Appendix 4E – Preliminary Final Report (unaudited)

Under ASX Listing Rule 4.3A

Hills Limited

ABN 35 007 573 417

Results for announcement to market

For the year ended 30 June 2022
(Previous corresponding period 30 June 2021)

	30/6/2021		Change			30/6/2022
Revenue	**A$'000**		**A$'000**			**A$'000**
Revenue from continuing operations	49,260	down	(1,993)	(4%)	to	**47,267**
Revenue from discontinued operations	130,891	down	(41,859)	(32%)	to	**89,032**
Total revenue	180,151	down	(43,852)	(24%)	to	**136,299**
Net Loss						
Net loss from continuing operations	(5,158)	up	(3,167)	(61%)	to	**(8,325)**
Net loss from discontinued operations	(5,066)	up	(10,562)	(208%)	to	**(15,628)**
Total net loss	(10,224)	up	(13,729)	(134%)	to	**(23,953)**
Earnings / (loss) per share	**cents**		**cents**			**cents**
Basic loss per share	(4.41)	up	(5.92)	(134%)	to	**(10.33)**
Net Tangible Assets	**cents per share**		**cents per share**			**cents per share**
Net tangible asset backing per ordinary security - inclusive of Right of use assets calculated in accordance with AASB16 *Leases*	7.0	down	(3.7)	(57%)	to	**3.3**
Net tangible asset backing per ordinary security - excluding Right of use assets calculated in accordance with AASB16 *Leases*	3.9	down	(2.0)	(50%)	to	**1.9**

Dividends

No interim or final dividend has been declared or proposed.

Change in ownership of controlled entities

On 4 November 2021, the Group acquired 70% of the shares in Extensia Pty Ltd (“Extensia”), a small software development company. During the financial year there were no other changes in ownership of controlled entities.

Audit

Release of audited results is pending finalisation of the company’s refinancing arrangements which are currently well advanced. The independent auditors’ report is not expected to contain a modified opinion nor an emphasis of matter.

Commentary on the Results

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

- Net loss before tax and funding costs of $4.8 million relating to continuing businesses, including $3.1 million of legal costs.
- Net funding costs of $1.7 million.
- Non-cash tax expense of $1.9 million caused by the reversal of tax-related timing differences for continuing businesses.
- Net loss of $15.6 million relating to the discontinued operations.

During the year, Hills divested the Security and IT Distribution business in Australia for $21.3 million, representing a profit of $1.0 million on divestment, and closed the distribution operations in New Zealand.

COVID continued to adversely impact the Company's operations, both continuing and divested, and created a high level of uncertainty in FY22. Hills' net loss from continuing operations reflects the underlying difficult trading conditions, as well as the impact of the significant changes the business undertook during the year.

The Health division delivered underlying EBITDA of $3.8 million, reflecting lower revenue and higher costs versus the prior year, and a $0.9m reduction in the COVID-related government labour subsidy. The impact of COVID was considerable and had a dampening effect on several aspects of the business, including restricted access to healthcare facilities and deferral of construction activities. Supply chain disruptions globally reduced availability of essential components and spare parts, and increased input costs. Overall, the business navigated COVID positively, retaining key skills and capabilities, and increasing project order intake by 13%, including strategic wins across a range of public and private hospital settings.

The Technical Services division saw solid results with demand for internet connectivity growing during the pandemic, despite the increased complexities imposed on delivering the installation services.

The focus on cost control and capital management during the year, and the divestment of the Security and IT Distribution business, delivered a $16.4 million reduction in net debt resulting in a $3.2 million cash surplus at year end.

Consolidated statement of profit or loss and comprehensive income

For the year ended 30 June 2022

	Notes	2022 $'000	2021 Restated* $'000
Revenue	2.3	**47,267**	49,260
Cost of sales	2.5	**(23,398)**	(23,532)
Gross Margin		**23,869**	25,728
Other income	2.4	**155**	160
Expenses excluding net finance expenses			
Labour and related expenses	2.5	**(16,049)**	(14,766)
Operational and equipment expenses	2.5	**(418)**	(462)
Depreciation and amortisation	2.5, 3.5	**(3,887)**	(4,364)
Other expenses	2.5	**(8,438)**	(9,490)
Expenses excluding net finance expenses		**(28,792)**	(29,082)
Loss before net finance expense and income tax		**(4,768)**	(3,194)
Finance income	2.6	**9**	44
Finance expenses	2.6	**(1,714)**	(2,376)
Net finance expenses	2.6	**(1,705)**	(2,332)
Loss before income tax		**(6,473)**	(5,526)
Income tax (expense) / benefit	2.7	**(1,852)**	368
Loss after tax from continuing operations		**(8,325)**	(5,158)
Loss from discontinued operation (net of tax)	2.2	**(15,628)**	(5,065)
Total loss for the year attributable to members of the Company		**(23,953)**	(10,224)

Earnings per share		Cents	Cents
Basic and diluted (loss) per share	2.8	**(10.33)**	(4.41)
Basic and diluted (loss) per share from continuing operations		**(3.59)**	(2.22)

Other comprehensive income	Notes	2022 $'000	2021 Restated* $'000
Loss for the year		**(23,953)**	(10,224)
Items that may be reclassified subsequently to profit or loss			
Foreign operations - foreign currency translation differences		**14**	2
Cash flow hedges - effective portion of changes in fair value		**-**	493
Income tax relating to components of other comprehensive income	2.7	**-**	(148)
Other comprehensive income for the year, net of tax		**14**	347
Total comprehensive income / (loss) for the year, attributable to owners of Hills Limited		**(23,939)**	(9,876)

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

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

Consolidated statement of financial position

As at 30 June 2022

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

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

Consolidated statement of changes in equity

For the year ended 30 June 2022

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

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

Consolidated statement of cash flows

For the year ended 30 June 2022

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

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

Section 1: Basis of Preparation

1.1. Reporting entity

These consolidated financial statements are for the Group consisting of Hills Limited (the "Company" or "parent entity") and its subsidiaries (together referred to as the "Group" or "Consolidated Entity" and individually as "Group Entities") for the year ended 30 June 2022 and were authorised for issue in accordance with a resolution of the Directors on 31 August 2022.

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

The Group operates in Australia and New Zealand and during the period the Principal activities of the Group was as a supplier of technology solutions in the Health market and a value-added distributor of technology products and services in the Security, Surveillance, and IT markets. During the period, the Group undertook the divestment of Security and IT Distribution business which was concluded in May 2022.

1.2. Basis of preparation

These general purpose consolidated financial statements:

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

1.3. Going Concern

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

The Group has reported a loss after tax for the year ended 30 June 2022 of $23.95m (2021: loss after tax of $10.22m), included within this is the loss from discontinued operations divested in May 2022 of $15.63m (2021: loss from discontinued operations of $5.01m). As at 30 June 2022, the Group has net current assets of $1.52m, included within this are bank borrowings of $2.3m which have a maturity of 30 September 2022.

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

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

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

1.4. Key accounting estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. In preparing these consolidated financial statements, the judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 30 June 2021. During the year ended 30 June 2022 management reassessed its estimates in respect of:

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

1.5. Principles of consolidation

Subsidiaries

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

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

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

Changes in ownership interests

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

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

1.6. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Group entities

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

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

1.7. Rounding

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

Section 2: Business performance

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

2.1. Segment information

Description of segments

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

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. During the reporting period the Group had three reportable segments as summarised below:

Hills Health Solutions	Designs, supplies and installs health technology solutions, nurse call and patient engagement and other related solutions including security, Wi-Fi and telephony into the health and aged care sectors.
Hills Technical Solutions	Provides technology installation and maintenance services for residential and commercial premises across Australia and New Zealand.
Hills Distribution	The Distribution business provided a diverse range of products and solutions to assist our customers support end users within the Security, Surveillance and IT markets. During the period, the business was divested. (refer note 2.2).

Segment information

Segment revenue

The revenue from external customers reported to the CODM is measured in a manner consistent with that in the consolidated income statement. There are no sales between segments. Segment revenue reconciles to total revenue per note 2.3.

Major customers

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

Segment EBITDA

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

Recognition and measurement

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

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

Information about reportable segments

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

2.2. Discontinued operation

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

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

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

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

	Notes	2022 $'000	2021 $'000
A. Results of Discontinued operation			
Revenue from discontinued operations		**89,032**	130,891
Expenses from discontinued operations		**(92,596)**	(132,756)
Profit / (loss) before tax from discontinued operations		**(3,564)**	(1,865)
Income tax expense from discontinued operations		**(12,064)**	(3,200)
Profit / (loss)from discontinued operation (net of tax)		**(15,628)**	(5,065)
Gain on sale of discontinued operation		**1,002**	-
Income Tax on gain on sale of discontinued operation		**-**	-
Post tax gain on disposal of discontinued operations		**1,002**	-
Earnings per share		**Cents**	**Cents**
Basic and diluted (loss) per share	2.8	**(6.74)**	(2.18)
		$'000	**$'000**
B. Cash flows from (used in) discontinued operation			
Net cash from operating activities		**10,795**	4,366
Net cash from investing activities		**21,267**	(1,185)
Net cashflows for the year		**32,062**	3,181
C. Effect of disposal on the financial position of the Group			
Property, plant and equipment		**614**	-
Inventories		**21,323**	-
Trade and other receivables		**1,664**	-
Trade and other payables		**(2,334)**	-
Net assets and liabilities		**21,267**	-
Consideration received, satisfied in cash		**21,267**	-
Net Cash inflows		**21,267**	-

2.3. Revenue

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

Recognition and measurement
Revenue is recognised when performance obligations are satisfied, and the control of goods or services is transferred.
The major sources of the Group's revenue are from the sale of goods and rendering of services, which are each considered below:

Sale of goods
Revenue associated with the sale of goods is recognised when the performance obligation of the sale has been fulfilled and control of the goods has transferred to the customer, which occurs at the point of sale or when the goods are collected / delivered.

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

2.4. Other income

	Continuing operations		Discontinued operation		Total	
	2022	2021	2022	2021	2022	2021
	$'000	$'000	$'000	$'000	$'000	$'000
Net gain/(loss) on disposal of non-current assets	**32**	(15)	**154**	33	**186**	18
Other income	**123**	176	**124**	26	**247**	202
	155	161	**278**	59	**433**	**220**

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

2.5. Expenses Continuing Operations

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

	2022 $'000	2021 Restated* $'000
Cost of Sales		
Cost of goods sold	**3,790**	4,849
Direct cost of services provided	**19,608**	18,683
Total cost of sales	**23,398**	23,532
Employee benefits expenses		
Wages and salaries	**12,576**	12,571
Superannuation contributions	**1,140**	1,080
Other employee benefit expense	**1,589**	579
Equity settled share-based payment transactions	**71**	20
Temporary staff and other costs	**673**	517
Total employee benefit expenses	**16,049**	14,767
Operational and equipment expenses		
Repairs and maintenance	**340**	429
Freight	**78**	33
Total operations and equipment expenses	**418**	462
Depreciation		
Plant and equipment	**2,362**	2,133
Right of use assets	**983**	1,331
Total depreciation	**3,345**	3,464
Amortisation		
Software	**542**	321
Development costs	**-**	579
Total amortisation	**542**	900
Total depreciation and amortisation	**3,887**	4,364
Other		
General and administrative expenses	**5,308**	4,269
Foreign exchange losses - ineffective portion of changes in fair value	**-**	1,656
Aged, slow moving, and demonstration stock	**-**	256
Reassessment of asset lives and property settlements	**-**	337
Other costs	**3,131**	2,971
Total Other	**8,439**	9,489

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

Information on expenses

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

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

Cost of goods sold	Cost of goods sold include expenses relating to the change in inventories of finished goods and work in progress, and raw materials used.
Direct costs of services provided	Direct costs of services provided include subcontractor costs, commissions and subscriptions payable, and other direct costs associated with provision of services by Group entities. This balance does not include internal labour costs related to carrying out services, which are included in Labour and related expenses.
Labour and related expenses	Labour and related expenses include employee benefits expenses and other labour and related expenses such as third-party logistics, labour hire, employee training and recruitment. The benefit of job-keeper decreased in the current year (FY22 $0.4m compared to FY21 $1.3m). Government grants are recognised when there is reasonable assurance that they will be received, and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised, as reduction in the related expense.
Operational and equipment expenses	Operational and equipment expenses include costs of freight, consumables, motor vehicle and other equipment expenses, repairs, and maintenance.
Property expenses	Property expenses include rent, rates, utilities, cleaning, and security expenses related to properties leased by the Group.
Depreciation and amortisation	Refer note 3.5, 3.6 and 3.7.
Other expenses	General and administrative expenses include overhead expenses (such as legal costs, insurance, advertising and marketing, professional and consulting fees, telecommunications, and information technology related expenses).

2.6. Finance and Income and Expenses

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

2.7. Income Tax

Income tax expense

Income tax expense:	**2022 $'000**	**2021 $'000**
Income tax (benefit) / expense comprises:		
Current tax	-	-
Deferred tax	**1,852**	**(368)**
	1,852	**(368)**
Numerical reconciliation of income tax (benefit) / expense to prima facie tax payable:		
(Loss) from continuing operations before income tax expense	**(6,473)**	**(5,676)**
Tax at the Australian tax rate of 30% (2020: 30%)	**(1,942)**	**(1,703)**
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Non-deductible expenses	**(68)**	**116**
Derecognition/ (recognition) of deferred tax assets	**1,852**	**(279)**
Tax losses for which no deferred tax asset is recognised	**2,010**	**1,453**
Total income tax expense / (benefit)	**1,852**	**(413)**
Difference in overseas tax rates	-	-
Total income tax expense / (benefit)	**1,852**	**(413)**

Income tax expense relating to items of other comprehensive income:		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to other comprehensive income:		
Income / (losses) on cash flow hedges	-	**(148)**
Aggregate income tax expense	-	**(148)**

Income tax receivable / (payable)

Income tax receivable / (payable) is nil. (2021: nil).

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

Unrecognised tax losses

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

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

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

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

Tax consolidation legislation

Tax funding agreement

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

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

Recognition and measurement

Income tax

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

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

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

Deferred tax

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

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

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

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

Offsetting

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

Tax consolidation

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

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

Key estimate: unrecognised deferred tax assets

Deferred tax assets are only recognised for deductible temporary differences and tax losses to the extent that it is probable that taxable profits will be available to utilise them. The financial projections used in assessing the probability of taxable profits are inherently subject to management judgement. During the period, the Group reversed $13.91 million of deferred tax assets, reporting a non-cash tax expense. Significant carried forward tax losses is expected to result in the Company having no tax payable in the foreseeable future.

Goods and Services Tax (GST)

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

2.8. Earnings per share

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

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

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

Section 3: Operating assets and liabilities

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

3.1 Cash and cash equivalents
3.2 Trade and other receivables
3.3 Inventories
3.4 Trade and other payables
3.5 Property, plant and equipment
3.6 Leases
3.7 Intangible assets
3.8 Provisions

3.1. Cash and cash equivalents

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

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

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

Recognition and measurement

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

3.2. Trade and other receivables

	2022 $'000	2021 $'000
Trade receivables	**9,578**	26,493
Less: Provision for impairment of receivables	**(307)**	(523)
	9,271	25,970
Other receivables	**3,257**	3,866
Prepayments	**984**	1,681
	13,512	31,517
The ageing of the Group's trade receivables at the reporting date is as follows:		
Not past due	**1,996**	18,106
Past due 0 – 30 days	**4,194**	5,763
Past due 31 – 90 days	**2,704**	1,415
Past due more than 90 days	**682**	1,209
Total trade receivables	**9,577**	26,493
Movements in the provision for impairment of receivables are as follows:		
At 1 July	**522**	683
Provision for impairment recognised / (released)	**(455)**	(144)
Receivables written back /(off) during the period	**240**	(17)
At 30 June	**307**	522

Trade receivables

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

Impairment

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

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

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

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

Other receivable and prepayments

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

Financial risk

Refer note 4.6 for information about the Group's exposure to foreign currency risk, interest rate risk and credit risk in relation to trade and other receivables. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The fair value of securities held for certain trade receivables is insignificant as is the fair value of any collateral sold or re-pledged.

Recognition and measurement

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

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

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

3.3. Inventories

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

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

Key estimate: Carrying value of inventory

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

Recognition and measurement

Inventories

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

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

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

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

3.4. Trade and other payables

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

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

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

Recognition and measurement

Trade and other payables

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

3.5. Property, plant and equipment

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

Impairment testing

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

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

Key estimate: useful lives of property, plant and equipment

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

Recognition and measurement

Property, plant and equipment

Plant and equipment

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

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

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

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

Impairment

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

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

3.6. Leases

Amounts recognised in the statement of financial position

	2022 $'000	2021 $'000
Right-of-use asset		
Buildings	**2,821**	6,253
Plant, machinery, and equipment	**435**	1,003
Total right-of-use assets	**3,256**	7,256
Reconciliation of movement		
Opening balance at 1 July 2021	**7,257**	10,821
Additions	**1,884**	913
Leases reassigned as part of disposal	**(1,711)**	-
Impairment	**(243)**	-
Depreciation charge for the year	**(3,925)**	(4,477)
Exchange differences	**(6)**	-
Closing balance at 30 June 2022	**3,256**	7,257

Lease liabilities		
Current	**2,850**	4,162
Non-current	**3,266**	6,318
Total lease liabilities	**6,116**	10,480
Maturity analysis - undiscounted		
Less than one year	**2,920**	4,162
One to five years	**3,541**	7,086
More than five years	-	-
Total undiscounted lease liabilities at 30 June 2022	**6,461**	11,248

Amounts recognised in the statement of profit or loss

Interest on lease liabilities	**(411)**	(558)
Depreciation of right-of-use asset	**(3,925)**	(4,477)
Impairment	**(243)**	-
Exchange Differences	**(6)**	-
Lease payments relating to leases of low value and short-term leases not included in lease liabilities	**(39)**	(154)

Amounts recognised in the statement cash flows

Total cash outflow for leases	**(4,394)**	(3,960)

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

Recognition and measurement

Leases

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

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

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

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

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

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

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

Short term and low value leases

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

Key estimate: lease term and discount rate

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

3.7. Intangible assets

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

(1) Relates to the purchase of Extensia. Due to the start-up nature of the business, management has not recognised the $0.26 million of goodwill in the financial statements.

(2) Related to software utilised in discontinued business.

Key estimate: useful lives of intangible assets

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

Recognition and measurement

IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems.
Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 5 years.
IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

Research and development

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

3.8. Provisions

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

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

Recognition and measurement

Provisions

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

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

Employee benefits

Short-term obligations

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

Other long-term employee benefits obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period.
Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.
Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds rates with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.
The obligations are presented as current liabilities in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when settlement is expected to occur.

Retirement benefit obligations

A defined contribution plan is a post-employment benefit plan which receives fixed contributions from Group Entities and the Group's legal or constructive obligation is limited to these contributions.
Contributions to defined contribution plans are recognised as an expense as they become payable.

Profit-sharing and bonus plans

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

Section 4: Capital and financing

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

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

4.1. Contributed equity

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

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

Recognition and measurement

Ordinary shares are classified as equity.

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

4.2. Reserves

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

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

4.3. Dividends

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

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

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

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

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

4.4. Borrowings

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

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

Borrowing facilities

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

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

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

Recognition and measurement

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fees paid on the establishment of loan facilities are capitalised as a prepayment and amortised over the period of the facility to which it relates. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

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

4.5. Financial instruments: Measurement and Financial risk management

Financial risk management

Framework

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

i. Capital risk management,
ii. Credit risk,
iii. Liquidity risk, and
iv. Market risk related currency fluctuations, interest rates and commodity pricing.

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

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

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

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

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

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

(i) Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.
To maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital by assessing its gearing ratio. The gearing ratio is calculated as:

$$\frac{\textbf{net debt}}{\textbf{net debt} + \textbf{total equity}}$$

Net debt	Total borrowings as shown in the consolidated statement of financial position less cash and cash equivalents
Total equity	Equity as shown in the consolidated statement of financial position

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

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

(ii) Credit risk

Nature of the risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's customers.

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

The ageing of the Group's trade receivables is analysed in note 3.2.

(iii) Liquidity risk

Nature of the risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Risk management
The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

Financing arrangements

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

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

Maturities of financial liabilities

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

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

(iv) Market risk

Price risk
The Group has no material financial exposure to other market price risk as it is not exposed to equity securities price risk. The Group does not enter commodity contracts other than to meet the Group's expected usage requirements.

Foreign exchange risk
Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in currencies other than the Group's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.
The Group's main foreign exchange risk exposure is to US dollars.
Group Entities and business units can hedge their foreign exchange risk exposure using forward exchange contracts.
The Group's policy provides for management to hedge approximately three months of anticipated cash flows (mainly purchases of inventories).

Interest rate risk
Borrowings issued at variable rates expose the Group to interest rate risk. See details of the Group's borrowings in note 4.4.

Foreign exchange risk

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

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

Interest rate risk

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

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

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

Sensitivity analysis

Foreign exchange rates The sensitivity of profit or loss to changes in exchange rates arises mainly from US dollar denominated procurement instruments and the impact of financial instruments and other components of equity arises from forward exchange contracts designated as cash flow hedges.

Interest rates Profit or loss is sensitive to higher / lower interest income and interest expense from cash and cash equivalents and borrowings respectively, as a result of changes in interest rates. Other components of equity change as a result of an increase / decrease in the fair value of the cash flow hedges of borrowings.

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

		Interest rate risk		Foreign exchange risk			
		-100 bps	+100 bps	-5%		+5%	
	Carrying amount	Profit	Profit	Profit	Other equity	Profit	Other equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
30-Jun-22							
Financial assets							
Cash and cash equivalents	**6,458**	**(2)**	**67**	**2**	**-**	**(2)**	**-**
Trade and other receivables	**13,512**	**-**	**-**	**6**	**-**	**(6)**	**-**
Total increase / (decrease) in financial assets		**(2)**	**67**	**8**	**-**	**(8)**	**-**
Financial liabilities							
Trade & other payables	**(12,626)**	**-**	**-**	**(71)**	**-**	**64**	**-**
Borrowings	**(3,216)**	**32**	**(32)**	**-**	**-**	**-**	**-**
Total increase / (decrease) in financial liabilities		**32**	**(32)**	**(71)**	**-**	**64**	**-**
Total increase / (decrease)		**30**	**35**	**(62)**	**-**	**57**	**-**
30-Jun-21							
Financial assets							
Cash and cash equivalents	6,835	(5)	68	1	-	(1)	-
Trade and other receivables	31,517	-	-	5	-	(4)	-
Total increase / (decrease) in financial assets		(5)	68	6	-	(5)	-
Financial liabilities							
Trade & other payables	(24,332)	-	-	(543)	-	492	-
Borrowings	(20,008)	200	(200)	-			
Derivatives - cash flow hedges							
Total increase / (decrease) in financial liabilities		200	(200)	(543)	-	492	-
Total increase / (decrease)		195	(132)	(537)	-	487	-

Section 5: Group structure

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

- 5.1 Interests in other entities
- 5.2 Parent entity financial information
- 5.3 Deed of cross guarantee
- 5.4 Business Transactions

5.1. Interests in other entities

Investments in subsidiaries

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

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

New Zealand
Hills NZ Limited

▲ These controlled entities are a party to a Deed of Cross Guarantee between those group entities and the Company pursuant to ASIC Corporations (wholly owned Companies) Instrument 2016/785 and are not required to prepare and lodge financial statements and directors' report refer note 5.3). The Company and those group entities are the "Closed Group."

● Step Electronics 2005 Pty Ltd is controlled by virtue of the Company's control of this entity's Board through the Chair's casting vote, effective management of the entity and exposure to the risks and benefits of ownership, or control of voting rights through the dilution the minority shareholders. This is a dormant entity.

■ These entities were disposed 6 April 2021. They were included in the closed group until this date.

5.2. Parent entity financial information

Summary financial information

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

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

Parent entity guarantees, contingent liabilities and commitments

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

5.3. Deed of cross guarantee

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

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

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

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

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

5.4. Business Transactions

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

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

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

Identifiable assets acquired and liabilities assumed - Extensia

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

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

Goodwill -Extensia

Goodwill arising from the acquisition has been recognised as follows:

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

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

Section 6: Unrecognised items

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

6.1 Contingencies
6.2 Commitments

6.1. Contingencies

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

Legal Claims

One claim is outstanding as at 30 June 2022, which was against a Group company and related to a dispute concerning a third-party contract. This claim has been dismissed by the Court, with costs awarded in favour of the Group. The decision has been appealed by the other party. The appeal is currently listed for hearing in November 2022.

Based on legal advice, the Directors are of the opinion that provisions are not required in respect of the one outstanding matter as it is not probable that a future outflow of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

Two other claims were discontinued by agreement during the period.

Environmental

In consultation with the Environmental Protection Authority, ground water contamination potentially originating from two of the Company's former South Australian sites continues to be monitored by the Company. It is anticipated that ongoing monitoring will be required to be undertaken by Hills. The Company has provided for the anticipated costs of ongoing assessments until 2029 in accordance with our environmental monitoring plan.

Guarantees

Bank guarantees in favour of customers and suppliers totalling $1.5 million (2021: $1.993 million).

6.2. Commitments

There are no commitments as at 30 June 2022.

Section 7: Other information

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

7.1 Share-based payments
7.2 Related party transactions
7.3 Events after the reporting period
7.4 Remuneration of auditors
7.5 New and amended accounting standards and interpretations

7.1. Share-based payments

Employee performance rights

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

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

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

	Grant date	Expiry date	Share price at grant date $	Balance at start of the year Number	Granted during the year Number	Exercised/vested during the year Number	Forfeited / cancelled during the year Number	Balance at the end of the year Number	Vested & un-issued at the end of the year Number
	2022								
	17/5/21	30/6/26	0.143	2,614,059	2,614,059	-	-	5,228,118	-
	22/3/21	22/3/24	0.152	125,000	-	(25,000)	-	100,000	25,000
Total				2,739,059	2,614,059	(25,000)	-	5,328,118	25,000
	2021								
	17/5/21	30/6/26	0.143	-	2,614,059	-	-	2,614,059	-
	22/3/21	22/3/24	0.152	-	125,000	-	-	125,000	-
	27/8/18	30/6/21	0.195	99,323	-	(99,323)	-	-	-
	30/8/19	30/8/22	0.195	62,919	-	(23,595)	(39,324)	-	
Total				162,242	2,739,059	(122,918)	(39,324)	2,739,059	-

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

Expenses arising from share-based payment transactions

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

Recognition and measurement

Share-based payments

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

Incentive Share Plan

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

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

The valuation method considers the exercise price of the performance right, the life of the performance right, the current price of the underlying shares, the expected volatility of the share price, the dividends expected of the shares and the risk-free interest rate for the life of the performance right.
Non-market vesting conditions are included in assumptions about the number of rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of rights that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. No change is made for changes in market conditions.

7.2. Related party transactions

Non-Key management personnel disclosures

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

Loans

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

Transactions

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

Key management personnel disclosures

Key remuneration disclosures

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

Detailed remuneration disclosures are provided in the Remuneration Report.

Loans and other transactions with Key Management Personnel

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

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

7.3. Events after the reporting period

There were no other events subsequent to balance date that would have a material effect on the Group's financial statements as at 30 June 2022.

7.4. Remuneration of auditors

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

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

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

7.5. New accounting standards and interpretations not yet adopted by the Group

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

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

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

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