

Appendix 4D

Hills Limited

ABN 35007 573 417

Results for announcement to market

For the half year ended 31 December 2022

(Previous corresponding period 31 December 2021)

	31/12/2021		Change			31/12/2022
Revenue	A\$'000		A\$'000	%		A\$'000
Revenue from continuing operations	22,633	down	(134)	(1%)	to	22,499
Revenue from discontinued operations	57,346	down	(57,224)	(100%)	to	122
Total revenue	79,979	down	(57,358)	(72%)	to	22,621
Net loss from continuing operations	(4,791)	up	1,185	25%	to	(3,606)
Net loss from discontinued operations	(15,251)	up	15,029	99%	to	(222)
Total net loss	(20,042)	up	16,214	81%	to	(3,828)
Loss per share	cents		cents			cents
Basic loss per share	(8.64)	up	6.99	81%	to	(1.65)
Net Tangible Assets	\$ per share		\$ per share			\$ per share
Net tangible assets backing per ordinary security-inclusive of Right of use assets calculated in accordance with AASB16 Leases	0.049	down	(0.031)	(64%)	to	0.018

Dividends

No dividend has been declared or proposed for the half year ended 31 December 2022.

Change in ownership of controlled entities

During the financial half year there were no changes in ownership of controlled entities.

Additional Appendix 4D disclosures can be found in the Directors' report and the 31 December 2022 interim financial statements and accompanying notes.

Hills Limited
Interim Financial Report
for the half year ended 31 December 2022

ABN 35 007 573 417

Hills Limited

Interim financial report

for the half year ended 31 December 2022

ABN 35 007 573 417

Contents

Directors' report.....	4
Auditor's Independence Declaration	8
Consolidated Interim financial statements	9
Consolidated statement of profit or loss and comprehensive income.....	9
Consolidated statement of financial position	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows.....	12
Section 1: Basis of preparation	13
Section 2: Business performance	15
Section 3: Capital and financing.....	20
Section 4: Other disclosures	21
Directors' declaration.....	24
Independent auditor's review report to the shareholders of Hills Limited.....	25
Corporate directory.....	27

Directors' report

The Directors of Hills Limited present their report together with the consolidated financial statements of Hills Limited (referred to hereafter as Hills, the Company or the Group) consisting of Hills Limited and the entities it controlled at the end of, or during the half year ended 31 December 2022 and the independent auditor's review report thereon.

Directors

The names of the Company's directors in office during the half year ended 31 December 2022 and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

David Chambers

David Clarke – appointed 30 September 2022

Peter Steel

Janet Muir – resigned from office 30 September 2022

About the Group

Hills commenced business in Adelaide, South Australia in 1945 and has a long history of developing and innovating products whilst diversifying and divesting as market conditions and customer demands have changed.

The Group operates in Australia and New Zealand. The principal activities of the Group during the year was as a supplier of technology solutions in healthcare and installation of communication technology in residential and commercial premises.

Hills Health Solutions

Hills Health Solutions (HHS) designs, supplies, installs, and maintains health technology solutions, particularly Nurse Call and patient engagement systems into the hospital and aged care sectors.

Research and development activities are undertaken in Australia to enhance and develop the Nurse Call and other products, ensuring the healthcare solutions business remain market leaders in their segments.

The Company has also invested in community health record software as part of its diversification strategy into the broader health technology market.

Hills Technical Solutions

Hills Technical Solutions (HTS) provides technology installation and maintenance services for residential and commercial premises across Australia and New Zealand.

HTS service was previously combined in the Distribution segment for reporting.

Hills Distribution (divested business)

Hills Distribution was a leading value-added provider of security and IT technology for homes, healthcare facilities, places of learning, entertainment venues, retail spaces, transport and infrastructure, banking and finance, workplaces, and government institutions.

During the prior year ending 30 June 22, the Group divested the Hills security and IT distribution business in Australia and closed those operations in New Zealand. The divestment was part of the Company's ongoing strategy to focus on the strong growth prospects associated with the Hills Health Solutions division and Hills Technical Services operation

Group performance highlights

The following table provides an overview of the financial performance of the Groups' continuing business for the half year ending 31 December 2022 as detailed in the financial report:

Statutory Result Overview

Summary of Group performance			
	31 December 2022	31 December 2021	% change
	\$million	\$million	
Sales Revenue	22.5	22.6	(0.6%)
Cost of goods and services sold	(12.0)	(10.9)	(10.3%)
Gross margin	10.5	11.8	(10.6%)
Other operating (costs)/income	(11.1)	(11.1)	0.0%
Segment EBITDA⁽¹⁾	(0.6)	0.7	(183.2%)
Depreciation & amortisation	(2.0)	(2.0)	0.8%
Other income/(expense)	(0.7)	(0.9)	24.5%
Interest and finance costs	(0.3)	(0.7)	52.0%
Statutory net loss before tax	(3.6)	(2.9)	(22.7%)
Tax expense	-	(1.9)	>100%
Statutory net loss after tax	(3.6)	(4.8)	24.7%
Cash flows from operating activities	(4.2)	1.6	(371.9%)
Net debt⁽²⁾	(4.9)	3.2	(252.0%)

(1) Hills' Financial Report complies with Australian Accounting Standards and International Financial Reporting Standards. The underlying (non-IFRS) segment EBITDA is unaudited but is derived from the reviewed accounts by removing the impact of non-operating items from the reported (IFRS) reviewed loss; including \$0.6 million relating to legal costs associated with the claim against a Group company (note 4.4). Hills believe this reflects a more meaningful measure of the Group's underlying performance.

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

The Company recording a net loss after tax of \$3.6 million for the half year ended 31 December 2022 compared to \$4.8 million for the same period last year. Revenue declined slightly by 0.6% to \$22.6 million whilst cost of goods sold increased 10.3% due to delayed delivery of fixed priced projects which resulted in higher cost to supply on the back of restricted product availability due to global component supply shortages. Operating EBITDA was a loss of \$0.6 million compared to a gain of \$0.7 million in the prior comparative period.

Operating Expenses

Operating expenses¹ including depreciation in the half year to 31 December 2022 were \$13.1 million which were in line with prior year. Included in prior year results were job saver benefits of \$0.5 million.

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

Net Debt and Working Capital

Operating cashflow in the first half of the year was (\$4.2) million which included payments for inventory of \$2.4m, reflecting supply chain issues, and trading losses of \$2.0m. Net debt increased \$8.1 million to \$4.9 million as at 31 December 2022 which included the negative operating cashflow, payment of \$1.4 million for the bank guarantees and \$1.2 million payments for costs associated with the divested business and legal claims. These predominately one-off payments were funded through a new \$6 million facility from AMAL Security Services Pty Ltd atf CWPDMF (Financier) entered into in September 2022.

Financing

The Company is in the late stages of preparing a capital raising with the support of shareholders and our financier.

Subsequent events

As at 31 December 2022, the Group was in breach of an undertaking in relation to the facility. The Group is actively working with the Financier to obtain relief of the breach.

The Group is in final stages of preparation a capital raise. The objectives of this process include obtaining adequate funding to reshape the organisation, fund future growth in the remaining businesses and support working capital. The capital raise is expected to be completed by April 2023.

On 31 January 2023, Hills entered into an agreement in relation to premises at Seven Hills, NSW, to surrender the remaining term of the lease. This will result in a reduction of the Make Good provision, Right of Use assets and Lease liabilities in accordance with AASB16, and the release of cash held as a bank guarantee against the premises to the value of \$0.7 million during the year ending 30 June 2023.

There have been no additional events subsequent to the balance date that would have a material effect on the Group's interim financial statements at 31 December 2022.

Outlook

The divestment of the Distribution business has allowed Hills to intensify its focus on achieving earnings growth over the medium to longer term in both the Health and Technical Services businesses. In addition to ensuring that all possible new opportunities are optimised in line with Hills' strategy, the business continues to focus on:

- Ongoing restructuring and right sizing of corporate overheads;
- Closely managing component availability and cost;
- Revision and renewal of internal systems to enhance efficiencies and underpin the Company's performance; and
- Securing the Company's future funding requirement, including new debt facilities and capital raising.

Revenue recognition for health projects remains reliant on construction activity and investment to drive the refurbishment and construction of new and deferred hospital projects. The current adverse trading conditions are expected to continue in the short-term causing the ongoing deferral of fixed priced projects, plus the global component shortage is still expected to cause significant component price and labour cost increases, as well as restricted product availability. Therefore, whilst lessened, delays and catch-up in construction and COVID-related supply chain issues will likely continue to have some negative impact on Hills' second-half FY23 trading.

Positively, the pipeline from delayed projects, as well as new incoming opportunities, has risen to over \$17.6 million at 31 December 2022, up from almost \$8 million at 30 June 2022. This strong future demand for our products, an expected abatement in the medium term of the tough trading conditions and an uptick in business confidence to drive new and deferred project and construction work is expected to return Hills to sustained net profit during FY24.

Dividends

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations ACT 2001* is set out on page [8].

Rounding of amounts

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

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



David Chambers
Chairman



David Clarke
Managing Director

Sydney
28 February 2023

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF HILLS LIMITED AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the half year ended 31 December 2022, there have been:

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

MOORE AUSTRALIA AUDIT (VIC)
ABN 16 847 721 257



GEORGE S DAKIS
Partner
Audit and Assurance

Melbourne, Victoria

28 February 2023

Consolidated Interim financial statements

Hills Limited

ABN 35 007 573 417

Consolidated statement of profit or loss

For the half year ended 31 December 2022

		31 December 2022	31 December 2021 Restated*
	Notes	\$'000	\$'000
Revenue	2.3	22,499	22,633
Cost of sales	2.5	(11,997)	(10,880)
Gross Margin		10,502	11,753
Other income	2.4	544	129
Expenses excluding net finance expenses			
Labour and related expenses		(8,472)	(8,404)
Operational expenses		(358)	(306)
Property expenses		(293)	(13)
Depreciation and amortisation	2.5	(2,015)	(2,032)
Other expenses	2.5	(3,202)	(3,416)
Expenses excluding net finance expenses		(14,340)	(14,171)
Loss before finance expense and income tax		(3,294)	(2,289)
Finance income	2.5	37	4
Finance expenses	2.5	(348)	(654)
Net finance expenses	2.5	(311)	(650)
Loss before income tax		(3,605)	(2,939)
Income tax expense		(1)	(1,852)
Loss after tax from continuing operations		(3,606)	(4,791)
Loss from discontinued operation (net of tax)	2.2	(222)	(15,251)
Total loss for the period, attributable to the members of the Company	2.1	(3,828)	(20,042)
Earnings per share		Cents	Cents
Basic and diluted loss per share from continuing operations		(1.55)	(2.07)
Basic and diluted loss per share		(1.65)	(8.64)
Other comprehensive income			
Loss for the period attributable to members of the Company		(3,828)	(20,042)
Items that may be reclassified subsequently to profit and loss			
Foreign operations - foreign currency translation differences		9	22
Other comprehensive income for the half year, net of tax		9	22
Total comprehensive loss for the half year, attributable to owners of Hills Limited		(3,819)	(20,020)

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

*Prior period has been restated to represent continuing operations of the business.

Consolidated statement of financial position

As at 31 December 2022

		31 December 2022	30 June 2022
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents		1,569	6,458
Trade and other receivables		10,391	13,512
Inventories		5,031	3,153
Total current assets		16,991	23,123
Non-current assets			
Investments		2	2
Property, plant and equipment	4.2	7,784	7,844
Right-of-use asset		2,985	3,256
Intangible assets		1,355	1,597
Total non-current assets		12,126	12,699
Total assets		29,117	35,822
LIABILITIES			
Current liabilities			
Trade and other payables		8,149	12,626
Borrowings	3.1	6,485	3,096
Provisions	4.1	2,979	3,025
Lease liabilities		2,609	2,850
Total current liabilities		20,222	21,597
Non-current liabilities			
Borrowings	3.1	13	120
Provisions	4.1	1,533	1,587
Lease liabilities		1,886	3,266
Total non-current liabilities		3,432	4,973
Total liabilities		23,654	26,570
Net assets		5,463	9,252
EQUITY			
Contributed equity	3.3	278,439	278,439
Reserves		11,101	10,979
Accumulated losses		(283,813)	(280,054)
Total equity attributable to owners of the Company		5,727	9,364
Non-controlling interests		(264)	(112)
Total equity		5,463	9,252

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

Consolidated statement of changes in equity

For the half year ended 31 December 2022

	Attributable to owners of Hills Limited					Total \$'000
	Contributed equity	Equity compensation reserve	Reserves	Accumulated losses	Non- Controlling Interests	
	\$'000	\$'000	\$'000	\$'000	\$'000	
Balance at 1 July 2021	278,439	782	10,112	(256,101)	-	33,232
Loss for the year	-	-	-	(20,042)	-	(20,042)
Foreign Currency Translation Reserve	-	-	22	-	-	22
Total comprehensive loss for the half year	-	-	22	(20,042)	-	(20,020)
Acquisition of subsidiary with NCI	-	-	-	-	(112)	(112)
Employee share schemes	-	42	-	-	-	42
Balance at 31 December 2021	278,439	824	10,134	(276,143)	(112)	13,142
Balance at 1 July 2022	278,439	853	10,126	(280,054)	(112)	9,252
Loss for the half year	-	-	-	(3,828)	-	(3,828)
Foreign Currency Translation Reserve & other reserves	-	-	9	-	-	9
Total comprehensive loss for the half year	-	-	9	(3,828)	-	(3,819)
Non-controlling interests	-	-	-	69	(152)	(83)
Employee share schemes	-	113	-	-	-	113
Balance at 31 December 2022	278,439	966	10,135	(283,813)	(264)	5,463

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

Consolidated statement of cash flows

For the half year ended 31 December 2022

		31 December 2022	31 December 2021
	Notes	\$'000	\$'000
Cash flows from operating activities			
Receipts from customers		29,901	92,264
Payments to suppliers and employees		(33,845)	(90,107)
		(3,944)	2,157
Net finance costs paid		(183)	(598)
Interest paid lease liabilities		(111)	-
Net income taxes paid		(1)	-
Net cash flows from operating activities		(4,239)	1,559
Cash flows from investing activities			
Payments for property, plant and equipment		(443)	(651)
(Payments) on disposal of business operations and subsidiaries		(1,154)	1
Net cash outflows from investing activities		(1,597)	(650)
Cash flows from financing activities			
Proceeds from borrowings	3.1	6,758	1,437
Repayment of borrowings	3.1	(3,494)	(1,207)
Payment for bank guarantees		(1,407)	-
Payment of lease liabilities		(816)	(2,497)
Payments to non-controlling interests in subsidiaries		(93)	-
Net cash flows used in financing activities		948	(2,267)
Net decrease in cash and cash equivalents		(4,888)	(1,358)
Cash and cash equivalents at the beginning of the half year		6,458	6,835
Effects of exchange rate changes on cash and cash equivalents		(1)	(82)
Cash and cash equivalents at end of the period		1,569	5,395

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

Notes to the consolidated financial statements

For the half year ended 31 December 2022

Section 1: Basis of preparation

1.1. Reporting entity

These consolidated interim financial statements are for the group consisting of Hills Limited (the "Company" or "parent entity") and its subsidiaries (together referred to as the "Group" or "Consolidated Entity" and individually as "Group Entities") for the half year ended 31 December 2022 and were authorised for issue in accordance with a resolution of the directors on 28 February 2023.

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. The principal activities of the Group during the year was as a supplier of technology solutions in healthcare and installation of communication technology in residential and commercial premises. During the period year ending 30 June 2022, the Group undertook the divestment of security and IT distribution business which was concluded in May 2022. Accordingly the prior period ending 31 Dec 2022 are restated to reflect the continuing business.

1.2. Basis of preparation

These general purpose consolidated interim financial statements:

- are presented in Australian dollars;
- have been prepared in accordance with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*; and
- do not include all the notes normally included in an annual financial report and should be read in conjunction with the Annual Report for the year ended 30 June 2022 and any public announcements made by Hills Limited during the interim reporting -- period.

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

The Group incurred a loss of \$3.6 million and a negative cashflow of \$4.2 million in operating activities during the half year ended 31 December 2022. As at 31 December 22, the Group was in breach of an undertaking in relation to the AMAL Security Services Pty Ltd atf CWPDMF (Financier) facility. The Group is currently negotiating a waiver for the breach.

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

- The Group is actively working with the Financiers to obtain a waiver of the breach of the 31 December 2022 covenant.
- The Group is in final stages of preparation for a capital raise. The objectives of this process include obtaining adequate funding to reshape the organisation and fund future growth in the remaining businesses. The capital raise is expected to be completed by April 2023.
- The Group is expecting a lessening of construction delays and COVID-related supply chain issues but will likely continue to have some negative impact to Hills' second-half FY23 trading. Positively, a strong future demand for our products, and expected abatement in the medium term of the tough trading conditions and an uptick in business confidence to drive new and deferred project and construction work is expected to return Hills to sustained net profit during FY24.
- Based on legal advice, the Directors expect to successfully defend the outstanding legal claim at the date of this report (Refer to note4.4: Contingencies).

1.3. Key accounting estimates

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

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

1.4. Rounding

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

Section 2: Business performance

2.1. Segment information

Description of segments

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

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Group has two 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.

Segment information

Segment revenue

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

Major customers

Hills Technical Services (HTS) brings people and businesses together through the seamless installation and maintenance of technology infrastructure across Australia and New Zealand for commercial, domestic and government applications. In Australia HTS has recently celebrated 10 years of working with Ericsson applying its automation, technical know-how and deep experience to manage the installation and maintenance of Fixed Wireless and Satellite connectivity solutions for NBN Co Ltd.

Segment EBITDA

The Chief Operating Decision Maker (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 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

	Technical Solutions		Health		Corporate		Total Continuing operations		Operations divested (the "Disposal group")		Total operations	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sales revenue	7,179	8,232	15,320	14,401	-	-	22,499	22,633	122	57,346	22,621	79,979
EBITDA	12	433	(31)	1,569	(550)	(1,318)	(569)	684	(157)	1,532	(726)	2,216
Depreciation and amortisation	(163)	(4)	(1,502)	(1,829)	(350)	(199)	(2,015)	(2,032)	(65)	(2,757)	(2,080)	(4,789)
Profit on sale of business	-	-	-	-	-	-	-	-	-	(395)	-	(395)
Aged, slow-moving and demonstration stock write-offs	-	-	-	-	-	-	-	-	-	(1,600)	-	(1,600)
Other income and expense	-	-	(97)	130	(613)	(1,071)	(710)	(941)	-	47	(710)	(894)
Net financing expense	-	-	13	-	(324)	(650)	(311)	(650)	-	(14)	(311)	(664)
Net profit/(loss) before income tax	(151)	429	(1,617)	(130)	(1,837)	(3,238)	(3,605)	(2,939)	(222)	(3,187)	(3,827)	(6,126)

2.2. Discontinued operation

During the year ending 30 June 2022, 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.

	Notes	31 December 2022 \$'000	31 December 2021 \$'000
A. Results of Discontinued operation			
Revenue from discontinued operations		122	57,346
Expenses from discontinued operations		(344)	(60,533)
Profit / (loss) before tax from discontinued operations		(222)	(3,187)
Income tax expense from discontinued operations		-	(12,064)
Profit / (loss) from discontinued operation (net of tax)		(222)	(15,251)
Earnings per share			
		Cents	Cents
Basic and diluted (loss) per share	2.8	(0.10)	(6.57)
B. Cash flows from (used in) discontinued operation			
		\$'000	\$'000
Net cash from operating activities		(222)	(4,709)
Net cashflows for the year		(222)	(4,709)

2.3. Revenue

	31 December 2022	31 December 2021 Restated*
	\$'000	\$'000
Sales revenue		
Goods & services	22,499	22,633
Total revenue from continuing operations	22,499	22,633

*Prior period has been restated to represent continuing operations of the business.

2.4. Other income

	31 December 2022	31 December 2021 Restated*
	\$'000	\$'000
Other income		
Net income on disposal of non-current assets	31	1
Other income	513	128
	544	129

*Prior period has been restated to represent continuing operations of the business.

2.5. Expenses

	31 December 2022	31 December 2021 Restated*
	\$'000	\$'000
Cost of Sales		
Cost of goods sold	2,589	1,580
Direct cost of services provided	9,408	9,300
Total cost of sales	11,997	10,880
Depreciation		
Plant and equipment	1,189	1,126
Right of use assets	583	655
Total depreciation	1,772	1,781
Amortisation		
Software	172	180
Development costs	71	71
Total amortisation	243	251
Total depreciation and amortisation	2,015	2,032
Other Expenses		
General and administrative expenses	2,492	2,475
Other costs	710	941
Total Other	3,202	3,416

*Prior period has been restated to represent continuing operations of the business.

Information on expenses

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. Prior year labour costs included the benefit of JobSaver of \$0.5 million which where \$Nil in current year.
Operational expenses	Operational expenses include costs of freight, consumables, motor vehicle and other equipment expenses, repairs and maintenance.
Property expenses	Property expenses include rent, rates, utilities, cleaning and security expenses related to properties leased by the Group.
Other expenses	Other expenses include overhead expenses (such as insurance, advertising and marketing, professional and consulting fees, telecommunications and information technology related expenses).

Finance expenses

	31 December 2022	31 December 2021 Restated*
	\$'000	\$'000
Finance expenses		
Finance Costs – lease liability interest	131	227
Interest and finance charged paid and payable	217	427
	348	654
Finance income		
Interest income	(37)	(4)
Net finance costs expensed	311	650

*Prior period has been restated to represent continuing operations of the business.

Earnings per share

	Continuing operations		Discontinued operation		Total	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 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	(3,606)	(3,938)	(222)	(16,104)	(3,828)	(20,042)
					31 Dec 2022	31 Dec 2021
					Number	Number
Weighted average number of ordinary shares used as the denominator					231,985,526	231,985,526
	Continuing operations		Discontinued operation		Total	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	Cents	Cents	Cents	Cents	Cents	Cents
Basic and diluted earnings per share						
Attributable to the ordinary equity holders of the Company	(1.55)	(1.70)	(0.10)	(6.94)	(1.65)	(8.64)
From continued and discontinued operations	(1.55)	(1.70)	(0.10)	(6.94)	(1.65)	(8.64)

Income tax

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

The Group's consolidated effective tax rate for the half year ended 31 December 2022 was 0% (31 December 2021: 0%).

A non-cash tax expense of \$1.9 million (continuing business) and \$12.1 million (discontinued business) was reported in the prior year reflecting the reversal of timing differences and tax losses in the deferred tax asset. Significant carried forward tax losses is expected to result in the Company having no tax payable in the foreseeable future. Reflecting a conservative position a nil deferred tax asset has been recorded in the interim financial statements.

Section 3: Capital and financing

3.1. Borrowings

	31 December 2022 \$'000	30 June 2022 \$'000
Current		
Borrowings	6,648	3,096
Less capitalised borrowing costs	(163)	-
Total current borrowings	6,485	3,096
Non-current		
Borrowings	13	120
Total non-current borrowings	13	120
Total borrowings	6,498	3,216
Reconciliation of movement		
Opening balance	3,216	20,008
Proceeds from loans and borrowings	6,758	3,437
Repayment of borrowings	(3,494)	(20,543)
Amortisation of capitalised borrowing costs	18	314
Closing balance	6,498	3,216

Capitalised transaction costs are directly attributable to the borrowings, as at 31 Dec 2022, unamortised borrowing costs totalled \$0.163 million (2022: Nil).

Borrowing facilities

Secure Borrowing Base Facility	<p>AMAL Security Services Pty Ltd atf CWPDMF (Financier) debt facility totals \$6 million. The facility expires in 2025.</p> <p>The facility is secured over the assets of the Group.</p> <p>Interest rate is charged at 11.25%</p> <p>This facility was entered into on 19th September 2022.</p> <p>During this period, the Group was in a breach of an undertaking in relation to the facility. The Group is in negotiations to obtain a waiver for the breach.</p>
DLL Financing	<p>The Group has entered into Chattel Mortgage Agreements with DLL for the provision of finance for the supply and installation of equipment at hospitals in the Hills Health Solutions business.</p> <p>At 31 December 2022, the Group had drawn down \$0.54 million (2021: \$1.28 million).</p>

Current borrowings include transactions costs directly attributable to the issue of the borrowings.

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.

3.2. Contributed equity

There have been no changes to the capital structure of the Company since 30 June 2022 (no changes for the six months ended 31 December 2022).

3.3. Dividends

No dividends were paid during the half year ended 31 December 2022 (31 December 2021: nil) and no interim dividends have been declared.

Section 4: Other disclosures

4.1. Provisions

PROVISIONS	31 December 2022	30 June 2022
	\$'000	\$'000
Current		
Employee benefits	1,970	1,939
Warranty claims	201	200
Environmental and other	808	886
Total provisions - current	2,979	3,025
Non-current		
Employee benefits	177	216
Warranty claims	119	121
Environmental and other	1,237	1,250
Total provisions - non-current	1,533	1,587
Total provisions	4,512	4,612

Description of provisions and key movements

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

4.2. Property, plant and equipment

	31 December 2022 \$'000	30 June 2022 \$'000
Property, plant and equipment - at cost	47,668	46,395
Less accumulated depreciation	(39,884)	(38,551)
Total property, plant and equipment	7,784	7,844
Reconciliation of movement		
Opening balance	7,844	10,797
Additions	1,195	2,512
Depreciation	(1,255)	(3,952)
Disposals Sale of Business	-	(614)
Disposals	-	(613)
Exchange differences	-	(8)
Impairment	-	(278)
Closing balance	7,784	7,844

4.3. Capital commitments

There are nil capital commitments as at 31 December 2022 (31 December 2021: Nil).

4.4. Contingencies

The Group had contingent liabilities at 31 December 2022 in respect of:

Claims	<p>The Group has a commercial legal claim common to businesses of its type.</p> <p>This claim is against a Group company and related to a dispute concerning a third-party contract. In February 2022, this claim was dismissed by the Court, with costs awarded in favour of the company. The claimant has appealed. Legal advice indicates the appeal process will not be successful.</p> <p>In consultation with the Environmental Protection Authority, potential ground water contamination 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. The Company has provided for the anticipated costs of ongoing assessments until 2029 in accordance with our environmental monitoring plan.</p>
Guarantees	<p>Bank guarantees in favour of customers and suppliers totalling \$1.4 million (30 June 2022: \$1.5 million).</p>

4.5. Events occurring after the reporting period

As at 31 Dec 22, the Group was in breach of an undertaking in relation to the facility. The Group is actively working with the Financier to obtain a waiver of the breach of the 31 December 2022 covenant and relief for the next three quarters covenants.

The Group is in final stages of preparation for launching a capital raise. The objectives of this process include obtaining adequate funding to reshape the organisation and fund future growth in the remaining businesses. The capital raise is expected to be completed by April 2023.

On 31 January 2023, Hills entered into an agreement in relation to premises at Seven Hills, NSW, to surrender the remaining term of the lease. This will result in a reduction of Right of Use assets and Lease Liabilities in accordance with AASB16, and the release of cash held as a bank guarantee against the premises to the value of \$0.7 million during the year ending 30 June 2023.

There have been no additional events subsequent to the balance date that would have a material effect on the Group's interim financial statements at 31 December 2022.

4.6. Changes in significant accounting policies

The accounting policies applied in these interim financial statements are consistent with those adopted and disclosed in the Group's annual financial report for the financial year ended 30 June 2022.

Directors' declaration

For the half year ended 31 December 2022

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

- (a) the consolidated interim financial statements and notes set out on pages 9 to 23 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the six-month period ended on that date;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



David Chambers
Chairman



David Clarke
CEO & Managing Director

Sydney
28 February 2023

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF HILLS LIMITED AND CONTROLLED ENTITIES****Report on the Half-Year Financial Report****Conclusion**

We have reviewed the accompanying half-year financial report of Hills Limited and Controlled Entities (**the Group**), which comprises the condensed statement of financial position as at 31 December 2022, the condensed statement of profit or loss and other comprehensive income, condensed statement of changes in equity, the condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group does not comply with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and
- b. complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to Note 1.2, which identifies that during the half year ended 31 December 2022 the Group incurred a consolidated net loss of \$3.6M from continuing activities (31 December 2021: \$3.9M from continuing activities), had current liabilities that exceeded its current assets by \$3.2M and had negative cash flows from operating activities of \$4.2M.

As stated in Note 1.2, these events and conditions, along with other matters as set forth in Note 1.2, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern, including realising its assets and discharging its liabilities in the ordinary course of business and at the amounts stated in the financial report. Our conclusion is not modified in respect of this matter.

Basis of Conclusion

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

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

Responsibility of the Directors for the Financial Report

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

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

MOORE AUSTRALIA AUDIT (VIC)
ABN 16 847 721 257



GEORGE S DAKIS
Partner
Audit and Assurance

Melbourne, Victoria

28 February 2023

Corporate directory

Registered office

Unit 1, Building F, 3-29 Birnie Avenue
Lidcombe NSW 2141
Australia

Telephone: +61 2 9216 5510

Facsimile: +61 2 9216 5999

Web: <http://www.hills.com.au>

Executives

David Clarke, *Chief Executive Officer*

Natalie Scott, *Chief Financial Officer*

Directors

David Chambers, Non-Executive Director

Peter Steel, Non-Executive Director

David Clarke, Managing Director

Company Secretary

Stephanie So

Share registry

Link Market Services Limited

Locked Bag A14

Sydney South NSW 1235

Australia

Telephone Australia: +61 1300 554 474

Facsimile Australia and International: +61 2 9287 0303

ASX code: HIL

Email: registrars@linkmarketservices.com.au

Web: www.linkmarketservices.com.au