tangible Assets | \$ per share | | \$ per share | | | \$ per share |
| Net tangible assets backing per ordinary security ⁽¹⁾ | 0.076 | down | (0.027) | (36%) | to | 0.049 |

Dividends

No dividend will be paid for the half year ended 31 December 2021.

1. Net tangible assets represents Net asset less Intangible assets and Deferred tax assets.

A review of the group's operations during the half year ended 31 December 2021 and the results of those operations are included in the Hills Limited 31 December 2021 Directors' report.

Change in ownership of controlled entities

During the financial half year there were no changes in ownership of controlled entities. On 4 November 2021, the Group acquired 70% of the shares in Extensia Pty Ltd ("Extensia"). Extensia is an emerging software company whose cloud-based software creates and delivers a permission-based, individual-centric Community Health Record, enabling medical and other data to be updated at the point of care, and shared with individuals' trusted ecosystem of care, on demand and in real time.

Dividend reinvestment plans

There are no dividend reinvestment plans in place.

Hills Limited
Interim Financial Report
for the half year ended 31 December 2021

ABN 35 007 573 417

Hills Limited

Interim financial report

for the half year ended 31 December 2021

ABN 35 007 573 417

Contents

| | |
|---|----|
| Directors' report..... | 3 |
| Directors..... | 3 |
| Principal activities | 3 |
| Review of operations | 3 |
| Subsequent events..... | 4 |
| Outlook | 4 |
| Dividends | 5 |
| Auditor's independence declaration..... | 5 |
| Rounding of amounts..... | 5 |
| Auditor's Independence Declaration | 6 |
| Consolidated Interim financial statements | 7 |
| Consolidated statement of profit or loss | 7 |
| Consolidated statement of comprehensive income | 8 |
| Consolidated statement of financial position | 9 |
| Consolidated statement of changes in equity | 10 |
| Consolidated statement of cash flows..... | 11 |
| Section 1: Basis of preparation | 12 |
| Section 2: Business performance..... | 14 |
| Section 3: Capital and financing..... | 18 |
| Section 4: Other disclosures | 20 |
| Directors' declaration | 23 |
| Independent auditor's review report to the shareholders of Hills Limited..... | 24 |
| Corporate directory..... | 26 |

Directors' report

The Directors of Hills Limited present their report together with the consolidated financial statements of Hills Limited (referred to hereafter as Hills, the Company or the Group) consisting of Hills Limited and the entities it controlled at the end of, or during the half year ended 31 December 2021 and the independent auditor's review report thereon.

Directors

The names of the Company's directors in office during the half year ended 31 December 2021 and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Jennifer Helen Hill-Ling – retired from office 18 October 2021

David Chambers

Kenneth Dwyer

Peter Steel

Janet Muir - appointed to office 18 October 2021

Principal activities

The Group operates in Australia and New Zealand and the principal activities of the Group are as a supplier of technology solutions in the Health market and a value-added distributor of technology products and services in the Security, Surveillance and IT markets.

Hills Health Solutions (HHS) is a market leader and comprises the design, supply and installation of health technology solutions, nurse call and patient entertainment and other related solutions including security, Wi-Fi and telephony, into the health and aged care sectors.

Review of operations

Statutory Result Overview

| Summary of Group performance | | | |
|---|---------------|---------------|-----------------|
| | Total | Total | |
| | 31-Dec-21 | 31-Dec-20 | % change |
| | \$million | \$million | |
| Sales Revenue | 80.0 | 93.2 | (14.1%) |
| Cost of goods and services sold | (56.3) | (66.1) | (14.8%) |
| Gross margin | 23.7 | 27.1 | (12.6%) |
| Other operating costs | (21.5) | (20.7) | 3.9% |
| Segment EBITDA⁽¹⁾ | 2.2 | 6.4 | (65.5%) |
| Statutory net loss before tax | (6.1) | (5.3) | (15.4%) |
| Tax expense | (13.9) | (1.1) | >100% |
| Statutory net loss after tax | (20.0) | (6.5) | (210.6%) |
| Cash flows from operating activities | 1.6 | 0.5 | 223.4% |
| Net debt⁽³⁾ | (14.9) | (11.3) | (31.9%) |

(1) Hills' Financial Report complies with Australian Accounting Standards and International Financial Reporting Standards. The underlying (non-IFRS) segment EBITDA is unaudited but is derived from the audited accounts by removing the impact of non-operating items from the reported (IFRS) audited profit; including \$0.4 million of write-off of assets relating to exited businesses, and \$1.6 million relating to the reassessment of asset lives. Hills believe this reflects a more meaningful measure of the Group's underlying performance.

(2) Net debt excludes lease liabilities associated with the introduction of AASB16 Leases.

The Company recording a net loss after tax of \$20 million for the half year ended 31 December 2021 compared to \$6.5 million for the same period last year, after significant non-operating adjustments to asset balances. Revenue declined 14% to \$80 million, adversely impacted by extended COVID-19 lockdowns and restrictions which has delayed projects and disrupted customers across all businesses, and restricted product availability due to global component supply shortages. Operating EBITDA was \$2.2 million compared to \$6.4 million in the prior comparative period.

The Company's recorded result includes the following one-off non-cash expense items;

- New Zealand business exit costs of \$0.7 million; comprising write-off of \$0.4 million of inventory and reassessment of \$0.3 million of right-of-use assets.
- Re-assessment of useful life of \$1.3 million of property and intangible assets in the Australian distribution business.
- \$13.9 million reversal of deferred tax assets largely attributable to the Australian distribution business.

Operating Expenses

Operating expenses¹ including depreciation in the half year to 31 December 2021 were \$1.6 million less than the prior period, driven by a reduction in foreign exchange losses and legal fees. Labour costs were higher as a result of reduced COVID-related government support payments of \$0.9 million compared to \$3.0 million in the same period last year.

Net Debt and Working Capital

Operating cashflow improved in the first half of the year to \$1.6 million compared to the prior period while net debt increased by \$1.7 million, from \$13.2 million at 30 June 2021 to \$14.9 million at 31 December 2021.

Subsequent events

On 21 February 2022, the Group announced that it has signed a conditional business sales agreement ("BSA") to divest its security and information technology distribution business to ASX-listed company Dicker Data Limited (ASX:DDR). The proposed divestment is part of the Company's ongoing strategy to focus on the strong growth prospects associated with the Hills Health Solutions division and technical services operation. The transaction requires approval by the Company's shareholders and to meet a number of other conditions. The completion of the transaction is expected to take place in April 2022, and proceeds are estimated to be in the range of \$20 million.

Post period end, the Group was in breach of an undertaking in relation to the Commonwealth Bank of Australia facility. The Group has obtained a waiver for the breach from the bank and entered into a revised agreement as per the terms outlined in note 3.1: Borrowings. Hills expects to repay its current borrowing facility with the bank by 30 June 2022, made possible by the proposed \$20 million divestment of the security and information technology business. The Company is working with financiers to ensure the continuance of financing facilities for the Group.

On 23 February 2022, Hills was advised of the outcome of the claim against a Group company relating to a dispute concerning a third-party contract. This claim has been dismissed by the Court, with costs awarded in favour of the company.

There have been no additional events subsequent to the balance date that would have a material effect on the Group's interim financial statements at 31 December 2021.

Outlook

Hills is focused on the execution of its Health strategy and the diversification growth strategy for the Technical Services business to support sustainable earnings growth over the medium to long term.

However, trading conditions remain impacted by COVID-related restrictions. Any recovery is dependent on relaxation of restrictions, improved hospital admissions and improved business confidence to drive new and deferred project and construction work. Notwithstanding the difficult environment, the pipeline from delayed projects remains solid and underlying demand for our products are strong.

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.

In the second half of FY22 the team at Hills is focused on making the most of market conditions and retaining a strong focus on the continued implementation of the strategic growth plans of both remaining businesses, whilst ensuring the Company successfully completes the proposed divestment of the security and information technology distribution business. A successful transition includes:

- Provision of transitional services to Dicker Data in the areas of administration, financial, systems, IT support, and warehouse facilities post-completion. This agreement is expected to run for a minimum of five months and will be funded by Dicker Data.
- Restructuring of corporate overheads and renewal of IT systems to reflect the Company's future requirement.
- Securing the Company's future funding requirement, including new debt facilities and capital raising.

Dividends

No dividend has been proposed or paid during the current half year or previous half year.

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 [6].

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.



David Chambers
Chairman



Peter Steel
Director

Sydney
28 February 2022



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 2021 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

Julie Cleary
Partner
Sydney
28 February 2022

Consolidated Interim financial statements

Hills Limited

ABN 35 007 573 417

Consolidated statement of profit or loss

For the half year ended 31 December 2021

| | | 31 December 2021 | 31 December 2020 |
|--|-------|------------------|------------------|
| | Notes | \$'000 | \$'000 |
| Revenue | 2.2 | 79,979 | 93,159 |
| Cost of sales | 2.4 | (56,309) | (66,076) |
| Gross Margin | | 23,670 | 27,083 |
| Other income | 2.3 | 180 | 39 |
| Expenses excluding net finance expenses | | | |
| Labour and related expenses | | (15,486) | (14,496) |
| Operational and equipment expenses | | (920) | (812) |
| Property expenses | | (232) | (612) |
| Depreciation and amortisation | 2.4 | (4,789) | (4,572) |
| Other expenses | 2.4 | (7,885) | (10,447) |
| Expenses excluding net finance expenses | | (29,312) | (30,939) |
| Loss before net finance expense and income tax | | (5,462) | (3,817) |
| Finance income | 2.4 | 4 | 9 |
| Finance expenses | 2.4 | (668) | (1,499) |
| Net finance expenses | 2.4 | (664) | (1,490) |
| Loss before income tax | | (6,126) | (5,307) |
| Income tax expense | 2.5 | (13,916) | (1,146) |
| Loss after tax | | (20,042) | (6,453) |
| Loss for the period, attributable to the members of the Company | | (20,042) | (6,453) |
| | | Cents | Cents |
| Loss per share from continuing operations attributable to the ordinary equity holders of the Company: | | | |
| Basic and diluted loss per share | | (8.64) | (2.78) |

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

Consolidated statement of comprehensive income

For the half year ended 31 December 2021

| | 31 December 2021 \$'000 | 31 December 2020 \$'000 |
|--|----------------------------|----------------------------|
| Loss for the period attributable to members of the Company | (20,042) | (6,453) |
| Other comprehensive income | | |
| Items that may be reclassified subsequently to profit and loss | | |
| Foreign operations - foreign currency translation differences | 22 | 2 |
| Cash flow hedges - effective portion of changes in fair value | - | 345 |
| Other comprehensive income for the half year, net of tax | 22 | 347 |
| Total comprehensive loss for the half year, attributable to owners of Hills Limited | (20,020) | (6,106) |

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

Consolidated statement of financial position

As at 31 December 2021

| | | 31 December 2021 | 30 June 2021 |
|--|-------|------------------|---------------|
| | Notes | \$'000 | \$'000 |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 5,395 | 6,835 |
| Trade and other receivables | | 28,335 | 31,517 |
| Inventories | | 16,533 | 22,001 |
| Total current assets | | 50,263 | 60,353 |
| Non-current assets | | | |
| Investments | | 1 | 2 |
| Property, plant and equipment | 4.2 | 9,172 | 10,797 |
| Right-of-use asset | | 6,300 | 7,256 |
| Intangible assets | | 1,876 | 3,077 |
| Deferred tax assets | | - | 13,916 |
| Total non-current assets | | 17,349 | 35,048 |
| Total assets | | 67,612 | 95,401 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 17,139 | 24,333 |
| Borrowings | 3.1 | 946 | 533 |
| Provisions | 4.1 | 5,129 | 5,120 |
| Lease liabilities | | 4,122 | 4,162 |
| Derivative financial instruments | 3.2 | 9 | - |
| Total current liabilities | | 27,345 | 34,148 |
| Non-current liabilities | | | |
| Borrowings | 3.1 | 19,357 | 19,475 |
| Provisions | 4.1 | 2,281 | 2,228 |
| Lease liabilities | | 5,487 | 6,318 |
| Total non-current liabilities | | 27,125 | 28,021 |
| Total liabilities | | 54,470 | 62,169 |
| Net assets | | 13,142 | 33,232 |
| EQUITY | | | |
| Contributed equity | 3.3 | 278,439 | 278,439 |
| Reserves | | 10,958 | 10,894 |
| Accumulated losses | | (276,143) | (256,101) |
| Total equity attributable to owners of the Company | | 13,254 | 33,232 |
| Non-controlling interests | | (112) | - |
| Total equity | | 13,142 | 33,232 |

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

Consolidated statement of changes in equity

For the half year ended 31 December 2021

| | Attributable to owners of Hills Limited | | | | | Total \$'000 |
|---|---|-----------------------------------|---------------|-----------------------|----------------------------------|-----------------|
| | Contributed equity | Equity compensation reserve | Reserves | Accumulated losses | Non- Controlling Interests | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | |
| Balance at 1 July 2020 | 278,439 | 762 | 9,765 | (245,877) | - | 43,089 |
| Loss for the year | - | - | - | (6,453) | - | (6,453) |
| Foreign Currency Translation Reserve | - | - | 2 | - | - | 2 |
| Net change in fair value of hedges | - | - | 345 | - | - | 345 |
| Total comprehensive loss for the half year | - | - | 347 | (6,453) | - | (6,106) |
| Employee share schemes | - | - | - | - | - | - |
| Balance at 31 December 2020 | 278,439 | 762 | 10,112 | (252,330) | - | 36,983 |
| Balance at 1 July 2021 | 278,439 | 782 | 10,112 | (256,101) | - | 33,232 |
| Loss for the half year | - | - | - | (20,042) | - | (20,042) |
| Foreign Currency Translation Reserve & other reserves | - | - | 22 | - | - | 22 |
| Net change in fair value of hedges | - | - | - | - | - | - |
| Total comprehensive loss for the half year | - | - | 22 | (20,042) | - | (20,020) |
| Acquisition of subsidiary with NCI | - | - | - | - | (112) | (112) |
| Employee share schemes | - | 42 | - | - | - | 42 |
| Balance at 31 December 2021 | 278,439 | 824 | 10,134 | (276,143) | (112) | 13,142 |

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

Consolidated statement of cash flows

For the half year ended 31 December 2021

| | | 31 December 2021 | 31 December 2020 |
|---|-------|------------------|------------------|
| | Notes | \$'000 | \$'000 |
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of goods and services tax) | | 92,264 | 108,482 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (90,107) | (106,579) |
| | | 2,157 | 1,903 |
| Net finance costs paid | | (598) | (1,421) |
| Net income taxes paid | | - | - |
| Net cash flows from operating activities | | 1,559 | 482 |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (651) | (403) |
| Payments for intangible assets | | - | (711) |
| Proceeds from sale of property, plant and equipment and intangible assets | | 1 | 9 |
| Proceeds from divestments | | - | - |
| Net cash outflows from investing activities | | (650) | (1,105) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | 3.1 | 1,437 | 21,000 |
| Repayment of borrowings | 3.1 | (1,207) | (18,426) |
| Payment of lease liabilities | | (2,497) | (2,672) |
| Net cash flows used in financing activities | | (2,267) | (98) |
| Net decrease in cash and cash equivalents | | (1,358) | (721) |
| Cash and cash equivalents at the beginning of the half year | | 6,835 | 12,236 |
| Effects of exchange rate changes on cash and cash equivalents | | (82) | 230 |
| Cash and cash equivalents at end of the period | | 5,395 | 11,745 |

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

Notes to the consolidated financial statements

For the half year ended 31 December 2021

Section 1: Basis of preparation

1.1. Reporting entity

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") for the half year ended 31 December 2021 and were authorised for issue in accordance with a resolution of the directors on 28 February 2022.

The Group operates in Australia and New Zealand and the Principal activities of the Group are as a supplier of technology solutions in the Health market and a value-added distributor of technology products and services in the Security, Surveillance and IT markets.

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

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).

1.2. 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*; 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 2021 and any public announcements made by Hills Limited during the interim reporting -- period.

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

The Group incurred a loss of \$20.0 million and generated cash of \$1.6 million in operating activities during the half year ended 31 December 2021. Post period end, the Group was in breach of an undertaking in relation to the Commonwealth Bank of Australia facility. The Group has obtained a waiver for the breach from the bank and entered into a revised agreement as per the terms outlined in note 3.1: Borrowings.

The Directors believe that the Group will continue as a going concern, and accordingly have prepared the interim financial report on a going concern basis after considering the following:

- The Group is actively working with financiers to ensure the continuance of the financing facilities available to the Group.
- The Group is pursuing a capital raise, the objectives of this process include obtaining adequate funding to reshape the organisation and fund future growth in the remaining businesses. The capital raise is expected to be completed by April 2022.
- The Group has a conditional binding offer for the sale of the security and information technology business. A vote on the proposed divestment at a Shareholder meeting is expected in early April 2022. The completion of the divestment is expected in April 2022.
- The Group is expecting an improvement in underlying performance for the second half of financial year 2022 and beyond, assuming a limited impact from COVID related restrictions.
- Based on legal advice, the Directors do not expect to pay a cash settlement in relation to the two outstanding claims at the date of this report (Refer to note 4.4: Contingencies).

In the current economic environment, there is a material uncertainty as to whether some or all of the above key considerations will be completed, and whether they will be completed as forecasted and on a basis which meets the funding requirements of the Group. In the event that this does not occur as forecasted, the Group will need to secure alternative funding.

1.3. 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 statements, the judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 30 June 2021. During the six months ended 31 December 2021 management reassessed its estimates in respect of:

- On 21 February 2022, the Group announced it had signed a conditional business sales agreement ("BSA") to divest its security and information technology distribution division to ASX-listed company Dicker Data Limited (ASX:DDR). As a result;
 - Management assessed the useful lives of the IT development and software assets and wrote down those assets by \$0.9 million to reflect the change in the economic benefits that will be derived from those assets.
 - Management assessed the useful lives of property, plant and equipment and wrote down those assets by \$0.2 million to reflect the change in the economic benefits that will be derived from those assets.
- On 1 November 2021, the Group announced the decision to exit its loss-making New Zealand security distribution operations as part of the Company's strategy to focus on cash generation and areas of long-term growth potential. As a result Non-operating costs of \$0.7 million relating to impairments of inventory and assets were recorded in the Group first half results.
- A non-cash tax expense of \$13.9 million was reported in the half reflecting the reversal of timing differences and tax losses in the deferred tax asset. Significant carried forward tax losses is expected to result in the Company having no tax payable in the foreseeable future. Reflecting a conservative position a nil deferred tax asset has been recorded in the interim financial statements.
- On 4 November 2021, the Group acquired Extensia Pty Ltd, a small software development company (refer note 4.8). The purchased goodwill is attributable to the technical development of the software and the synergies expected to be achieved from integrating the company into the Group's health offering. Due to the start-up nature of the business, management has not recognised the \$0.2 million of goodwill in the interim financial statements.

1.4. Rounding

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

Section 2: Business performance

2.1. Segment information

Description of segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. The operating segments operating results are reviewed regularly by the Chief Operating Decision Maker (CODM) to assess performance of the business and to make decisions about resources to be allocated to the segment.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. 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 | The Distribution business provides a diverse range of products and solutions to assist our customers support end users within the Security, Surveillance and IT markets. |
| Corporate | This includes Group costs not allocated to Health or Distribution. |

Segment information

Segment revenue

The revenue from external customers reported to the CODM is measured in a manner consistent with that in the consolidated income statement. There are no sales between segments. Segment revenue reconciles to total revenue per note 2.2.

Major customers

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

Segment EBITDA

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

Recognition and measurement

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Board of Directors.

Operating segments that exhibit similar long-term economic characteristics, and have similar products, processes, customers, distribution methods and regulatory environments are aggregated.

Information about reportable segments

| | Distribution Segment | | Health Segment | | Corporate | | Total operations | |
|---|----------------------|-------------------------|----------------|-------------------------|-------------|-------------------------|------------------|-------------------------|
| | 31 Dec 2021 | 31 Dec 2020 Restated | 31 Dec 2021 | 31 Dec 2020 Restated | 31 Dec 2021 | 31 Dec 2020 Restated | 31 Dec 2021 | 31 Dec 2020 Restated |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Sales revenue | 65,578 | 76,297 | 14,401 | 16,862 | - | - | 79,979 | 93,159 |
| EBITDA | 1,113 | 1,440 | 2,422 | 5,426 | (1,318) | (432) | 2,217 | 6,434 |
| Depreciation and amortisation | (2,762) | (2,851) | (1,829) | (1,722) | (198) | - | (4,789) | (4,572) |
| Write-off of assets relating to exited businesses and vendor arrangements | (395) | (767) | - | - | - | - | (395) | (767) |
| Aged, slow-moving and demonstration stock write-offs | - | (1,144) | - | (256) | - | - | - | (1,400) |
| Reassessment of asset lives and property settlements | (1,600) | (213) | - | (337) | - | - | (1,600) | (550) |
| Foreign exchange losses | - | - | - | - | - | (1,705) | - | (1,705) |
| Other income and expense | 48 | - | 129 | - | (1,072) | (1,256) | (895) | (1,256) |
| Net financing expense | (14) | - | - | - | (650) | (1,490) | (664) | (1,490) |
| Net profit /(loss) before income tax | (3,609) | (3,535) | 722 | 3,111 | (3,238) | (4,882) | (6,126) | (5,307) |

Note: Prior period segment information has been restated to ensure consistency with current operating segments: Hills Health Solutions, Hills Distribution and Corporate.

2.2. Revenue

| | 31 December 2021 | 31 December 2020 |
|---|------------------|------------------|
| Sales revenue | \$'000 | \$'000 |
| Sale of goods | 57,970 | 69,606 |
| Services | 22,009 | 23,553 |
| Total revenue from continuing operations | 79,979 | 93,159 |

2.3. Other income

| | 31 December 2021 | 31 December 2020 |
|--|------------------|------------------|
| Other income | \$'000 | \$'000 |
| Net income on disposal of non-current assets | 1 | 9 |
| Other income | 179 | 30 |
| | 180 | 39 |

2.4. Expenses

| | 31 December 2021 \$'000 | 31 December 2020 \$'000 |
|--|----------------------------|----------------------------|
| Cost of Sales | | |
| Cost of goods sold (inventories) | 46,959 | 56,424 |
| Direct cost of services provided | 9,350 | 9,652 |
| Total cost of sales | 56,309 | 66,076 |
| Depreciation | | |
| Plant and equipment | 2,088 | 1,761 |
| Right of use assets | 2,359 | 2,162 |
| Total depreciation | 4,447 | 3,923 |
| Amortisation | | |
| Software | 271 | 459 |
| Development costs | 71 | 190 |
| Total amortisation | 342 | 649 |
| Total depreciation and amortisation | 4,789 | 4,572 |
| Other Expenses | | |
| General and administrative expenses | 4,818 | 4,769 |
| Foreign exchange losses - ineffective portion of changes in fair value | - | 1,705 |
| Write off relating to exited businesses and vendor arrangements | 395 | 767 |
| Aged, slow moving and demonstration stock | - | 1,400 |
| Reassessment of asset lives and property settlements | 1,600 | 550 |
| Other costs | 1,072 | 1,256 |
| Total Other | 7,885 | 10,447 |

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. The benefit of JobSaver of \$0.9 million (1H 21: JobKeeper \$3.0 million) offsets current year labour and related expenses. Government grants are recognised when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised, as reduction in the related expense. |
| Operational and equipment expenses | Operational and equipment expenses include costs of freight, consumables, motor vehicle and other equipment expenses, repairs and maintenance. |
| Property expenses | Property expenses include rent, rates, utilities, cleaning and security expenses related to properties leased by the Group. |
| Other expenses | Other expenses include overhead expenses (such as insurance, advertising and marketing, professional and consulting fees, telecommunications and information technology related expenses). |

Finance expenses

| | 31 December 2021 | 31 December 2020 |
|---|------------------|------------------|
| | \$'000 | \$'000 |
| Finance expenses | | |
| Interest and finance charges paid/payable | 227 | 772 |
| Finance Costs – lease liability interest | 441 | 727 |
| | 668 | 1,499 |
| Finance income | | |
| Interest income | (4) | (9) |
| Net finance costs expensed | 664 | 1,490 |

Earnings per share

| | 31 December 2021 | 31 December 2020 |
|---|------------------|------------------|
| | \$'000 | \$'000 |
| Earnings used in calculating earnings per share | | |
| Basic and diluted loss - attributable to the ordinary equity holders of the Company | (20,042) | (6,453) |

| | 31 December 2021 | 31 December 2020 |
|--|------------------|------------------|
| | Number | Number |
| Weighted average number of shares used as denominator | | |
| Issued ordinary shares | 231,985,526 | 231,985,526 |
| Weighted average number of ordinary shares used as the denominator | 231,985,526 | 231,985,526 |

| | 31 December 2021 | 31 December 2020 |
|--|------------------|------------------|
| | Cents | Cents |
| Basic and diluted loss per share | | |
| Attributable to the ordinary equity holders of the Company | (8.64) | (2.78) |

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 2021 was 0% (31 December 2020: 0%).

A non-cash tax expense of \$13.9 million was reported in the half reflecting the reversal of timing differences and tax losses in the deferred tax asset. Significant carried forward tax losses is expected to result in the Company having no tax payable in the foreseeable future. Reflecting a conservative position a nil deferred tax asset has been recorded in the interim financial statements.

Section 3: Capital and financing

3.1. Borrowings

| | 31 December 2021 \$'000 | 30 June 2021 \$'000 |
|---|----------------------------|------------------------|
| Current | | |
| Borrowings | 946 | 533 |
| Total current borrowings | 946 | 533 |
| Non-current | | |
| Borrowings | 19,606 | 19,789 |
| Less capitalised borrowing costs | (249) | (314) |
| Total non-current borrowings | 19,357 | 19,475 |
| Total borrowings | 20,303 | 20,008 |
| Reconciliation of movement | | |
| Opening balance | 20,008 | 20,413 |
| Proceeds from loans and borrowings | 1,437 | 26,114 |
| Repayment of borrowings | (1,207) | (26,762) |
| Amortisation of capitalised borrowing costs | 65 | 495 |
| Other | - | (252) |
| Closing balance | 20,303 | 20,008 |

Capitalised transaction costs are directly attributable to the borrowings, as at 31 Dec 2021, unamortised borrowing costs totalled \$0.249 million (2021: \$0.314 million).

| | |
|---|--|
| Secure Revolving Borrowing Base Bilateral Facility | <p>The Commonwealth Bank of Australia facility totals \$20.0 million (denominated in AUD), with funding provided based upon the Group's accounts receivable and inventory book. As at period end date the facility expiry was 3 December 2023, however the revised facility agreement entered into post period end expires on 30 June 2022.</p> <p>The facility is secured on the Group's Accounts Receivable and Inventory balance, with a second mortgage over the other assets of the Group.</p> <p>Interest is charged at prevailing market rates plus a fixed margin.</p> |
| CBA Guarantee Facility | <p>The Group has a Bank Guarantee Facility Agreement with a limit of \$2.6 million. An issuance fee is payable in respect of bank guarantees issued.</p> |
| DLL Financing | <p>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 2021, the Group had drawn down \$1.279 million (31 December 2020: \$1.632 million).</p> |
| Momentum Premium Funding | <p>The Group has entered into an agreement for the provision of finance in respect of its general insurance premiums repayable via its Amex facility. At 31 December 2021 \$0.9 million was outstanding on this loan (31 December 2020: nil)</p> |

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

Post period end, the Group was in breach of an undertaking in relation to the Commonwealth Bank of Australia facility. The Group has obtained a waiver for the breach from the bank and entered into a revised agreement as per the terms outlined in this note.

3.2. 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.

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 |
|----------------------------------|-------------------|-------------------|-------------------|-----------------|
| 31-December-2021 | | | | |
| Liabilities | | | | |
| Derivative financial instruments | - | 9 | - | 9 |
| | - | 9 | - | 9 |
| 30-June-2021 | | | | |
| Liabilities | | | | |
| Derivative financial instruments | - | - | - | - |
| | - | - | - | - |

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. The derivative financial instrument asset represents options arrangements entered into during the half year ended 31 December 2021 to protect the Group from exchange losses on open derivative financial instruments recorded in current liabilities.

3.3. Contributed equity

There have been no changes to the capital structure of the Company since 30 June 2021 (no changes for the six months ended 31 December 2020).

3.4. Dividends

No dividends were paid during the half year ended 31 December 2021 (31 December 2020: nil) and no interim dividends have been declared.

Section 4: Other disclosures

4.1. Provisions

| | 31 December 2021 \$'000 | 30 June 2021 \$'000 |
|---------------------------------------|----------------------------|------------------------|
| Current | | |
| Employee benefits | 3,663 | 3,315 |
| Warranty claims | 499 | 553 |
| Restructuring | - | - |
| Environmental and other | 967 | 1,252 |
| Total provisions - current | 5,129 | 5,120 |
| Non-current | | |
| Employee benefits | 485 | 450 |
| Warranty claims | 110 | 104 |
| Restructuring | - | 44 |
| Environmental and other | 1,686 | 1,630 |
| Total provisions - non-current | 2,281 | 2,228 |
| Total provisions | 7,410 | 7,348 |

Description of provisions and key movements

| | |
|---|---|
| Employee provisions | Provisions for employee benefits include liabilities for annual leave and long service leave. |
| Warranty claims | Warranty provisions include amounts set aside for estimated warranty claims associated with the existing product range as well as legacy products. |
| Environment and other provisions | Includes environmental monitoring and clean-up costs associated with two sites in South Australia, make good obligations, and other provisions as required. |

4.2. Property, plant and equipment

| | 31 December 2021 \$'000 | 30 June 2021 \$'000 |
|--|----------------------------|------------------------|
| Property, plant and equipment - at cost | 57,671 | 56,867 |
| Less accumulated depreciation | (48,499) | (46,070) |
| Total property, plant and equipment | 9,172 | 10,797 |
| Reconciliation of movement | | |
| Opening balance | 10,797 | 12,276 |
| Additions | 782 | 2,507 |
| Depreciation | (2,088) | (3,745) |
| Disposals | (4) | - |
| Exchange differences | - | (7) |
| Impairment | (315) | (234) |
| Closing balance | 9,172 | 10,797 |

4.3. Capital commitments

There are nil capital commitments as at 31 December 2021 (31 December 2020: Nil)

4.4. Contingencies

The Group had contingent liabilities at 31 December 2021 in respect of:

| | |
|-------------------|--|
| Claims | <p>The Group has various commercial legal claims common to businesses of its type that constitute contingent liabilities, none of which are deemed material to the Group's financial position.</p> <p>Three claims are the subject of legal expenses and these form part of Other costs as disclosed in note 2.4 to these financial statements. One claim was against a Group company and related to a dispute concerning a third-party contract. This claim has been dismissed by the Court, with costs awarded in favour of the company. The other claims are by a third-party against the Company and two of its employees in respect of which liability is denied and the Group is defending the claims.</p> <p>Based on legal advice, 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 or the amount of the obligation cannot be measured with sufficient reliability.</p> <p>In consultation with the Environmental Protection Authority, ground water contamination potentially originating from two of the Company's former South Australian sites continues to be monitored by the Company. It is anticipated that ongoing monitoring will be required to be undertaken by Hills. The Company has provided for the anticipated costs of ongoing assessments until 2029 in accordance with our environmental monitoring plan.</p> |
| Guarantees | <p>Bank guarantees in favour of customers and suppliers totalling \$2.537 million (30 June 2021: \$1.993 million).</p> |

4.5. Business transactions

Period ended 31 December 2021

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

On 4 November 2021, the Group acquired Extensia Pty Ltd, a small software development company (refer note 4.8).

Period ended 31 December 2020

There were no significant business transactions during the period ended 31 December 2020.

4.6. Events occurring after the reporting period

On 21 February 2022, the Group announced that it has signed a conditional business sales agreement ("BSA") to divest its security and information technology distribution business to ASX-listed company Dicker Data Limited (ASX:DDR). The proposed divestment is part of the Company's ongoing strategy to focus on the strong growth prospects associated with the Hills Health Solutions division and technical services operation. The transaction requires approval by the Company's shareholders and to meet a number of other key conditions. The completion of the transaction is expected to take place in April 2022, and proceeds are estimated to be in the range of \$20 million.

Post period end, the Group was in breach of an undertaking in relation to the Commonwealth Bank of Australia facility. The Group has obtained a waiver for the breach from the bank and entered into a revised agreement as per the terms outlined in note 3.1: Borrowings. Hills expects to repay its current borrowing facility with the bank by 30 June 2022, made possible by the proposed \$20 million divestment of the security and information technology business. The Company is working with financiers to ensure the continuance of financing facilities for the Group.

On 23 February 2022, Hills was advised of the outcome of the claim against a Group company relating to a dispute concerning a third-party contract has been dismissed by the Court, with costs awarded in favour of the company.

There have been no additional events subsequent to the balance date that would have a material effect on the Group's interim financial statements at 31 December 2021.

4.7. 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 2021.

4.8 Acquisition of subsidiary

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

Identifiable assets acquired and liabilities assumed

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

| | \$ |
|-------------------------------|-----------|
| Property, plant and equipment | 2,227 |
| Trade and other receivables | 7,166 |
| Cash and cash equivalents | 2,339 |
| Non-current liabilities | (42,702) |
| Borrowings | (226,673) |
| Trade and other payables | (117,158) |
| Net liabilities acquired | (374,803) |

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

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

The goodwill is attributable to the technical development of the software, and the synergies expected to be achieved from integrating the company into the Group's health offering. Due to the start-up nature of the business, Goodwill is not recognised in the interim financial statements.

Directors' declaration

For the half year ended 31 December 2021

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

- (a) the consolidated interim financial statements and notes set out on pages 7 to 22 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the six-month period ended on that date;
- (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.



David Chambers
Chairman



Peter Steel
Director

Sydney
28 February 2022

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 does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2021 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 2021
- 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 4.8 comprising a summary of significant accounting policies and other explanatory information
- 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.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

Material Uncertainty Related to Going Concern

We draw attention to the matters set out in Note 1.2 of the financial statements. The circumstances described in Note 1.2 indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and realise its assets and discharge its liabilities in the ordinary course of business and at the amounts stated in the financial statements. Our conclusion is not modified in respect of this matter.

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*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the Half-Year Period ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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



Julie Cleary

Partner

Sydney

28 February 2022

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Executives

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Natalie Scott, Chief Financial Officer

Non-Executive Directors

David Chambers

Janet Muir

Kenneth Dwyer

Peter Steel

Company Secretary

David Fox

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