Appendix 4E – Preliminary Final Report

Under ASX Listing Rule 4.3A

Hills Limited

ABN 35 007 573 417

Results for announcement to market

For the year ended 30 June 2021
(Previous corresponding period 30 June 2020)

	Restated* 30/6/2020		Change			30/6/2021
Revenue	A$'000		A$'000			A$'000
Revenue from ordinary activities	**220,083**	**down**	**(39,932)**	**(18%)**	**to**	**180,151**
Net loss for the period attributable to members	**(6,530)**	**up**	**(3,694)**	**(57%)**	**to**	**(10,224)**
Earnings / (loss) per share	cents		cents			cents
Basic loss per share	**(2.81)**	**down**	**(1.60)**	**(57%)**	**to**	**(4.41)**
Net Tangible Assets	$ per share		$ per share			$ per share
Net tangible asset backing per ordinary security - inclusive of Right of use assets calculated in accordance with AASB16 *Leases*	**$0.097**	**down**	**(0.027)**	**(28%)**	**to**	**$0.070**
Net tangible asset backing per ordinary security - excluding Right of use assets calculated in accordance with AASB16 *Leases* (1)	**$0.051**	**down**	**(0.012)**	**(24%)**	**to**	**$0.039**
Dividends						
No dividend will be paid for the year ended 30 June 2021						

* Refer to note 1.3.

A review of the group's operations during the year ended 30 June 2021 and the results of those operations are included in the Hills Limited 30 June 2021 Directors' report.

Change in ownership of controlled entities

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

Dividend reinvestment plans

There are no dividend reinvestment plans in place.

Additional Appendix 4E disclosure requirements can be found in the Directors' report and the 30 June 2021 financial statements and accompanying notes.

This report is based on the consolidated financial statements audited by KPMG.

Hills Limited
Annual report
for the year ended 30 June 2021

Hills Limited

Annual report

for the year ended 30 June 2021

ABN 35 007 573 417

Contents

Shareholders' letter

Dear Shareholder,

As with last financial year, the prolonged and, as yet unabated COVID-19 pandemic has adversely impacted the Company's ability to operate at optimal performance levels in FY21. We saw the year punctuated by lockdowns both in the first half as well in the latter stages of the second half, with little sustained business confidence.

Hills net loss for the period reflected this significant business disruption caused by a number of factors including the rolling lockdowns in all major states, related restrictions on access to hospitals and aged care facilities, deferral of healthcare activity, worldwide semiconductor shortage impacting product availability, poor results from the New Zealand business, foreign exchange losses from prior year hedging contracts, and a number of non-operating items.

With a restructure undertaken in 2020, the business had been well positioned to harness this new structure, combine it with new product offerings and was set to deliver sustained revenue and earnings growth. Whilst we did enjoy some notable successes, we were like many others, hampered by the stop start nature of the business environment, particularly construction which underpins much of our billable revenue.

Notwithstanding the environment, the results are disappointing, particularly in the Distribution division, and the board is determined to make the changes and investment required to address the shortcomings.

FY21 results

Statutory Net Profit After Tax loss of $10.2 million for the year was impacted by:

- The operational challenges that impacted almost all divisions, as described above.
- Non-operating items of $7.5 million, that include non-cash asset reductions for inventories, exited businesses and vendors, non-operating foreign exchange losses, legal costs and other non-operating costs. These items are detailed in note 2.1 of the Financial Statements and were mostly incurred in the first half of FY21.
- $2.8m non-cash tax expense caused by the reversal of tax-related timing differences and derecognition of New Zealand tax losses in the deferred tax assets.

Despite these challenges, Hills remains focused on its strategic priorities of building and maintaining a market-leading product portfolio, tight cost control and capital management. Working capital reduced by $5.3 million over the year, capital employed reduced by $8.5 million and net debt was $13.2 million as at 30 June 2021. A solid net debt position was achieved despite the $5.7 million cash outflow in FY21 from foreign exchange losses, which impacted profit by $1.7 million in FY21 and $4.1 million in FY20, and for which all adverse hedging positions have now been exited.

Health Division

Hills' Health division performed well in FY21 given challenging trading conditions in Q1 and Q4, and achieved a 33% growth in underlying EBITDA to $9.7 million. This was achieved against the backdrop of an unpredictable operating landscape and longer lasting COVID-related trading restrictions, which delayed the projects and inhibited the access to hospitals and aged care facilities that drive billable revenue.

Driving the FY21 result the division completed:

- Installation of 6,900 net new Nurse Call beds (3,100 in H1; 3,800 in H2).
- Delivery of 53 projects with hospital and aged care facilities.
- Renewal of 5,600 beds across 28 hospitals with Patient Engagement Solutions, and
- Installation of 750 new beds with the GetWell Network solution.

Deployment of Hills Guest Wi-Fi system across 80 sites in NSW Health districts, delivering service to more than 7,100 beds and providing an essential welfare tool for inpatients and the community.

Hills Health is enhancing its reputation as a market-leading integrated solutions provider by delivering new and improved technologies for patient care based on market analysis and voice of the customer. This includes integrated voice technology in the nurse call products, advanced patient information displays and the GetWell Network solution.

In March 2021 the Company signed a three-year exclusive distribution agreement with GetWellNetwork Inc, for their GetWell Loop and GetWell Inpatient products in Australia and New Zealand. Hills started working with GetWellNetwork in May 2019 as the sole distributor of the GetWell Inpatient product, which has been rolled out to hospitals in Sydney, Adelaide, and Hobart.

GetWell is an important example of shifting the Health business' solutions increasingly up the ladder of sophistication, innovation, and interoperability. The GetWell Network provides not only traditional patient engagement, but also integrates directly with hospital systems such as Cerner and has other features that deliver broader economic benefits to the community, for example with the reduction in hospital readmissions.

Our Health division remains strong despite the short-term impacts of COVID-19 restrictions, and we remain excited by the profit opportunities identified for this business. Health revised its near-term strategy for nurse call, patient engagement and other solutions during the year. As a result, we have begun to develop greater capability across critical areas of the business by investing to bolster sales, marketing, technical, operational and research capability in order to expand upon and capture greater health technology-related revenue and opportunities. This capability is expected to accelerate the division's revenue growth in existing and adjacent markets when Australia emerges from its COVID-related restrictions, with the goal of becoming a prominent provider of digital health technologies.

Distribution Division

Distribution division underlying results were down 11% on revenue and 16% on segment EBITA. The division's decline in profitability reflected a range of factors including the on-going challenging trading conditions relating to COVID-19, delays and cancellation of key projects during lockdowns, a worldwide semiconductor shortage adversely impacting product availability and lead times - delaying project completion, exiting underperforming vendor relationships, temporarily reduced competitiveness following foreign exchange losses, a poorly positioned and loss-making New Zealand business, and several non-operating items.

Ongoing expense management saw operating expenses in Distribution reduce by $4.4 million, including the benefit of the Job Keeper subsidy.

The New Zealand business delivered a $1.9 million operating loss for the full year ($1.4 million loss in FY20), reflecting a highly competitive trading environment, the exit of key vendors and the corresponding loss of larger project-based work. The cost base of the New Zealand business was restructured in the second half of FY21, and Hills continues to explore initiatives to return the business to profitability.

Notwithstanding the varied external factors impacting the business, the Distribution division has underperformed. As we go into the new financial year the new leadership team are introducing a range of initiatives to address revenue decline and support profitability with a focus on lifting sales and marketing performance, rationalising and focusing the product portfolio, increasing the value contribution, carefully controlling costs, better managing availability and sell-through of inventory, and driving greater operational efficiency.

Refresh of Executive Management and Board Positions

We saw significant changes at both the executive team and the Board during the year. The board changes were as a result of an active process of renewal over the past twelve months.

This commenced with the appointments of David Chambers to the Hills Board as a non-executive director in July 2020 and Mr Peter Steel in March 2021. Mr Chambers brings international experience in the healthcare and technology sectors to the Board and Mr Steel is a senior finance professional with extensive experience in finance, strategy, and business development.

Fiona Bennett, the Chair of the Board's Audit, Risk and Compliance Committee, and Mr Philip Bullock, Chair of the Nomination and Renumeration Committee, both retired from the Board in the year. We extend our sincere thanks to Fiona and Phil for their insights and tireless commitment to Hills during the period of their directorship.

On 1 July 2021, David Chambers assumed the role of Chairman of Hills following the decision of Jennifer Hill-Ling to retire as a director of the Company later this year. Jennifer's wealth of experience and leadership have been invaluable to Hills during periods of significant change, and we commend her professionalism and tireless commitment throughout her sixteen-year tenure as Chair of Hills.

In the management ranks we bade farewell to the Managing Director and Chief Executive Officer, David Lenz, who transitioned to retirement on 1 July 2021 after six years with the Company. David has overseen a reduction in Hills cost structure, the turnaround of our Health business to a profitable growth engine for the Company, and the successful divestment of underperforming businesses. The Board thanks Mr Lenz for his past dedication to Hills and wishes him well in his retirement.

In May we announced the appointment of technology and healthcare industry leader David Clarke as Chief Executive Officer. Mr Clarke brings significant experience as a chief executive officer and chief financial officer of ASX-listed companies, with extensive knowledge across the technology and healthcare sectors, as well as retail, distribution and technical field services.

Natalie Scott, an experienced CFO and COO joined our business in March 2021. Ms Scott brings significant and important experience in senior finance and operational roles in retail, hospitality, entertainment and residential aged care.

The year has seen other changes in leadership positions across the business, notably the appointment of Janine King as Chief People and Culture officer. These and other senior appointments, along with the new board members, bring a fresh perspective, diverse experience and renewed energy to the organisation that will be invaluable as we work to build a strong and sustainable business for the future.

Outlook

The new team, led by David Clarke, is applying themselves with energy and enthusiasm and a fresh set of eyes. We feel confident and are encouraged by new approaches being adopted to deliver sustained revenue and earnings growth.

Hills remains focused on execution of its Health strategy and improving the performance of the Distribution division to support sustainable earnings growth over the medium to long term.

However, trading conditions in all of Hills' businesses remain impacted by COVID-related restrictions. Any recovery is dependent on relaxation of restrictions and improved business confidence to drive new and deferred project and construction work.

Semiconductor scarcity and erratic global supply chains are expected to continue into 2022, complicating demand and inventory planning, and impacting project delivery.

Notwithstanding the difficult environment, the pipeline from delayed projects remains solid and underlying demand for our products strong. In the first half of FY22 the team at Hills is focused on ensuring the Company is in good shape to make the most of market conditions as they recover, along with continued and careful implementation of the strategic growth plans.

In closing we would like to acknowledge our employees who have worked tirelessly to support our customers, vendors, and suppliers during these difficult times, and we thank them for their ongoing dedication and commitment.

Yours sincerely

David Chambers
Chairman

David Clarke
Chief Executive Officer

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 year ended 30 June 2021 and the independent auditor's report thereon.

Operating and financial review

The operating and financial review forms part of the Directors’ report and has been prepared in accordance with section 299A of the Corporations Act 2001(Cth). The information provided aims to assist users better understand the operations and financial position of the Group.

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 is as a supplier of technology solutions in healthcare and a value-added distributor of technology products and services in the security, surveillance and IT markets.

Hills Health Solutions

Hills Health Solutions (HHS) is a market leader in the design, supply, and installation of 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 remain market leaders in their segments.

Hills Distribution

Hills Distribution is 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.

Hills Distribution maintains strong vendor relationships and contracts and invests in expert resources to offer solutions including access control, alarms and intruder solutions, CCTV cameras and associated video management systems, AI solutions, and wireless and wired networking products. They also provide pre and post installation support, technician management, and NBN connection services.

Group performance highlights

The following table provides an overview of the financial performance of the Group for the year ended 30 June 2021 as detailed in the financial report:

Summary of Group performance

	Total 30-Jun-21 $million	Total 30-Jun-20 $million	% change
Sales Revenue	**180.2**	220.1	(18.1%)
Cost of goods and services sold	**(126.6)**	(153.9)	(17.7%)
Gross margin	**53.6**	66.2	(19.0%)
Other operating costs	**(41.6)**	(53.9)	(22.8%)
Underlying segment EBITDA(1)	**12.0**	12.3	(2.4%)
Net financing expense	**(2.3)**	(3.6)	(36.1%)
Statutory net loss before tax	**(7.4)**	(6.5)	13.8%
Tax (expense) / benefit	**(2.8)**	-	>(100%)
Statutory net loss after tax (NPAT)	**(10.2)**	(6.5)	56.9%
Cash flows from operating activities	**1.2**	22.0	>(100%)
Net debt(3)	**13.2**	8.2	61.0%

(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 audited accounts by removing the impact of non-operating items from the reported (IFRS) audited profit; including $2.7 million of write-off of assets relating to exited businesses, write-off of assets relating to exited underperforming vendors, aged, slow-moving and demonstration stock write-offs, reassessment of asset lives and property settlements plus foreign exchange losses of ($1.7 million). Hills believe this reflects a more meaningful measure of the Group's underlying performance.

(2) Prior period has not been adjusted to reflect the sale of 3 business units. Further detail can be found in note 2.1, Segment information, of the audited financial statements.

(3) Net debt excludes lease liabilities associated with the introduction of AASB16 Leases. For further information refer Note 4.6, Financial instruments: Measurement and risk management, of the audited financial statements.

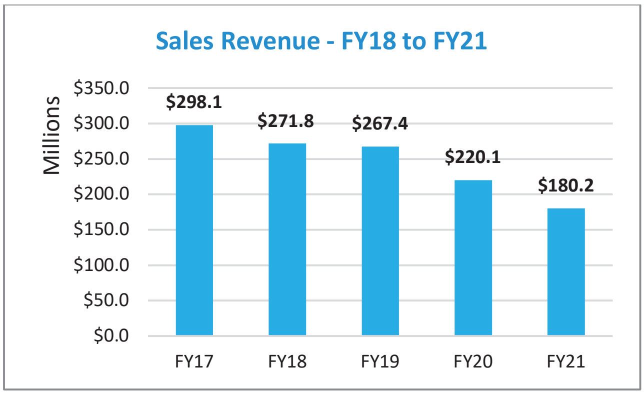
Revenue

Sales revenue for the year ended 30 June 2021 was down 18%, from $220.1 million to $180.2 million.

Sales were significantly impacted by Covid 19 trading restrictions which affected the completion of projects impacting both the Health and Distribution divisions.

The Health division experienced additional access restrictions to sites due to the nature being hospitals and aged care homes.

The Distribution division was further impacted by the worldwide semi-conductor shortage which delayed the ability to fulfil orders. During the period, the Company exited from underperforming vendors which contributed to the sales decline of $11.9 million.



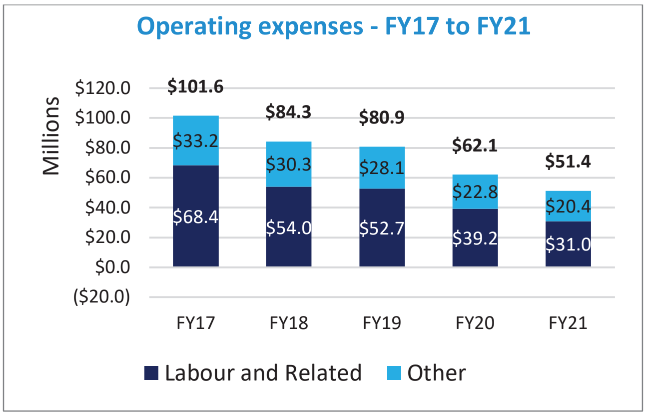
Net loss

The FY21 net loss of $10.2 million was impacted by several non-operating items largely comprised of non-cash items, foreign exchange losses and legal costs. Income tax expense of $2.8 million was incurred because of the reversal of timing differences and NZ tax losses in deferred tax assets.

The underlying business performance was similar to prior year but ahead by $1.0 million after discounting the contribution of disposed entities in FY20.

Operating expenses, inclusive of $9.8 million depreciation and amortisation have declined significantly during the year to $51.4 million down $10.7 million or 17% from $62.1 million with reductions achieved across major expense areas.

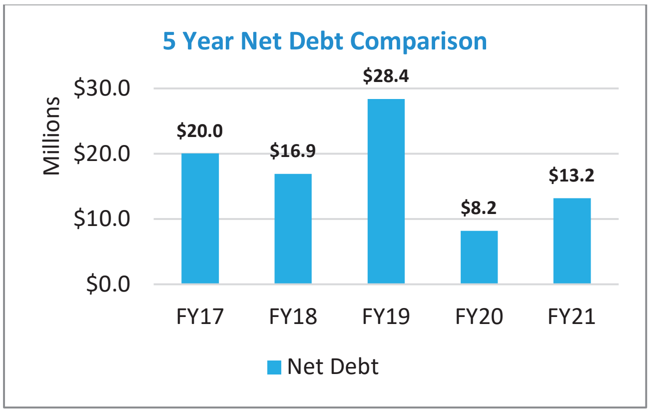
Labour and related costs reduced by $8.2 million, or 20.9% reflecting the impact of the business exits and restructuring initiatives that occurred during the year. Net finance expenses of $2.3 million compares favourably with prior year ($3.6 million) as a result of the new finance facility. Property costs declined due to a lower property footprint.



Financial Position

Net debt increased to $13.2 million in FY21, from $8.2 million at 30 June 2020. The operating cash inflow for the year declined due to costs associated with exiting and utilising foreign exchange contracts, tougher trading conditions which resulted in lower product margins and the repayment COVID related deferrals of GST and rent payments from the prior year.

There was a strong focus on cash management which resulted in a release of $5.3 million of working capital from a reduction of inventory driven by tighter procurement processes and significant reductions in trade receivables resulting in 90% of trade debtors aged 30 days or less.



COVID-19

The coronavirus pandemic (COVID-19) has continued to present challenges for the Group during the financial year. As commenced last financial year, the board and management have focused on three priorities; looking after our people; continuing to deliver the highest level of products and services to our customers and partners; and managing the economic and social impacts caused by COVID-19. Risk mitigation strategies and actions taken include:

- Implementing safeguards to ensure safe working environments for all employees.
- Receipt of $2.95 million JobKeeper assistance from the Australian government and similar assistance from the New Zealand government $0.2 million.
- Maintaining a strong focus on our sales, expenses and cashflow with implementation of regular Board plus management reviews.
- Focusing on our business continuity plans, to ensure our services and products continued to be available to all our customers, while also protecting the safety of customers, suppliers, and our own people.

During periods of lockdown the Company has continued to trade, having been considered an essential service provider on the basis of the customers we service in the healthcare and security markets. Depending on the nature of the lockdown, and in particular the continuity or otherwise of commercial construction, revenue has been supressed during such periods. This rarely results in loss or cancellation of orders however, subsequent delay defers the period of time until revenue is achievable, which in turn means the company has under-utilised staff during such periods. Government support is sought where it is available and appropriate, in order to retain trained staff within the business.

Restatement

During the preparation of the consolidated financial statements, the Group identified an overstatement as at 30 June 2020 of the carrying value of trade and other receivables, and inventory; and an understatement of trade and other payables. This impact has been adjusted by restating each of the affected financial statement line items for prior periods. The tables on pg 34 summarise the impact on the Group's consolidated financial statement for the year ended 30 June 2020.

Outlook - Opportunities and strategy

Hills is focused on executing on and further developing its Health business strategy and improving the performance of the Distribution division, in order to build sustainable earnings growth over the medium to long term.

Trading conditions are expected to remain difficult with further impacts of COVID-related restrictions occurring in the first half of FY22. Recovery is dependent on relaxation of restrictions that allow improved business confidence, recommencement of deferred project work and increase activity in the health sector. Semiconductor scarcity and disrupted global supply chains will continue to put pressure on the Distribution business beyond the first half of FY22, complicating demand and inventory planning, consuming capital and impacting project delivery.

Notwithstanding the difficult environment, the pipeline of delayed projects remains solid and underlying demand is strong. In the immediate future the Company is focused on ensuring it emerges from these restrictions in a position to make the most of improved market conditions as they recover, along with continued and careful implementation of longer-term strategic plans.

Material business risks

The medium-term economic outlook remains clouded by the significant uncertainty created by the COVID-19 pandemic. Our businesses maintain a strong pipeline of orders though construction disruption impacts the timing of projects and related revenue.

As with any distribution business, Hills is exposed to the risk of potential loss of vendors, customers, or employees; slippages associated with contracts; supply issues; general economic conditions; and exposure to foreign exchange rate fluctuations, particularly in relation to already committed projects.

Directors' qualifications and experience

The directors of the Company at any time during or since the end of the financial year are as follows:

Director	Experience
Jennifer Hill-Ling **LLB (Adel) FAICD** *Chairman (until 1 July 2021) and Non-independent director* **Special responsibilities** Chairman of the Board Member of the Nomination and Remuneration Committee.	**Experience and expertise** Appointed Director in August 1985. Appointed Deputy Chairman in June 2004. Appointed Chairman 28 October 2005. Retired as Chairman on 1 July 2021. Ms Hill-Ling has extensive experience in corporate and commercial law, specialising in corporate and business structuring, mergers and acquisitions, joint ventures, and related commercial transactions. She practiced law for some 25 years and was a senior partner in two Sydney law firms in that time. She was formerly a director of Tower Trust Limited and MS Limited. She is a fellow of the Australian Institute of Company Directors. **Other current listed company directorships** None. **Former listed company directorships in last 3 years** None.
David Chambers **BSC, Dip Bus Mgt** *Independent Non-executive director* **Special responsibilities** Member of the Nomination and Remuneration Committee from 7 November 2020. Member of the Audit, Risk and Compliance Committee from 7 November 2020.	**Experience and expertise** Appointed Non-executive director on 8 July 2020. Appointed as Chairman 1 July 2021. Mr Chambers has more than 30 years of international experience in the healthcare and technology sectors and recently retired as the Managing Director of Asia Pacific operations at Allscripts Healthcare Solutions Inc., a Nasdaq-listed global leader in healthcare information technology. He is a former chief executive of ASX-listed health software business Pro Medicus Limited and has worked in senior executive roles in Australia, the US, Europe, and Asia. He is currently chairman of ASX-listed healthcare software provider Mach7 Technologies Ltd. **Other current listed company directorships** Chair of Mach7 Technologies Limited. **Former listed company directorships in last 3 years** None.
Kenneth Dwyer **BCom, GMQ, GAICD** *Independent Non-executive director* **Special responsibilities** Chairman and Member of the Nomination and Remuneration Committee from 7 November 2020. Member of the Audit, Risk and Compliance Committee from 7 November 2020.	**Experience and expertise** Appointed Non-executive director on 20 September 2016. Mr Dwyer formerly worked in banking, including investment banking in the US and Australia specialising in M&A, debt, and equity funding. Mr Dwyer has established and grown two businesses in the highly competitive audio industry in Australia and New Zealand via a combination of organic growth and acquisitions. He has experience in the distribution of premium European machinery for textile manufacturing. **Other current listed company directorships** None. **Former listed company directorships in last 3 years** None.

Peter Steel

Non-independent Non-executive director

Special responsibilities
Chairman of the Audit, Risk and Compliance Committee from 31 March 2021.

Experience and expertise
Appointed Non-executive director on 31 March 2021.

Mr Steel trained as a Chartered Accountant and has considerable experience in the consumer goods and logistics industries. This experience has developed strong skills in strategy, business planning, acquisitions, and business development. He has worked in senior financial roles for more than 20 years, including serving as General Manager, Finance, and IT, at Toll Priority and as General Manager, Planning and Strategy at Coca-Cola Amatil Ltd.

Other current listed company directorships
None.
Former listed company directorships in last 3 years
None.

Fiona Bennett

BA (Hons) FCA FAICD

Independent Non-executive director

Special responsibilities
Chairman of the Audit, Risk and Compliance Committee to March 2021.

Experience and expertise
Appointed Non-executive director on 31 May 2010. Retired 31 March 2021.

Ms Bennett is a Chartered Accountant with over 30 years' experience in business and financial management, corporate governance, risk management and audit. She has previously held senior executive positions at BHP Limited and Coles Group Limited and has been a Chief Financial Officer at several organisations in the health sector. She is currently Chairman of the Victorian Legal Services Board and a director of Select Harvests Limited and BWX Limited. She was formerly a director of Beach Energy Limited.

Other current listed company directorships
Director of BWX Limited (since November 2019).
Director of Select Harvests Limited (since July 2017).
Former listed company directorships in last 3 years
None.

Philip Bullock AO

BA, MBA, GAICD, Dip. Ed.

Independent Non-executive director

Special responsibilities
Chairman of the Nomination and Remuneration Committee to November 2020.
Member of the Audit, Risk and Compliance Committee to November 2020.

Experience and expertise
Appointed Non-executive director on 23 June 2014. Retired 6 November 2020.

Mr Bullock AO was formerly Vice President of the Systems and Technology Group, IBM Asia Pacific, based in Shanghai, China. Prior to that he was CEO and Managing Director of IBM Australia and New Zealand. Mr Bullock AO is a former non-executive director of Perpetual Limited, Healthscope Limited and CSG Limited.

He has also provided advice to the Federal Government, through several organisations, most notably as Chair of Skills Australia.

Other current listed company directorships
None.
Former listed company directorships in last 3 years
Non-executive director of Perpetual Limited.

David Lenz

Executive Director

Special responsibilities
Chief Executive Officer

Experience and expertise
Appointed Managing Director 19 February 2018 and Chief Executive Officer on 1 September 2016. Retired 17 May 2021.

Mr Lenz had over 30 years of proven experience in sales, business development, management and operational leadership across Australia and New Zealand, Asia Pacific, and the Global ICT markets.

Other current listed company directorships
None.
Former listed company directorships in last 3 years
None

Company Secretary

David Fox LLB/LP, BA

Mr Fox was appointed to the position of General Counsel on 11 March 2013 and as General Counsel and Company Secretary on 22 December 2016. As General Counsel and Company Secretary, Mr Fox is responsible for legal, risk and company secretarial matters associated with Hills. Mr Fox is an experienced corporate lawyer. He was admitted to practise law in 2001 and previously held the position of partner at a Sydney based law firm.

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2021, and the number of meetings attended by each Director were:

	Full meetings of Directors		Audit, Risk and Compliance Committee		Nomination & Remuneration Committee	
	Held(1)	Attended	Held(1)	Attended	Held(1)	Attended
J Hill-Ling	20	20	-	-	7	7
D Chambers	20	20	2	2	4	4
K Dwyer	20	20	4	4	7	7
P Steel	5	5	1	1	-	-
F Bennett	15	15	3	3	-	-
P Bullock AO	9	9	2	2	3	3
D Lenz	18	18	-	-	-	-

(1) Number of meetings held during the period that the Director held office as a Director or was a member of the Committee.

Environmental regulation

Manufacturing

Hills ceased to operate a manufacturing facility at O'Sullivan Beach in South Australia from 20 February 2020, following the divestment of the Antenna business in December 2019. No significant environmental incidents were reported during the 2021 financial year and Hills continued to meet the requirements specified in relevant licenses and authorisations.

Australian Packaging Covenant

The Australian Packaging Covenant (APC) is a voluntary initiative by Government and industry to reduce the environmental impact of packaging. Hills became a signatory to the APC in 2010 and established ongoing action plans aimed at optimising packaging design, material recovery, recycling, and product stewardship. Hills remains supportive of the goals and initiatives of the APC and remains compliant following the submission of its annual report during June 2021.

Insurance of officers

Since the end of the previous financial year, the Company has paid insurance premiums in respect of Directors and Officers liability and legal expenses for current and former Directors and officers of the parent company and of its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in Hills Group of Companies, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

The Directors have not included details of the nature of the liabilities covered or the amount of the premiums paid in respect of the Directors and Officers liability and legal expenses insurance contracts as such disclosure is prohibited under the terms of the contracts.

Indemnification of officers

The Company has agreed to indemnify the directors and officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses. The Company has also agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Dividends

No dividend has been proposed or paid since the start of the year.

Remuneration report

The Remuneration report set out on pages 17 to 27 forms part of the Directors report for the year ended 30 June 2021.

Corporate governance statement

Details of the Company's corporate governance practices are included in the Corporate Governance Statement set out on the Company's website.

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 28.

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.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with Hills are important. The Board of Directors has considered the position and, in accordance with advice received from the Audit, Risk and Compliance Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit, Risk and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

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:

	2021 $	2020 $
KPMG audit and non-audit services		
Audit and other assurance services		
KPMG Australia – audit and review of the financial statements	**251,803**	263,000
Overseas KPMG firms – audit and review of the financial statements	**43,500**	43,500
Total remuneration for audit and other assurance services	**295,303**	306,500
Taxation and other services		
KPMG Australia – taxation and other services	**43,203**	900
Total remuneration for taxation and other services	**43,203**	900
Total remuneration of KPMG	**338,506**	307,400

Subsequent events

There were no events subsequent to balance date that would have a material effect on the Group's financial statements at 30 June 2021.

This Report is made in accordance with a Resolution of the Directors of the Company, dated 31 August 2021.

David Chambers
Director

Jennifer Hill-Ling
Director

Sydney
31 August 2021

Remuneration report (Audited)

This Remuneration Report that forms part of the Directors Report outlines the remuneration strategy, framework and practices adopted by Hills in accordance with the requirements of section 300A of the Corporations Act 2001 ("the Act") and its regulations.

This report details remuneration information pertaining to the "Key Management Personnel" ("KMP") of Hills. KMP are defined as those persons having authority and responsibility for planning, directing, and controlling the activities of the consolidated entity, including all directors.

The Remuneration Report comprises the following sections:

1. Key Management Personnel
2. Remuneration Governance
3. Executive Remuneration
4. Executive Contracts and Termination Arrangements
5. Remuneration of Executive Key Management Personnel
6. Remuneration of Non-executive directors
7. Equity Holdings of Directors and Key Management Personnel

Abbreviations used in this report

Act	Corporations Act 2001 (Cth)	FY	Financial year
AGM	Annual General Meeting	1H	First Half
ASX	Australian Stock Exchange	2H	Second Half
CEO & MD	Chief Executive Officer & Managing Director	KMP	Key Management Personnel
CFO	Chief Finance Officer	KPI	Key Performance Indicator
ED	Executive director	NED	Non-executive director

1. Key Management Personnel

The following have been identified as KMP.

Name	Position	Term as KMP in FY21
Non-executive directors		
J Hill-Ling	Chairman, Non-independent and Non-executive director	Full Year
F Bennett	Independent, Non-executive director	Retired 31 March 2021
P Bullock AO	Independent, Non-executive director	Retired 6 November 2020
D Chambers	Independent, Non-executive director	Appointed 8 July 2020
K Dwyer	Independent, Non-executive director	Full Year
P Steel	Non-Independent, Non-executive director	Appointed 31 March 2021
Executive director and senior executives		
D Clarke	Chief Executive Officer	Appointed 17 May 2021
N Scott	Chief Financial Officer	Appointed 22 March 2021
A Hall	Chief Commercial Officer – Health	Full Year
D Lenz(1)	Chief Executive Officer & Managing Director	Full Year
C Jacka	Chief Financial Officer	Resigned 29 September 2020

The Group has reviewed individuals it believes meets the definition of “key management personnel” and as a result, it was determined that D Fox, whilst remaining an integral member of the management team and supporting the business activities, is not classified as key management personnel.

(1) Mr David Lenz ceased acting in the role of Chief Executive Officer & Managing Director on 17 May 2021 and remained in an advisory capacity until 1 July 2021.

2. Remuneration Governance

2.1 Role of the Nomination and Remuneration Committee

The Board, with assistance from the Nomination and Remuneration Committee, is responsible for ensuring that the Hills remuneration framework is consistent with the business strategy and performance, supporting increased shareholder wealth over the long-term.

The Remuneration and Nomination Committee, consisting of non-executive directors Ken Dwyer (Chairman), Jennifer Hill-Ling, and David Chambers, has responsibility for reviewing the remuneration strategy annually and advises the Board on remuneration policies and practices generally.

The Nomination and Remuneration Committee is responsible for:

- the ongoing appropriateness and relevance of the remuneration framework for the Chairman, the Board Committees and the Non-executive directors;
- Hills' remuneration policy for the MD, CEO, and other senior executives, any changes to the policy, and the implementation of the policy including any shareholder approvals required; and
- incentive plans for the MD, CEO, and other senior executives.

Further detail on the Nomination and Remuneration Committee's responsibilities is set out in its Charter, which is reviewed annually, and available on the Hills website at: http://www.corporate.hills.com.au/about-us/governance.

2.2 Use of Independent Remuneration Consultants

In accordance with the Nomination and Remuneration Committee Charter, the Committee seeks advice and market data from independent remuneration consultants as required.

During the year no advisors were retained. Benchmarking salary reviews were conducted using third party information.

2.3 Hills Share Trading Policy

The Hills Share Trading Policy imposes trading restrictions on all Hills employees considered to be in possession of 'inside information'. Board members, senior executives and members of the broader management team are prohibited from trading in Hills shares during specific periods prior to the announcement of the half and full year results. This policy applies equally to shares received as part of remuneration. The Securities Policy is available on the Hills website at: http://www.corporate.hills.com.au/about-us/governance.

2.4 Hills Clawback Policy

To strengthen the governance of the remuneration strategy, Hills has an Executive Remuneration Clawback Policy in place. The policy is designed to further align the remuneration outcomes of the Hills senior executive team with the long-term interests of Hills and its shareholders, to ensure that excessive risk taking is not rewarded, and to provide the Board with the ability to claw back incentives paid where there has been a material misstatement in Hills' Financial Statements.

3. Executive Remuneration

3.1 Alignment of Remuneration Strategy with Business Strategy

The Board recognises that the performance of Hills depends on the quality and motivation of its people and their leaders. Our remuneration strategy aims to appropriately reward, incentivise and retain talent necessary to achieve our operational and strategic goals. Core to our remuneration philosophy is a strong performance framework, where the contribution of all our employees is aligned to the interests of our shareholders. For our senior executives, this is managed through a balanced scorecard that includes both financial and non-financial measures.

We believe this approach provides alignment to our shareholders and importantly, clarity to our executives by setting expectations regarding what the Board considers are acceptable targets. The Board has established a Remuneration Strategy that supports and drives the achievement of the Hills Business Strategy. The Board is confident that the remuneration framework aligns the remuneration of the senior executives with shareholder interests. Hills is a business that is heavily focused on performance and rewarding its people on achievement.

3.2 Remuneration Mix

To achieve this alignment, senior executive remuneration is comprised of Fixed Remuneration (made up of base salary, other benefits, and superannuation), and variable incentive. Senior executives have a split of approximately 70-80% Fixed Remuneration and 20-30% Variable Incentive, dependent on their role.

3.3 Chief Executive Officer (CEO) Remuneration

Fixed Remuneration is reviewed annually by the Board with reference to performance of the Company, performance of the CEO and market information.

Mr David Clarke

The CEO, Mr David Clarke has a fixed remuneration of $350,000 per annum (inclusive of superannuation) and a variable incentive opportunity of $275,000 per annum split between a short-term incentive of $150,000 and a long-term incentive of $125,000.

The short-term incentive is based on the achievement of 80% financial measures and 20% non-financial. The short-term incentive eligible period will commence from July 1, 2021. The incentive will be paid 50% as cash and 50% as performance rights (unless the Board determines otherwise), with vesting to take place 1 year after achievement of the measures.

The long-term incentive is based on the achievement of the combination of financial performance targets and service conditions. The performance conditions will include an absolute test based on earnings per share growth and a relative test based on total shareholder return. On commencement (17 May 2021), Mr Clarke was issued three tranches of performance rights with each valued at $125,000. The following table outlines the vesting profile of each tranche should the financial performance targets and service conditions be achieved.

Tranche	Vesting Profile	Vesting Date
1	100%	30/06/2024
2	100%	30/06/2025
3	100%	30/06/2026

The board's introduction of a long-term incentive for the CEO is to better align the executive with the long-term outcomes of the company and their leadership of it. The incentive is 100% equity-based vesting over time periods on achievement of the financial hurdles. This further aligns the CEO with the generation of shareholder returns over time, encouraging consistency, year on year performance and rewarding a focus on longer-term results.

Mr David Lenz

The former CEO & MD, Mr David Lenz retired 1 July 2021 and had a fixed remuneration of $350,000 per annum (inclusive of superannuation). There had been no changes to his base salary since his appointment on 1 September 2016.

Mr Lenz had a variable incentive opportunity of up to $250,000. The variable incentive for FY21 adopted a balanced scorecard approach that was aligned to the Company's strategic plan. The variable incentive is paid in cash. Mr Lenz's performance measures and outcome are tabled below in section 3.5.

3.4 Senior Executive Remuneration FY21

The CFO, Ms Natalie Scott has a fixed remuneration of $273,750 per annum (Inclusive of superannuation) and a variable short-term incentive opportunity of $120,000 per annum. The short-term incentive is based on the achievement of 80% of financial measures and 20% non-financial. The short-term incentive eligibility period will begin from 1 July 2021.

On commencement (22 March 2021), Ms Scott was issued 125,000 performance rights with vesting staged over a three-year period as follows:

Tranche	Vesting Profile	Vesting Date
1	20%	22/03/2022
2	30%	22/03/2023
3	50%	22/04/2024

The Chief Commercial Officer – Health, Mr Andrew Hall**,** had a base salary increase of 5.99% or $15,577 following an industry market review and recognising his contribution to the long-term success of the Health business. This was effective from 1 January 2021.

3.5 Variable Incentive FY21

The variable incentive that was in place throughout the financial year is an at-risk component of remuneration and is designed to reward performance against the achievement of financial and non-financial objectives that are aligned to the Company's strategic plan. Each senior executive has specific objectives which are relevant to the divisions in which they operate, and a component tied to the overall company performance.

The maximum variable incentive available to each senior executive was set at a level based on role, responsibilities, and market data for the achievement of targets against specific KPIs. The maximum variable incentive opportunity for each senior executive is listed at section 3.5 as an absolute dollar amount and as a percentage of the senior executive's fixed remuneration.

The following table summarises the potential FY21 variable incentive payments where a senior executive ceased employment with Hills:

Resignation and retirement	Any entitlement to a payment was subject to the participant being employed by Hills at the time of payment unless specifically agreed otherwise by the board.
Company initiated termination	Any entitlement to a payment would be for completed months, with no pro-rata for partly completed months. The calculation of an entitlement was based on actual results for the year and paid on the scheduled date.
Summary dismissal	If summarily dismissed, a participant forfeits all rights to any payments under the FY21 variable incentive which had not already vested or been made.

Assessment of Performance and Approval of Payment

The Remuneration and Nomination Committee assessed the individual senior executive's performance based on the CEO's recommendations, against the KPIs set at the beginning of the financial year. The assessment of individual performance was combined with the achievement of financial results to determine the amount of payment for each senior executive. The Remuneration and Nomination Committee recommended the variable incentive payment outcome to the Board for approval. Variable incentive payments for FY21 are delivered as cash payments following approval by the Board.

FY21 Variable Incentive Performance and Outcomes

FY21 has been a challenging year that started with significant lockdown periods across the country. This has continued throughout the year which has impacted both business segments with project work being either put on hold or delayed. There were further challenges in Distribution with supply chain constraints impacting a number of our key vendors from a shortage in components.

- Net loss after tax was $(10.2)m for the year compared to $(6.5)m in the prior year. The current year included $7.5m of non operating expenses.
- A reduction in net inventory was achieved amounting to $3.1m across the year at a group level. This has resulted in the achievement of the target set for group level senior executives.
- Hills Health net profit before tax increased by 27% on prior year on the same sales base.
- The distribution business controlled costs in line with the reduction of sales thus maintaining the EBITDA margin achieved in the prior year.

The incentive structure and objectives for FY21 were as follows:

Element | Executive	Measure	Result	Outcome ($)
D Lenz			
Financial (80%)	FY21 Group Net Profit After Tax	Not achieved	-
	Reduction in Working Capital	Not achieved	-
	Reduction in Inventory	Achieved	50,000
Non-Financial (20%)	Employee Engagement	Not achieved	-
	Other non-financial objectives	Not achieved	-
A Hall			
Financial (80%)	1H FY21 Health Net Profit before Tax	Achieved	50,228
	2H FY21 Health Net Profit before Tax	Not achieved	-
	Reduction in Working Capital	Not achieved	-
	Reduction in Inventory	Not achieved	-
Non-Financial (20%)	Employee Engagement	Not achieved	-
	Other non-financial objectives	Not achieved	-

Variable incentive achievement for the financial year:

Executive	Target Variable Incentive opportunity $	% of fixed remuneration %	Financial outcome $	Non-financial outcome $	Total variable Incentive outcome $	Achieved %	Forfeited %
Executive Director							
D Lenz	250,000	71%	50,000	-	50,000	20%	80%
Senior Executive							
C Jacka	150,000	60%	-	-	-	0%	100%
A Hall	137,500	47%	50,228	-	50,228	37%	63%
Total	**537,500**		**100,228**	**-**	**100,228**		

1. Mr C Jacka was ineligible to participate in FY21 incentive structure due to resignation being 29 September 2020.
2. The financial outcome of the variable incentive presented in the table above is inclusive of compulsory superannuation contributions.

3.6 Five Year Snapshot – Business and Remuneration Outcomes

The following is a summary of financial performance and share price information over the last five years.

Key Financials		FY21	FY20 Restated*	FY19 Restated*	FY18	FY17	FY16
Shareholder funds	$000	33,232	43,089	51,180	61,308	60,931	69,077
Statutory net (loss) / profit	$000	(10,224)	(6,530)	(10,003)	359	(7,932)	(68,305)
Basic (loss) / earnings per share	cents	(4.4)	(2.8)	(4.3)	0.2	(3.4)	(29.4)
Dividends	cents	-	-	-	-	-	-
Share price - as at 30 June	$	0.140	0.165	0.180	0.230	0.155	0.245
Variable Incentive Payments - % of Target Opportunity	%	9%	22%	40%	30%	29%	19%

FY22 Variable Short-Term Incentive for CEO and senior executives

For FY22, the Variable Incentive plan continues to be based on a mix of financial and non-financial objectives specific to the executive and their role in driving overall company performance.

The CEO's short-term incentive is paid 50% in cash and 50% as performance rights that vest after 1 year of entitlement. The annual performance against the CEO will be measured in accordance with the balanced scorecard which has the following measure.

Element	Measure
Financial 80% of variable incentive	FY22 Net Profit After Tax (NPAT) Cumulative Divisional EBIT performance Working capital
Non-financial 20% of variable Incentive	Board determined measures

Other executives have similar scorecards which reflect their specific roles. Senior executives have a split of approximately 60-80% Fixed Remuneration and 20-40% Variable Incentive, dependent on their role.

Divisional executives' financial measures include both overall Group results and contribution from their own division.

4. Executive Contracts and Termination Arrangements

The remuneration and other terms of employment for the CEO & MD, and senior executives are covered in their individual employment contracts, the key terms of which are summarised below:

Chief Executive Officer – D Clarke	▪ Contract commenced on 17 May 2021 and is an ongoing employment unless terminated by either party with no less than four months written notice. ▪ The employee is subject to a post-employment non-solicit and non-compete restraint of up to 12 months. ▪ Other terms are standard under Australian law for a position of this nature.
Chief Executive Officer and Managing Director – D Lenz	▪ The contract commenced on 1 September 2016 for an initial term of 12 months, following which the employment is ongoing. ▪ Either party may terminate employment at any time by giving three months' written notice. ▪ Other terms are standard under Australian law for a position of this nature.
Senior Executives	▪ The contracts may be terminated by either party by giving three months written notice.
General	▪ There are no guaranteed base pay increases included in any senior executive contract. ▪ In the instance of serious misconduct, Hills may terminate employment at any time. The executive will only receive payment to the date of termination and any statutory entitlements. ▪ Retirement benefits comprise employer contributions to nominated superannuation funds.

5. Remuneration of Executive Key Management Personnel

5.1 Remuneration tables

Details of the nature and amount of each element of remuneration are as follows:

	Short-term benefits			Long-term benefits	Post-employment benefits	Departure benefits	Share-based payments	
	Salary package[1] $	Cash Bonus[2] $	Other short-term benefits[3] $	Long service leave[4] $	Superannuation benefits[5] $	Departure Payments[6] $	Performance Rights[7] $	Total remuneration $
2021								
D Lenz	**320,887**	**50,000**	**(1,132)**	**5,323**	**25,817**	**113,246**	**6,315**	**520,456**
D Clarke[8]	**30,733**	**-**	**2,964**	**642**	**2,919**	**-**	**11,171**	**48,429**
C Jacka	**73,591**	**-**	**4,367**	**957**	**11,224**	**57,078**	**-**	**147,217**
N Scott[9]	**62,498**	**-**	**4,307**	**1,140**	**5,937**	**-**	**2,882**	**76,764**
A Hall	**264,917**	**50,228**	**-**	**4,591**	**25,000**	**-**	**-**	**344,736**
	752,626	**100,228**	**10,506**	**12,653**	**70,897**	**170,324**	**20,368**	**1,137,602**
2020								
D Lenz	303,415	75,000	13,541	10,442	24,494	-	10,686	437,578
C Jacka	209,529	41,096	8,016	4,742	24,596	-	-	287,980
D Fox	227,756	-	7,555	16,255	22,747	-	-	274,312
A Hall	244,310	-	3,198	4,081	24,588	-	-	276,177
R Edgar	215,070	26,301	-	-	23,096	-	-	264,467
	1,200,080	**142,397**	**32,310**	**35,520**	**119,521**	**-**	**10,686**	**1,540,514**

1. Salary package amounts include salary sacrificed superannuation.
2. The cash bonus amount is net of any superannuation required to be contributed by the Company.
3. Other short-term benefits represent net annual leave accrued during the year.
4. Net long service leave accrued during the year.
5. Superannuation benefits include the amount required to be contributed by the Company and exclude amounts salary sacrificed.
6. Departure payments made at the completion of employment. Mr Lenz retired on 1 July 2021. Mr Lenz departure payment was recognised during the FY21 year. Mr Jacka ceased employment of 29 September 2020. Payments made reflect in lieu of notice entitlement.
7. Performance right represents the value of the rights expensed over the financial period. Further details are set out below in section 5.2. The value does not represent cash received.
8. D Clarke commenced employment on 17 May 2021.
9. N Scott commenced employment on 22 March 2021.

5.2 Performance Rights

Performance rights awarded in the current financial year were in respect to the new employment agreements to CEO Mr Clarke and CFO Ms Scott. No performance rights were awarded in the current financial year to existing executives.

The cost of these equity settled transactions is determined by reference to the fair value at the date at which they are granted. The expense recognised for these equity-settled performance rights is recognised over the vesting period.

Performance Rights		Opening balance	Granted	Vested[2]	Forfeited[1]	Closing balance
2021						
	D Clarke	-	2,614,059	-	-	2,614,059
	N Scott	-	125,000	-	-	125,000
	D Lenz	162,242	-	(122,918)	(39,324)	-
2020						
	D Lenz	238,493	78,649	(154,900)	-	162,242

1. The forfeited performance rights of Mr Lenz was as a result of his retirement on 1 July 2021.
2. The performance rights that vested during the current financial year comprise grants from the financial years, 2017, 2018 and 2019.

The vesting profiles of the performance rights granted:

Executive	Grant Date	FY22	FY23	FY24	FY25	FY26	FY27
D Clarke							
Tranche 1	17/05/2021	-	-	100%	-	-	-
Tranche 2	17/05/2021	-	-	-	100%	-	-
Tranche 3	17/05/2021	-	-	-	-	100%	-
N Scott							
Tranche 1	22/03/2021	20%	-	-	-	-	-
Tranche 2	22/03/2021	-	30%	-	-	-	-
Tranche 3	22/03/2021	-	-	50%	-	-	-

The Performance Rights that vested in the current financial year include grants from the three previous years as follows:

Performance Rights which vested during the year	Total grant	% vested	Number vested
2021			
FY2018 grant	198,646	50%	99,323
FY2019 grant	78,649	30%	23,595
			122,918
2020			
FY2017 grant	159,152	50%	79,576
FY2018 grant	198,646	30%	59,594
FY2019 grant	78,649	20%	15,730
			154,900

6. Remuneration of Non-Executive Directors

The Board sets Non-executive director Remuneration at a level that enables the attraction and retention of high calibre directors, while incurring a cost that is acceptable to shareholders. The remuneration of the non-executive directors is determined by the Board on recommendation from the Nomination and Remuneration Committee.

Non-executive directors receive a fee that includes any statutory superannuation contributions. Non-executive directors do not receive any performance-based pay.

6.1 Fee Pool and Board fee reduction

The maximum amount of fees that can be paid to non-executive directors is capped by a pool approved by shareholders. At the 2011 Annual General Meeting, shareholders approved the current fee pool of $1.2 million.

	Chair fee $	Member fee $	Chair fee $	Member fee $	Chair fee $	Member fee $
	From 15 February 2021		From 1 April 2020		1 Jul 2019 to 31 Mar 2020	
Board	85,000	60,000	50,000	30,000	100,000	60,000
Audit and Risk Committee	10,000	-	5,000	-	10,000	-
Nomination and Remuneration Committee	-	-	-	-	-	-

6.2 Non-executive directors' remuneration details

	Fees	Non-monetary benefits $	Superannuation $	Total remuneration $	Proportion of remuneration that consists of rights %
2021					
J Hill-Ling	56,726	-	25,952	82,678	-
D Chambers[1]	73,880	-	7,019	80,899	-
K Dwyer	36,881	-	3,504	40,385	-
P Steel	14,207	-	1,355	15,562	-
F Bennett	31,769	-	-	31,769	-
P Bullock AO	10,537	-	1,001	11,538	-
	224,000	-	38,831	262,831	-
2020					
J Hill-Ling	80,611	-	25,000	105,611	-
F Bennett	58,869	-	3,009	61,878	-
P Bullock AO	48,367	-	4,595	52,962	-
K Dwyer	48,859	-	4,642	53,501	-
	236,706	-	37,246	273,952	-

(1) Mr D Chambers' fees included $43,880 of additional fees to provide additional support to the senior leadership team in the Health Division.

6.3 Retirement Allowance for Non-Executive Directors

Ms J Hill-Ling is entitled to receive benefits on retirement under a scheme that was discontinued on 1 August 2003. Under the scheme, Ms J Hill-Ling is entitled to a maximum retirement benefit of twice her annual Director's fee (calculated as an average of her fees over the last three years) with a vesting period of eight years, which has been achieved. Since the scheme was discontinued, no new Directors have become entitled to any benefit and the benefit multiple (up to a maximum of two times fees) remains fixed. The benefit is fully provided for in the financial statements.

7. Equity Holding of Directors and Key Management Personnel

The number of shares in the Company held during the financial year by each Director of Hills Limited and other key management personnel of the Company, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

From 1 July 2018, the Board has adopted a practice requiring each Director to acquire (directly or indirectly) Hills' securities over a reasonable period having regard to fluctuations in share price to an approximate value equivalent to one year's director's fees (post tax). For newly appointed directors, this period will commence from the date of appointment.

	Balance at start of the year	Received during the year on the exercise of rights	Other changes during the year	Balance at the end of the year	Balance at the date of report
Ordinary shares					
Non-executive directors					
J Hill-Ling[(1)]	18,346,677	-	-	18,346,677	43,964,119
F Bennett[(2)]	378,444	-	(334,000)	44,444	44,444
P Bullock AO[(2)]	300,000	-	-	300,000	300,000
D Chambers	25,000	-	50,000	75,000	75,000
K Dwyer	450,000	-	450,000	900,000	900,000
P Steel	-	-	260,000	260,000	260,000
	19,500,121	-	426,000	19,926,121	45,543,563
Senior executives					
D Clarke	-	-	-	-	-
D Lenz[(3)]	469,305	154,900	34,482	658,687	608,687
N Scott	-	-	-	-	-
A Hall	393,246	-	271,390	664,636	664,636
	912,551	154,900	305,872	1,373,323	1,373,323

(1) Balance at the date of report: Direct: Jennifer Helen Hill-Ling: 248,666; Indirect: (i) Hills Associates Pty Ltd: 16,768,441 (ii) Poplar Proprietary Limited: 16,550,845 (iii) Poplar Proprietary Limited and Hills Associates Ltd (joint holding): 1,188,918 (iv) Ling Nominees Pty Ltd: 105,961 (v) Greybox Holdings Pty Ltd: 7,373,738 (vi) Silky Oak Nominees Pty Ltd: 1,202,550 (vii) Jarrah Group Pty Limited: 265,000 (viii) Mulga (SA) Pty Ltd: 100,000 (ix) JHL Superannuation Pty Ltd: 160,000.

(2) Directors retired during the year. Refer to key management personnel table on pg 17.

(3) The shares received during the year on exercise of Performance rights relate to the conversion of the 3rd Tranche of the FY17 performance rights and the 2nd Tranche of the FY18 performance rights.

7.1 Loans to Key Management Personnel

There were no outstanding loans to KMP or their related parties at the reporting date.

7.2 Other Transactions with Key Management Personnel

Several KMP or their related parties hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

From time to time, KMP 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 into by Hills employees, customers or suppliers and are trivial and domestic in nature.

KPMG

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

To the Directors of Hills Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Hills Limited for the financial year ended 30 June 2021 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Paul Cenko
Partner

Adelaide

31 August 2021

Consolidated financial statements

Contents

Consolidated statement of profit or loss

For the year ended 30 June 2021

	Notes	2021 $'000	2020 Restated* $'000
Revenue	2.2	**180,151**	220,083
Cost of sales	2.4	**(126,572)**	(153,919)
Gross Margin		**53,579**	66,164
Other income	2.3	**219**	115
Expenses excluding net finance expenses			
Labour and related expenses	2.4	**(30,977)**	(39,239)
Operational and equipment expenses	2.4	**(1,610)**	(3,664)
Property expenses	2.4	**(495)**	(1,427)
Depreciation and amortisation	2.4, 3.5	**(9,831)**	(8,554)
Other expenses	2.4	**(15,945)**	(16,338)
Expenses excluding net finance expenses		**(58,858)**	(69,222)
Loss before net finance expense and income tax		**(5,060)**	(2,943)
Finance income	2.5	**44**	51
Finance expenses	2.5	**(2,376)**	(3,638)
Net finance expenses	2.5	**(2,332)**	(3,587)
Loss before income tax		**(7,392)**	(6,530)
Income tax expense	2.6	**(2,832)**	-
Loss after tax		**(10,224)**	(6,530)
Total loss for the year attributable to members of the Company		**(10,224)**	(6,530)
Earnings per share		**Cents**	**Cents**
Basic and diluted profit/(loss) per share	2.7	**(4.41)**	(2.81)

* Refer to note 1.3

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

Consolidated statement of comprehensive income

For the year ended 30 June 2021

Other comprehensive income	Notes	2021 $'000	2020 Restated* $'000
Loss for the year		**(10,224)**	(6,530)
Items that may be reclassified subsequently to profit or loss			
Foreign operations - foreign currency translation differences		**2**	(400)
Cash flow hedges - effective portion of changes in fair value		**493**	(387)
Income tax relating to components of other comprehensive income	2.6	**(148)**	175
Other comprehensive (loss) / income for the year, net of tax		**347**	(612)
Total comprehensive income / (loss) for the year, attributable to owners of Hills Limited		**(9,876)**	(7,142)

* Refer to note 1.3

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

Consolidated statement of financial position

As at 30 June 2021

	Notes	2021 $'000	30 June 2020 Restated* $'000	1 July 2019 Restated* $'000
ASSETS				
Current assets				
Cash and cash equivalents	3.1	**6,835**	12,236	10,867
Trade and other receivables	3.2	**31,517**	39,575	58,770
Inventories	3.3	**22,001**	25,099	41,636
Total current assets		**60,353**	76,910	111,273
Non-current assets				
Investments		**2**	2	2
Property, plant and equipment	3.5	**10,797**	12,276	15,281
Right-of-use asset	3.6	**7,256**	10,821	-
Intangible assets	3.7	**3,077**	3,749	2,072
Deferred tax assets	2.6	**13,916**	16,744	16,733
Total non-current assets		**35,048**	43,592	34,088
Total assets		**95,401**	120,502	145,361
LIABILITIES				
Current liabilities				
Trade and other payables	3.4	**24,333**	30,173	41,399
Lease liabilities	3.6	**4,162**	4,258	-
Borrowings	4.4	**533**	6,113	15,927
Provisions	3.8	**5,120**	5,627	8,731
Derivative financial instruments	4.5	**-**	4,578	106
Total current liabilities		**34,148**	50,749	66,163
Non-current liabilities				
Lease liabilities	3.6	**6,318**	9,645	-
Borrowings	4.4	**19,475**	14,300	23,331
Provisions	3.8	**2,228**	2,719	4,687
Total non-current liabilities		**28,021**	26,664	28,018
Total liabilities		**62,169**	77,413	94,181
Net assets		**33,232**	43,089	51,180
EQUITY				
Contributed equity	4.1	**278,439**	278,439	278,439
Reserves	4.2	**10,894**	10,527	11,128
Accumulated losses		**(256,101)**	(245,877)	(238,387)
Total equity		**33,232**	43,089	51,180

* Refer to note 1.3

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 2021

		Attributable to owners of Hills Limited				
	Notes	Contributed equity $'000	Equity compensation reserve $'000	Translation & other reserves $'000	Accumulated losses $'000	Total $'000
Balance at 1 July 2019 Restated*		278,439	751	10,377	(238,387)	51,180
Adjustment on initial application of AASB16	7.5	-	-	-	(960)	(960)
Loss for the year ended 30 June 2020		-	-	-	(6,530)	(6,530)
Other comprehensive income						
Foreign currency translation differences		-	-	(400)	-	(400)
Net change in fair value of hedges net of tax		-	-	(212)	-	(212)
Employee share schemes	2.4	-	11	-	-	11
Balance at 30 June 2020 Restated*		278,439	762	9,765	(245,877)	43,089
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	2.4	-	20	-	-	20
Balance at 30 June 2021		278,439	782	10,112	(256,101)	33,232

* Refer to note 1.3

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 2021

	Notes	2021 $'000	2020 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**206,847**	264,302
Payments to suppliers and employees (inclusive of goods and services tax)		**(203,433)**	(239,216)
		3,414	25,086
Net finance costs paid		**(2,221)**	(3,099)
Net income taxes paid		**-**	-
Net cash flows from operating activities	3.1	**1,193**	21,987
Cash flows from investing activities			
Payments for property, plant and equipment		**(2,078)**	(1,670)
Payments for intangible assets		**(955)**	(2,494)
Proceeds from sale of property, plant and equipment and intangible assets		**10**	43
Proceeds from sale of business operations		**-**	7,324
Net cash flows (used in) / from investing activities		**(3,023)**	3,203
Cash flows from financing activities			
Proceeds from borrowings		**26,114**	2,506
Repayment of borrowings		**(26,762)**	(20,765)
Payment of lease liabilities		**(3,402)**	(4,535)
Net cash flows used in financing activities		**(4,050)**	(22,794)
Net (decrease)/ increase in cash and cash equivalents		**(5,880)**	2,396
Cash and cash equivalents at the beginning of the year		**12,236**	10,867
Effects of exchange rate changes on cash and cash equivalents		**479**	73
Cash and cash equivalents at end of the year	3.1	**6,835**	12,236

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 2021 and were authorised for issue in accordance with a resolution of the Directors on 31 August 2021.

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 the Principal activities of the Group is 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.

1.2. Basis of accounting

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); and
- 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. Restatement

During the preparation of the consolidated financial statements, the Group identified an overstatement of the carrying value of trade and other receivables and inventory; and an understatement of trade and other payables as at 30 June 2020. This impact has been adjusted by restating each of the affected financial statement line items for prior periods.

The following tables summarise the impact on the Group's consolidated financial statement.

i. Consolidated Statement of Financial Position

	Trade and other receivables $'000	Inventories $'000	Trade and other payables $'000	Retained earnings / profit or loss $'000
Balance reported 1 July 2019	59,194	41,636	40,646	(237,210)
Effect on retained earnings	(424)	-	753	(1,177)
Restated balance as at 1 July 2019	**58,770**	**41,636**	**41,399**	**(238,387)**
Balance as reported 30 June 2020	40,136	25,178	29,262	(244,326)
Effect on opening retained earnings	(424)	-	753	(1,177)
Effect on profit or loss for the year	(137)	(79)	158	(374)
Restated balance as at 30 June 2020	**39,575**	**25,099**	**30,173**	**(245,877)**

ii. Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020	As previously reported $,000	Adjustments	As restated
Other expenses	(15,964)	(374)	**(16,338)**
Loss after tax	(6,156)	(374)	**(6,530)**
Total comprehensive loss for the year	(6,768)	(374)	**(7,142)**

iii. Earnings per share for profit attributable to the ordinary equity holders for the Company

For the year ended 30 June 2020	As previously reported cents	Adjustments cents	As restated cents
Basic and diluted profit/(loss) per share	(2.65)	(0.16)	**(2.81)**

There is no impact on total operating, investing or financing cash flows for the year ended 30 June 2020

1.4. Going Concern

The consolidated financial statements have been prepared on a going concern basis.

1.5. 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 2020. During the year ended 30 June 2021 management reassessed its estimates in respect of:

- The recoverable amount of inventory. Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. During the period, the Group conducted a review of the inventory provisioning model and change in estimate write down of $0.8m plus current year stock write-off of $0.6 million and restated prior period by $0.08m (30 June 2020) to their expected net realisable values, based on the following assessments:
    - From 1 July 2020, the Group fully provides for demonstrators and spares on hand for over two years; and applies an increased provisioning percentage to those on hand for over a year to reflect the expected realisable value; and
    - The Group continues to consider the physical state of inventories in assessing their recoverability and it is impractical to estimate any future period impacts.
- The recoverable amount of certain intangible assets. During the period, management reassessed the useful lives of both IT development and software and research and development assets and wrote down those assets by $0.6 million and accelerated depreciation of $0.5 million to reflect a change in economic circumstance that impacted the assets.

1.6. Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2021 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.

1.7. 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.

1.8. 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. The Group has two reportable segments as summarised below:

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

Hills Distribution The Distribution business provides a diverse range of products and solutions to assist our customers support end users within the Satellite, Security, Surveillance and IT markets.

Segment information

Segment revenue

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

Major customers

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

Segment EBITDA

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

Recognition and measurement

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

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

Information about reportable segments

	Distribution		Health		Corporate		Total operations		Operations divested (the "Disposal group")		Total operations	
	2021	2020 Restated	2021	2020 Restated	2021	2020 Restated	2021	2020 Restated	2021	2020 Restated	2021	2020 Restated
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Sales revenue	**146,177**	**164,169**	**33,974**	**33,723**	**-**	**-**	**180,151**	**197,892**	**-**	**22,191**	**180,151**	**220,083**
Segment EBITDA	**6,226**	**7,389**	**9,694**	**7,305**	**(3,887)**	**(3,426)**	**12,033**	**11,268**	**-**	**999**	**12,033**	**12,267**
Depreciation and amortisation	(5,567)	(5,168)	(4,263)	(3,364)	-	-	(9,831)	(8,532)	-	(22)	(9,831)	(8,554)
Redundancy, restructure and transformation costs	-	-	-	-	-	(1,197)	-	(1,197)	-	-	-	(1,197)
Write-off of assets relating to exited businesses	(592)	-	-	-	-	-	(592)	-	-	-	(592)	-
Write-off of assets relating to exited vendors	(175)	-	-	-	-	-	(175)	-	-	-	(175)	-
Aged, slow-moving and demonstration stock write-offs	(1,144)	-	(257)	-	-	-	(1,400)	-	-	-	(1,400)	-
Reassessment of asset lives and property settlements	(213)	-	(337)	-	-	-	(550)	-	-	-	(550)	-
Foreign exchange losses	-	-	-	-	(1,656)	(4,085)	(1,656)	(4,085)	-	-	(1,656)	(4,085)
Other income	59	-	161	-	-	115	220	115	-	-	220	115
Other expense	(138)	-	-	-	(2,970)	(1,489)	(3,108)	(1,489)	-	-	(3,108)	(1,489)
Net financing expense	-	-	-	-	(2,333)	(3,587)	(2,333)	(3,587)	-	-	(2,333)	(3,587)
Net profit /(loss) before income tax	**(1,544)**	**2,221**	**4,998**	**3,941**	**(10,846)**	**(13,669)**	**(7,392)**	**(7,507)**	**-**	**977**	**(7,392)**	**(6,530)**

* Refer to note 1.3

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

Divested Operations

There was no divestment in the current period. In the prior year, the Group divested three businesses within the Hills Distribution segment; AV, Antenna Business and STEP businesses (collectively the Disposal Group) thereby reducing exposure to non-performing assets and reducing the overall complexity of the business. The businesses sold were not a major line of business and do not represent a discontinued operation.

The sale of the Disposal Group comprised sale of specific assets and liabilities, with Hills retaining the trade receivable and trade creditor balances at the disposal date. The sale resulted in a net loss of $0.25 million, which is incorporated within Other Expenses (refer note 2.4).

2.2. Revenue

	2021 $'000	2020 $'000
Sales revenue		
Sale of goods	**132,232**	172,430
Services	**47,919**	47,653
	180,151	220,083

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
The Group generates 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.

2.3. Other income

	2021 $'000	2020 $'000
Net gain/(loss) on disposal of non-current assets	**18**	44
Other income	**201**	71
	219	115

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

2.4. Expenses

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

	2021 $'000	2020 Restated* $'000
Cost of Sales		
Cost of goods sold (inventories)	**107,619**	135,037
Direct cost of services provided	**18,953**	18,882
Total cost of sales	**126,572**	153,919
Employee benefits expenses		
Wages and salaries	**25,581**	31,647
Superannuation contributions	**2,397**	2,351
Other employee benefit expense	**2,141**	1,956
Equity settled share-based payment transactions	**20**	11
Temporary staff and other costs	**838**	3,274
Total employee benefit expenses	**30,977**	39,239
Operational and equipment expenses		
Repairs and maintenance	**478**	816
Freight	**752**	2,309
Consumables / other	**380**	539
Total operations and equipment expenses	**1,610**	3,664
Property expenses		
Occupancy Costs	**175**	860
Utilities	**320**	567
Total property expenses	**495**	1,427
Depreciation		
Plant and equipment	**3,745**	3,830
Right of use assets	**4,477**	4,278
Total depreciation	**8,222**	8,108
Amortisation		
Software	**1,030**	391
Development costs	**579**	55
Total amortisation	**1,609**	446
Total depreciation and amortisation	**9,831**	8,554
Other		
General and administrative expenses	**8,464**	9,320
Restructuring expenses	**-**	1,197
Loss on disposal of business	**-**	247
Foreign exchange losses - ineffective portion of changes in fair value	**1,656**	4,085
Write off assets relating to exited business	**592**	-
Write off related to exited vendor arrangements	**175**	-
Aged, slow moving, and demonstration stock	**1,400**	-
Reassessment of asset lives and property settlements	**550**	-
Other costs	**3,108**	1,489
Total Other	**15,945**	16,338

* Refer to note 1.3

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 (inventories)	Cost of goods sold include expenses relating to the change in inventories of finished goods and work in progress, and raw materials used.
Direct costs of services provided	Direct costs of services provided include subcontractor costs, commissions and subscriptions payable, and other direct costs associated with provision of services by Group entities. This balance does not include internal labour costs related to carrying out services, which are included in Labour and related expenses.
Labour and related expenses	Labour and related expenses include employee benefits expenses and other labour and related expenses such as third-party logistics, labour hire, employee training and recruitment. The benefit of JobKeeper, $2.95 million (FY20 - $3.19 million and further wage reductions of $1.2 million) offset current year labour and related expenses. Government grants are recognised when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are reocognised 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 insurance, advertising and marketing, professional and consulting fees, telecommunications, and information technology related expenses).

2.5. Finance income and expenses

	2021 $'000	2020 $'000
Interest and finance charges paid / payable	**515**	2,216
Amortisation of deferred borrowing costs	**111**	489
Lease finance costs	**558**	678
Other financing costs	**1,192**	228
Unwinding discount on provisions	**-**	27
Total finance expenses	**2,376**	3,638
Finance income		
Interest income	**(44)**	(51)
Net finance costs expensed	**2,332**	3,587

Recognition and measurement

Finance income comprises interest income on funds invested. Interest income is recognised in profit or loss as it accrues. Finance expenses comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs are recognised in profit or loss using the effective interest method.

2.6. Income tax

Income tax expense

Income tax expense:	2021 $'000	2020 $'000
Income tax (benefit) / expense comprises:		
Current tax	-	-
Deferred tax	2,832	-
	2,832	-
Numerical reconciliation of income tax (benefit) / expense to prima facie tax payable:		
Profit / (loss) from continuing operations before income tax expense	(7,392)	(6,156)
Tax at the Australian tax rate of 30% (2020: 30%)	(2,218)	(1,847)
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Non-deductible expenses	224	58
Acquisition costs	-	-
(Recognition) / derecognition of deferred tax assets	674	(4,480)
Tax losses for which no deferred tax asset is recognised	4,152	6,269
Total income tax expense / (benefit)	2,832	-
Difference in overseas tax rates	-	-
Total income tax expense / (benefit)	2,832	-

Income tax expense relating to items of other comprehensive income:	2021 $'000	2020 $'000
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)	175
Aggregate income tax expense	(148)	175

Income tax receivable / (payable)

Income tax receivable / (payable) is nil. (2020: nil).

Deferred tax assets and liabilities

	Balance at 1 July $'000	Recognised in profit or loss $'000	Recognised in other comprehensive income $'000	Balance at 30 June $'000
Movements 2020				
Property, plant, and equipment	5,692	(2,065)	-	3,627
Inventories	6,092	(2,930)	-	3,162
Employee benefits	1,665	(321)	-	1,344
Receivables	146	(301)	-	(155)
Payables	-	(225)	-	(225)
Provisions	2,426	(1,249)	-	1,177
Other accruals	314	(27)	-	287
Derivative financial instruments	32	1,166	175	1,373
Other	366	321	-	687
Tax losses	-	5,467	-	5,467
	16,733	**(164)**	**175**	**16,744**
Movements 2021				
Property, plant, and equipment	3,627	(1,199)	-	2,428
Inventories	3,162	(157)	-	3,005
Employee benefits	1,344	(218)	-	1,126
Receivables	(155)	309	-	154
Payables	(225)	209	-	(16)
Provisions	1,177	(167)	-	1,010
Other accruals	287	74	-	361
Derivative financial instruments	1,373	(1,225)	(148)	-
Other	687	(35)	-	652
Tax losses	5,467	(271)	-	5,196
	16,744	**(2,680)**	**(148)**	**13,916**

Unrecognised tax losses

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

	Jurisdiction	
	Australia AUD $'000	New Zealand NZD $'000
Non-recognised tax losses - revenue items		
Balance at the beginning of the period	**206,650**	2,994
Movement during the period	**15,302**	2,633
Balance at the end of the period	**221,952**	5,627
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	**252,964**	5,627
Total potential tax benefit	**75,889**	1,575
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, which is a 3-year to 5-year time horizon.

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 $0.43m of New Zealand tax losses in deferred tax assets.

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.

2.7. Earnings per share

	2021 $'000	2020 Restated* $'000
Earnings used in calculating earnings per share		
Basic and diluted loss - attributable to the ordinary equity holders of the Company	**(10,224)**	**(6,530)**
Basic and diluted loss - from continuing and discontinued operations	**(10,224)**	**(6,530)**

	2021 Number	2020 Restated* Number
Weighted average number of shares used as denominator		
Issued ordinary shares	**231,985,526**	**231,985,526**
Effect of performance rights on issue	-	-
Weighted average number of ordinary shares used as the denominator	**231,985,526**	**231,985,526**

	2021 Cents	2020 Restated* Cents
Basic and diluted earnings per share		
Attributable to the ordinary equity holders of the Company	**(4.41)**	**(2.81)**
From continued and discontinued operations	**(4.41)**	**(2.81)**

* Refer to note 1.3

Recognition and measurement

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.
- by the weighted average number of ordinary shares on issue during the reporting period.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been on issue assuming the conversion of all dilutive potential ordinary shares.

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

	2021 $'000	2020 Restated* $'000
Cash at bank and in hand	**3,300**	3,752
Short term deposits	**3,535**	8,484
	6,835	12,236
Reconciliation of cash flows from operating activities		
Loss for the period	**(10,224)**	(6,530)
Adjustments to reconcile loss to net cash flows:		
Depreciation and amortisation	**9,831**	8,554
Net gain on sale of non-current assets	**(18)**	(44)
Impairment of inventories	**630**	(390)
Share-based payments	**20**	11
Amortisation of capitalised borrowing costs	**111**	489
Fair value adjustment on derivatives	**-**	4,085
Unwinding of discount on provisions	**-**	27
Other non-cash items	**326**	(210)
Change in operating assets and liabilities:		
Decrease in trade and other receivables	**7,810**	20,266
Decrease in inventories	**2,731**	8,475
Decrease in trade and other payables	**(5,791)**	(10,081)
Decrease in financial derivatives	**(6,234)**	-
Decrease in provisions	**(831)**	(2,665)
Decrease in deferred tax assets	**2,832**	-
Net cash flows from operating activities	**1,193**	21,987

* Refer to note 1.3

There has been a significant decrease in trade and other receivables, inventory, and payables in the prior year. This is principally due to the divestment of three business units as described in note 2.1 Segment information.

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

	2021 $'000	30 June 2020 Restated* $'000	1 July 2019 Restated* $'000
Trade receivables	**26,493**	31,137	50,682
Less: Provision for impairment of receivables	**(523)**	(683)	(487)
	25,970	30,454	50,195
Other receivables	**3,866**	7,916	6,668
Prepayments	**1,681**	1,205	1,907
	31,517	39,575	58,770
The ageing of the Group's trade receivables at the reporting date is as follows:			
Not past due	**18,106**	17,719	31,136
Past due 0 – 30 days	**5,763**	6,168	8,067
Past due 31 – 90 days	**1,415**	4,613	8,016
Past due more than 90 days	**1,209**	2,637	3,463
Total trade receivables	**26,493**	31,137	50,682
Movements in the provision for impairment of receivables are as follows:			
At 1 July	**683**	487	402
Adjustments on the adoption of AASB 9	**-**	-	200
Provision for impairment recognised / (released)	**(142)**	313	(27)
Receivables written off during the period as uncollectable	**(17)**	(117)	(88)
At 30 June	**523**	683	487

* Refer to note 1.3

Trade receivables

Impairment

The provision for impaired receivables for the Group is $0.523 million (2020: $0.683 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 in light of the COVID-19 pandemic and its expected future economic impact. Up to the 30 June 2021 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.

Transfer of trade receivables

There is no Receivables Purchase Facility in place as at 30 June 2021. This facility expired on 31 July 2020. The carrying amount of transferred trade receivables not derecognised is shown below for the period ending 30 June 2020:

	2021 $'000	2020 $'000
Carrying amount of trade receivables transferred	-	20,210
Amount drawn down under facility	-	(18,305)

Other receivable and prepayments

Prepayments of $1.681 million relates to software licenses, property outgoings and pre-paid inventory deposits.

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

	2021 $'000	30 June 2020 Restated* $'000
Raw materials and work in progress	**1,052**	1,755
Finished goods	**25,106**	26,763
Total inventory	**26,158**	28,518
Less provision	**(4,157)**	(3,419)
Net inventory	**22,001**	25,099
Movements in the provision for impairment of inventory is as follows:		
At 1 July	**(3,419)**	(8,260)
Provision for impairment recognised	**(1,792)**	(2,868)
Provision utilised during the period	**1,054**	7,709
At 30 June	**(4,157)**	(3,419)

* Refer to note 1.3

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. During the period, the Group performed a review of inventory provisioning and recorded adjustments including $0.8 million related to a change in the basis of estimation, $0.6 million due to a subsequent sales data and market information and $0.08 million related to the restated prior period expected net realisable values.

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

	2021 $'000	30 June 2020 Restated* $'000	1 July 2019 Restated* $'000
Trade payables	**16,816**	20,487	29,848
Other payables and accrued expenses	**7,517**	9,686	11,551
	24,333	30,173	41,399

* Refer to note 1.3

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

	2021 $'000	2020 $'000
Property plant and equipment - at cost	**56,867**	54,740
Less accumulated depreciation	**(46,070)**	(42,464)
Total property plant and equipment	**10,797**	12,276
Reconciliation of movement		
Opening balance	**12,276**	15,281
Additions	**2,507**	1,202
Depreciation	**(3,745)**	(3,830)
Disposals	**-**	(104)
Exchange differences	**(7)**	31
Impairment	**(234)**	(304)
Closing balance	**10,797**	12,276

Impairment testing

The Group has undertaken impairment testing over its cash generating units at 30 June 2021. 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 2021. Significant assumptions used to determine value in use are:

- Forecast cash flows are based on Board approved budgets for FY22 and assumed growth rates derived from business plans for future years.
- Post tax discount rate: 10.0% - 10.2%
- 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.

Depreciation

Depreciation is calculated using the straight-line method as considered appropriate to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows (current and comparative periods):

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	2021 $'000	2020 $'000
Right-of-use asset		
Buildings	**6,253**	9,500
Plant, machinery, and equipment	**1,003**	1,321
Total right-of-use assets	**7,256**	10,821
Reconciliation of movement		
Opening balance at 1 July 2020	**10,821**	-
Balance on adoption of AASB16 with effect from 1 July 2019	**-**	17,221
Transfer: Onerous lease provision on transition	**-**	(1,814)
Transfer: Lease incentive on transition	**-**	(1,110)
Additions	**912**	802
Depreciation charge for the year	**(4,477)**	(4,278)
Closing balance	**7,256**	10,821

Lease liabilities		
Current	**4,162**	4,258
Non-current	**6,318**	9,645
Total lease liabilities	**10,480**	13,903
Maturity analysis - undiscounted		
Less than one year	**4,162**	4,258
One to five years	**7,086**	9,904
More than five years	**-**	-
Total undiscounted lease liabilities at 30 June 2020	**11,248**	14,162

Amounts recognised in the statement of profit or loss	2021 $'000	2020 $'000
Interest on lease liabilities	**(558)**	(678)
Depreciation of right-of-use asset	**(4,477)**	(4,278)
Lease payments relating to leases of low value and short-term leases not included in lease liabilities	**(154)**	(193)

Amounts recognised in the statement cash flows	2021 $'000	2020 $'000
Total cash outflow for leases	**(3,960)**	(4,535)

The Group leases various offices, warehouses, equipment, and vehicles.
The Group accounts for leases using AASB16.

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

	2021 $'000	2020 $'000
Intangible assets - at cost	**26,593**	25,728
Less accumulated amortisation	**(23,516)**	(21,979)
Total intangible assets	**3,077**	3,749
Reconciliation of movement		
Opening balance	**3,749**	2,072
Additions	**937**	2,566
Amortisation	**(1,609)**	(446)
Disposals	**-**	(393)
Impairment	**-**	(50)
Closing balance	**3,077**	3,749
Comprising		
Software	**981**	1,801
Development	**2,096**	1,948
Closing net book value	**3,077**	3,749

Additions of $0.937 million (2020: $2.566 million) include $0.550 million related to development to the Nursecall Platform. Other additions included enhancements to the Business Intelligence Tools to improve sale and customer experience.

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

	2021 $'000	2020 $'000
Current		
Employee benefits	**3,315**	3,779
Warranty claims	**553**	436
Restructuring	**-**	1,194
Environmental and other	**1,252**	218
Total provisions - current	**5,120**	5,627
Non-current		
Employee benefits	**450**	569
Warranty claims	**104**	142
Restructuring	**44**	44
Environmental and other	**1,630**	1,964
Total provisions - non-current	**2,228**	2,719
Total provisions	**7,348**	8,346
Reconciliation of movement - Employee benefits		
Opening net book amount	**4,348**	5,261
Provisions made during the year	**2,080**	8,568
Provisions used during the year	**(2,663)**	(9,481)
Total employee benefits provision	**3,765**	4,348
Reconciliation of movement - Warranty claims		
Opening net book amount	**578**	924
Provisions made during the year	**331**	-
Provisions used during the year	**(75)**	(165)
Write back of unused provisions	**(177)**	(181)
Total outstanding warranty claims provision	**657**	578
Reconciliation of movement - Restructuring		
Opening net book amount	**1,238**	1,956
Provisions made during the year	**70**	931
Provisions used during the year	**(1,168)**	(1,649)
Write back of unused provisions	**(96)**	-
Total restructuring provision	**44**	1,238
Reconciliation of movement - Environmental and other		
Opening net book amount	**2,182**	5,277
Provisions made during the year	**1,380**	57
Provisions used during the year	**(172)**	(1,338)
Transfer of onerous lease to Right of Use Asset	**-**	(1,814)
Write back of unused provisions	**(508)**	-
Total environmental and other provisions	**2,882**	2,182
Total provisions	**7,348**	8,346

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 product range of $352 million as well as legacy products of $305 million.
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.

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 Derivative financial instruments
- 4.6 Financial instruments: Measurement and financial risk management

4.1. Contributed equity

	2021 Number	2020 Number	2021 $'000	2020 $'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

	2021 $'000	2020 $'000
Hedging reserve - cash flow hedges	-	(345)
Equity compensation reserve	**782**	762
Foreign currency translation reserve	**(21)**	(23)
Profits reserve	**10,133**	10,133
Total reserves	**10,894**	10,527
Reconciliation of movement		
Hedging reserve – cash flow hedges		
Opening balance	**(345)**	(133)
Revaluation	**345**	(212)
Closing balance	**-**	(345)
Equity compensation reserve		
Opening balance	**762**	751
Employee share plan expense / (credit)	**20**	11
Closing balance	**782**	762
Foreign currency translation reserve		
Opening balance	**(23)**	377
Currency translation differences arising during the year	**2**	(400)
Closing balance	**(21)**	(23)
Profits reserve		
Opening balance	**10,133**	10,133
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	Current period and realised 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

	2021 $'000	2020 $'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% (2020: 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; and
- 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

	2021 $'000	2020 $'000
Current		
Borrowings	**533**	6,113
Total current borrowings	**533**	6,113
Non-current		
Borrowings	**19,789**	14,725
Less capitalised borrowing costs	**(314)**	(425)
Total non-current borrowings	**19,475**	14,300
Total borrowings	**20,008**	20,413
Reconciliation of movement		
Opening balance	**20,413**	39,258
Proceeds from loans and borrowings	**26,114**	2,506
Repayment of borrowings	**(26,762)**	(21,840)
Amortisation of capitalised borrowing costs	**495**	489
New finance leases	**-**	-
Other	**(252)**	-
Closing balance	**20,008**	20,413

Capitalised transaction costs are directly attributable to the borrowings, as at 30 June 2021, unamortised borrowing costs totalled $0.314 million (2020: $0.425 million).

Secure Revolving Borrowing Base Bilateral Facility	The Commonwealth Bank of Australia facility totals $25.0 million (denominated in AUD), with funding provided based upon the Group's accounts receivable and inventory book. The facility expires on 3 December 2023. The facility is secured on the Group's Accounts Receivable and Inventory book, with a second mortgage over the other assets of the Group. Interest is charged at prevailing market rates plus a fixed margin. This facility was entered into on 27 November 2020 and replaced the Recfin Nominees Pty Ltd receivables purchase facility.
CBA Guarantee Facility	The previous facility has been replaced with 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 2021, the Group had drawn down $1.632 million (2020: $2.302 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 4.6, 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 of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

4.5. Derivative financial instruments

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 4.6).

	2021 $'000	2020 $'000
Derivative financial instruments	-	(4,578)
Comprising		
Cash flow hedge	-	(400)
Foreign exchange loss	-	(4,178)
Closing balance	-	(4,578)
Reconciliation of movement		
Opening balance	(4,578)	(106)
Foreign exchange movements	4,578	(4,472)
Closing balance	-	(4,578)

Forward exchange contracts: cash flow hedges

The Group purchases goods and materials from overseas, principally in US dollars. To protect against exchange rate movements, the Group enters forward exchange contracts to purchase US dollars when it can demonstrated that the sensitivity of financial performance, cash flows and key financial covenants indicate that there is likely to be a material impact from an adverse movement in exchange rates in the short to medium term (no longer than six months).There were no cash flow hedges as at 30 June 2021.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the consolidated statement of financial position by removing the related amount from other comprehensive income.

During the year ended 30 June 2021, $1.66m loss was recognised in profit or loss for the ineffective portion of these hedging contracts (2020: $nil), however $0.35 million gain, net of tax (2020: loss of $0.212 million) was recognised in the statement of comprehensive income.

Recognition and measurement

Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swaps is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market rates at the measurement date.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and within the hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within ‘finance income' or 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within ‘sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or plant and equipment) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of plant and equipment.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

4.6. Financial instruments: Measurement and Financial risk management

Classification and measurement

The carrying values of financial assets and liabilities of the Group approximate their fair value.

The Group measures and recognises in the statement of financial position on a recurring basis certain assets and liabilities at fair value in accordance with AASB 13 Fair Value Measurement. The fair value must be estimated for recognition and measurement in accordance with the following hierarchy:

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
As at 30 June 2021				
Assets				
Derivatives financial instruments	-	-	-	-
Liabilities				
Derivatives financial instruments	-	-	-	-
	-	-	-	-
As at 30 June 2020				
Assets				
Derivatives financial instruments	-	-	-	-
Liabilities				
Derivatives financial instruments	-	(4,578)	-	(4,578)
	-	(4,578)	-	(4,578)

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

The fair value of financial instruments that are not traded in an active market (for example, derivatives used for hedging) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. All significant inputs required to fair value derivatives used for hedging are observable, and hence the instruments are included in level 2.

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:

	2021	30 June 2020 Restated*	1 July 2019 Restated*
	$'000	$'000	$'000
Financial assets			
Cash and cash equivalents	**6,835**	12,236	10,867
Trade and other receivables	**31,517**	39,575	58,770
Investments	**2**	2	2
	38,354	51,813	69,639
Financial liabilities			
Trade and other payables	**24,333**	30,173	41,399
Lease liabilities	**10,480**	13,903	-
Borrowings	**20,008**	20,413	39,258
Derivative financial instruments	**-**	4,578	106
	54,821	69,067	80,763

* Refer to note 1.3

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:

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

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	2021 $'000	2020 $'000
Total borrowings		**20,008**	**20,413**
Less: cash and cash equivalents		**(6,835)**	**(12,236)**
Net Debt		**13,173**	**8,177**
Total equity Restated*		**33,232**	**43,089**
Gearing ratio - exluding impact of AASB16 Lease		**28.4%**	**16.0%**

* Refer to note 1.3

(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 and trade credit insurance, which is carried for the majority of Group debtors.
Each Distribution Division new customer is assessed for creditworthiness including external credit risk ratings before the Group's standard terms and conditions are offered.
Purchase limits are established for each customer, which represent the maximum open amount without requiring further approval. These limits are reviewed periodically, and credit worthiness is continually monitored. Limits in excess of $150,000 must be endorsed by the trade credit insurer. Customers that fail to comply with the terms of the Trade Credit Insurance Policy or the Group's benchmark creditworthiness may only transact with the Group on a prepayment basis.
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	2021 $'000	2020 $'000
Floating rate			
Expiring within one year (bank overdraft)		**-**	-
Expiring beyond one year (loans)		**3,789**	1,904
		3,789	1,904

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 2021						
Trade and other payables	24,333	-	-	-	24,333	24,333
Borrowings	320	320	439	19,434	20,513	20,008
Lease liabilities	2,136	2,120	3,277	3,715	11,248	10,480
Derivative financial instruments	-	-	-	-	-	-
Total	26,789	2,440	3,716	23,149	56,094	54,821
At 30 June 2020						
Trade and other payables Restated*	30,173	-	-	-	30,173	30,173
Borrowings	864	5,703	13,835	2,877	23,279	20,413
Lease liabilities	2,129	2,129	3,328	6,576	14,162	13,903
Derivative financial instruments	3,243	1,335	-	-	4,578	4,578
Total	36,409	9,167	17,163	9,453	72,192	69,067

(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 into 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 are able to hedge their foreign exchange risk exposure using forward exchange contracts.
The Group's policy is to hedge approximately three months of anticipated cash flows (mainly purchases of inventories) in US dollars.

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-21					
Cash at bank		17	-	-	17
Trade receivables		92	-	-	92
Trade payables		(10,103)	(209)	(5)	(10,317)
Forward exchange contracts[1]			-	-	-
30-Jun-20					
Cash at bank		1,851	-	-	1,851
Trade receivables		103	-	-	103
Trade payables		(10,960)	(419)	(11)	(11,390)
Forward exchange contracts		(59,608)	-	-	(59,608)

Interest rate risk

During 2021 and 2020, 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:

	2021		2020	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Bank overdrafts and loans	**1.70%**	**(20,008)**	**4.38%**	**(20,413)**
Cash and cash equivalents	**0.08%**	**6,835**	**0.17%**	**12,236**
Other loans	**-**	**-**	**2.33%**	**(234)**

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 $'000	Profit $'000	Profit $'000	Profit $'000	Other equity $'000	Profit $'000	Other equity $'000
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	**(24,333)**	**-**	**-**	**(543)**	**-**	**492**	**-**
Borrowings	**(20,008)**	**200**	**(200)**	**-**			
Total increase / (decrease) in financial liabilities		**200**	**(200)**	**(543)**	**-**	**492**	**-**
Total increase / (decrease)		**195**	**(132)**	**(537)**	**-**	**487**	**-**
30-Jun-20							
Financial assets							
Cash and cash equivalents	**12,236**	**(22)**	**155**	**206**	**-**	**(169)**	**-**
Trade and other receivables Restated*	**39,575**			**12**	**-**	**(9)**	**-**
Total increase / (decrease) in financial assets		**(22)**	**155**	**218**	**-**	**(178)**	**-**
Financial liabilities							
Trade & other payables Restated*	**(30,173)**	**-**	**-**	**(1,265)**	**-**	**1,035**	**-**
Borrowings	**(20,413)**	**219**	**(219)**	**-**			
Derivatives - cash flow hedges	**(4,578)**			**2,492**	**422**	**(2,255)**	**(382)**
Total increase / (decrease) in financial liabilities		**219**	**(219)**	**1,227**	**422**	**(1,220)**	**(382)**
Total increase / (decrease)		**197**	**(64)**	**1,445**	**422**	**(1,398)**	**(382)**

*Refer to note 1.3.

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

5.1. 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 ●
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 ■

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."

● 50% ownership interest. Step Electronics 2005 Pty Ltd is controlled by virtue of the Company's control of this entity's Board through the Chairman'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 6th 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:

	2021 $'000	30 June 2020 Restated* $'000	1 July 2019 Restated* $'000
Balance sheet			
Current assets	**57,095**	71,858	104,083
Non-current assets	**35,058**	32,999	34,147
Total assets	**92,153**	104,857	138,230
Current liabilities	**31,744**	48,758	66,087
Non-current liabilities	**27,586**	15,406	27,033
Total liabilities	**59,330**	64,164	93,120
Net assets	**32,823**	40,693	45,110
Shareholders' equity			
Contributed equity	**278,439**	278,439	278,439
Reserves			
Hedging reserve - cash flow hedges	**-**	-	-
Equity compensation reserve	**782**	762	751
Profits reserve	**8,091**	7,915	8,126
Retained earnings	**(254,489)**	(246,423)	(242,206)
Total equity	**32,823**	40,693	45,110
Loss for the year	**(8,066)**	(3,375)	(9,220)
Total comprehensive income	**(7,721)**	(3,213)	(9,418)

* Refer to note 1.3

Parent entity guarantees, contingent liabilities and commitments

Guarantees

Bank guarantees given by the Company in favour of customers and suppliers amounted to $1.993 million (2020: $2.062 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 2021, the Company had $nil contractual commitments for the acquisition of plant, equipment or intangible assets (2020: $nil). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

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 2021 and a summarised consolidated statement of financial position as at 30 June 2021 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:

	2021 $'000	2020 Restated* $'000
Summarised consolidated income statement		
Revenue from continuing operations	**170,978**	209,905
Other income	**181**	67
Finance costs	**(2,296)**	(3,532)
Other expenses	**(174,524)**	(209,815)
Loss before income tax	**(5,661)**	(3,375)
Income tax expense	**(2,405)**	-
Profit/ (Loss) for the year	**(8,066)**	(3,375)
Summarised other comprehensive income		
Items that may be reclassified to profit or loss:		
Changes in the fair value of cash flow hedges	**493**	(387)
Income tax relating to these items	**(148)**	175
Other comprehensive profit / (loss) for the period, net of tax	**345**	(212)
Total comprehensive profit / (loss) for the year	**(7,721)**	(3,213)
Summary of movements in consolidated retained earnings		
Accumulated losses at the beginning of the reporting period	**(246,423)**	(242,206)
Adjustment on initial application of AASB 9	**-**	-
Adjustment on initial application of AASB 16	**-**	(842)
Profit / (Loss) for the year	**(8,066)**	(3,375)
Accumulated losses at the end of the reporting period	**(254,489)**	(246,423)

* Refer to note 1.3

Summarised statement of financial position	2021 $'000	2020 Restated* $'000	2020 $'000
Current assets			
Cash and cash equivalents	**6,051**	10,952	10,952
Trade and other receivables	**30,623**	38,626	39,187
Inventories	**20,421**	22,280	22,359
Total current assets	**57,095**	71,858	72,498
Non-current assets			
Investments	**814**	814	814
Property, plant and equipment	**10,604**	12,118	12,118
Right-of-use asset	**6,649**	-	-
Intangible assets	**3,075**	3,745	3,745
Deferred tax assets	**13,916**	16,322	16,322
Total non-current assets	**35,058**	32,999	32,999
Total assets	**92,153**	104,857	105,497
Current liabilities			
Trade and other payables	**22,466**	32,668	31,757
Lease liabilities	**3,744**	-	-
Borrowings	**533**	6,113	6,113
Provisions	**5,001**	5,399	5,399
Derivative financial instruments	**-**	4,578	4,578
Total current liabilities	**31,744**	48,758	47,847
Non-current liabilities			
Lease liabilities	**6,085**	-	-
Borrowings	**19,475**	12,896	12,896
Provisions	**2,026**	2,510	2,510
Total non-current liabilities	**27,586**	15,406	15,406
Total liabilities	**59,330**	64,164	63,253
Net assets	**32,823**	40,693	42,244
Equity			
Contributed equity	**278,439**	278,439	278,439
Reserves	**8,873**	8,677	8,677
Accumulated losses	**(254,489)**	(246,423)	(244,872)
Total equity	**32,823**	40,693	42,244

* Refer to note 1.3

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 2021 in respect of:

Claims The Group has various commercial legal claims common to businesses of its type that constitute contingent liabilities, none of which are deemed material to the Group's financial position.

Three claims are the subject of legal expenses and these form part of Other costs as disclosed in note 2.4 to these financial statements. One claim relates to a dispute concerning a third-party contract, which is now concluded and waiting judgement. The other two claims are employee related. In all cases liability is denied and the Group is defending the claims.

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

In consultation with the Environmental Protection Authority, ground water contamination potentially originating from two of the Company's former Adelaide 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.

Guarantees Bank guarantees in favour of customers and suppliers totalling $1.993 million (2020: $2.062million).

6.2. Commitments

	2021 $'000	2020 $'000
Capital commitments		
Plant, equipment, and intangible assets	-	-
Lease commitments - Group as Lessee		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	-	175
Later than one year but not later than five years	-	45
Later than five years	-	-
	-	220

The Group recognises leases by applying the principles of AASB16.
Refer to note 3.6 for further information.

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, 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 & exercisable at the end of the year Number
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	-
2020								
31/7/17	30/6/20	0.195	79,576	-	(79,576)	-	-	-
27/8/18	30/6/21	0.195	158,917	-	(59,594)	-	99,323	-
30/8/19	30/8/22	0.195	-	78,649	(15,730)	-	62,919	
Total			238,493	78,649	(154,900)	-	162,242	-

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 $20,368 (2020: $10,686), as disclosed in note 2.4.

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 takes into account 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

	2021 $	2020 $
Short-term employee benefits (fixed and variable incentive remuneration)	**1,087,360**	1,611,493
Post-employment benefits (superannuation)	**109,727**	156,767
Long term benefits (cash variable component under the Incentive Share Plan and accrued long service leave)	**12,653**	35,520
Departure benefits	**170,324**	-
Share-based payments (performance rights variable component under the Incentive Share Plan and employee share bonus plan expense)	**20,368**	10,686
	1,400,432	1,814,466

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 (2020: nil).

During the current financial year, there were no related party transactions with KMP or their related entities (2020: 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 into 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 2021.

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:

	2021 $	2020 $
KPMG audit and non-audit services		
Audit and other assurance services		
KPMG Australia – audit and review of the financial statements	**251,803**	263,000
Overseas KPMG firms – audit and review of the financial statements	**43,500**	43,500
Total remuneration for audit and other assurance services	**295,303**	306,500
Taxation and other services		
KPMG Australia – taxation and other services	**43,203**	900
Total remuneration for taxation and other services	**43,203**	900
Total remuneration of KPMG	**338,506**	307,400

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

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 reporting periods and have not been early adopted by the Group. The impact of these new standards and interpretations is not considered material.

Directors' declaration

For the year ended 30 June 2021

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

(a) the consolidated financial statements and notes set out on pages 30 to 73 and the Remuneration Report on pages 17 to 27 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Australian Accounting Standards and the *Corporations Regulations 2001;* and
(ii) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
(c) there are reasonable grounds to believe that the Company and the Group Entities identified in note 5.1 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the Deed of Cross Guarantee between the Company and those Group Entities pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.

Section 1 of the notes confirms that the consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer, and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

David Chambers
Director

Jennifer Hill-Ling
Director

Sydney
31 August 2021

Independent Auditor's Report

To the shareholders of Hills Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Hills Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2021;
- Consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year ended 30 June 2021;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *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 Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Impairment assessment of non-financial assets;
- Valuation of inventories; and
- Revenue recognition.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of non-financial assets (including property, plant and equipment - $10.8m, right-of-use assets - $7.3m, intangible assets - $3.1m)

Refer to Note 3.5, 3.6 and 3.7 to the Financial Report

The key audit matter	How the matter was addressed in our audit
The Group's policy is to test the Group's cash generating units (comprising non-financial assets) at each reporting date when there is an indication of possible impairment. A key audit matter for us was the Group's impairment assessment for non-financial assets, given the size of the balance (being 22% of total assets). Certain conditions, described below, impacting the Group increased the judgement applied by us when evaluating the evidence available. The Group assessed impairment using an estimate of future cash flows for each CGU which uses forward looking assumptions in a value in use model. The Group's value in use model is internally developed and uses a range of internal and external data as inputs. There is significant judgement applied when evaluating these forward-looking assumptions, including: • Forecast cash flows, growth rates, and terminal growth rates applied to those forecasts. The Group have not met prior forecasts, raising our concern for reliability of current forecasts. Furthermore, the Group incurred a loss during the year, as a result of COVID-19 trading conditions, foreign exchange adjustments and inventory provisions. COVID-19 trading conditions have impacted the Group through a reduction in the demand for products and services and project	Our procedures included: • Considering the appropriateness of the value in use method applied by the Group against the requirements of accounting standards; • Using our knowledge of the Group, their past performance, business and customers, and our industry experience we evaluated the Group's impairment indicator assessment and key inputs used in the Group's value in use model by: - Comparing forecast cash flows and growth rates in the value in use model to Board approved forecasts and checking the consistency of these to the Group's stated plans and strategy; - Challenging the Group's forecast cash flow and growth rate assumptions, which include the impact of COVID-19 related trading conditions. We used the Group's performance in historical economic downturns to inform our assessment of the Group's recovery and assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the model. We applied increased scepticism to assumptions in areas where previous forecasts were not achieved. We also compared terminal growth rates to published studies of industry trends and expectations, and considered differences for the Group's operations; - We met with management and those charged with governance to understand: the impact of COVID-19 to the Group and impact of government response programs to the FY21 results and to understand changes in the Group's plans resulting from COVID-19, and potential further impacts to the Group;

deferrals. The current economic conditions increase the risk of inaccurate forecasts for us to consider.
• Growth rates and terminal growth rates. The Group's value in use model is sensitive to changes in these assumptions. Such assumptions have a significant impact on the recoverable amount of the assets of the identified CGUs. This drives additional audit effort to assess the assumptions adopted by the Group.
• Discount rate - the Group's modelling is highly sensitive to small changes in the discount rate. We involve our valuations specialists with the assessment.
In addition to the above, the carrying amount of the net assets of the Group exceeded the Group's market capitalisation at year end. This increases the possibility of non-financial assets being impaired. This further increased our audit effort in this key audit area.
	- Considering the sensitivity of the value in use model by varying key assumptions, such as forecast cash flows, discount rates and growth rates within a reasonably possible range. This identified those assumptions at higher risk of bias and to focus our further procedures;
	- Working with our valuation specialists, we:
	  - independently developed a discount rate range considered comparable using publicly available financial data for comparable entities, adjusted by risk and industry factors specific to the Group; and,
	  - assessed the difference between the year-end market capitalisation and the carrying amount of the net assets to publicly available market control premiums;
	• Assessing the integrity of the value in use model including the accuracy of the underlying calculation formulas; and
	• Assessing the disclosures in the Group's financial report using our understanding obtained from our testing and against the requirements of accounting standards.

Valuation of inventories (finished goods - $25.1 million, inventory provision $4.2 million)

Refer to Note 3.3 to the Financial Report

The key audit matter	**How the matter was addressed in our audit**
Valuation of finished goods inventory is a key audit matter due to the: • size of the finished goods inventory balance relative to the Group's financial position (26% of total assets); • Group's broad range of technology products at risk of obsolescence due to technological advances or being sourced for specific distribution arrangements or customers; and • extent of judgement involved in determining the net recoverable value, particularly in relation to slow moving and obsolete inventory. Such judgements may have a significant impact on the Group's provision and therefore the overall carrying value of	Our procedures included: • Obtaining an understanding of the Group's key processes for valuation of finished goods inventory; • Assessing the Group's policies for the valuation of finished goods inventory against the requirements of the accounting standards and our understanding of the business; • Comparing the unit cost of finished goods on hand (excluding health segment inventory) to the latest current year selling price (as a proxy for expected selling price of inventory and net realisable value) and resulting gross margin for each product to identify evidence of negative gross margin products at risk of selling below their recorded value. We compared these negative gross margin products against the Group's inventory provision;

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inventories, necessitating additional audit effort. The most significant areas of judgement we focused on was in assessing the Group's: • expected selling price of inventory; • ageing of inventory; and • future usage of health segment inventory. We involved our senior audit team members in assessing this key audit matter.	• Considering the inventory usage in health segment projects during the year as a proxy for future usage of health segment inventory. For health segment inventory items identified as slow moving or aged we compared the inventory items to the Group's inventory provision; • Assessing the integrity of the inventory provision, including the ageing of inventory and accuracy of the underlying calculations; • Attending stocktakes in significant locations and observing the Group's processes, which included identifying slow moving and potentially obsolete finished goods inventory; and • Assessing the disclosures in the Group's financial report using our understanding obtained from our testing against the requirements of accounting standards.

Revenue recognition (revenue - $180.2 million)	
Refer to Note 2.2 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
Revenue recognition, specifically the risk of the Group recognising revenue in the incorrect financial period at year end (cut-off), is a key audit matter due to the: • The high number of transactions; and, • Extent of judgement involved in recording revenue in the correct financial period including: - consideration of when the Group satisfies a performance obligation and customer obtains control of the goods. - consideration of the stage of completion for services rendered for revenue earned from projects. We involved our senior audit team members in assessing this key audit matter.	Our procedures included: • Obtaining understanding of the Group's key processes for recognition of revenue from contracts with its customers; • Assessing the Group's revenue recognition policies against the requirements of the accounting standards and our understanding of the business; • Testing a sample of significant sales of goods recorded immediately before and after year end. We evaluated the timing and amount of revenue recognised by the Group in comparison to underlying records including, terms and conditions in the underlying customer contract, sales invoices and proof of delivery; • Checking the stage of completion at year end for a sample of projects where the performance obligation is satisfied over time. We performed this by obtaining evidence of contract value, amount invoiced for completed work and stage of completion, directly from the customer and comparing to revenue recorded by the Group; • Assessing the disclosures in the financial report using our understanding obtained from our testing against the requirements of the accounting standard.

Other Information

Other Information is financial and non-financial information in Hills Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Hills Limited for the year ended 30 June 2021, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 17 to 27 of the Directors' report for the year ended 30 June 2021.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Paul Cenko
Partner

Adelaide

31 August 2021

Shareholder information

The shareholder information set out below was applicable as at 5 August 2021.

Distribution of equity securities

Analysis of numbers of ordinary shareholders by size of holding:

Size of holding	Number of holders	Percentage
1 to 1,000	3,635	31.31%
1,001 to 5,000	4,504	38.79%
5,001 to 10,000	1,616	13.92%
10,001 to 100,000	1,623	13.98%
100,001 and over	233	2.01%
Total	**11,611**	**100%**

There were 7,085 holders of less than a marketable parcel of ordinary shares.

Twenty largest shareholders

The names of the 20 largest holders of ordinary shares are listed below:

Name	Number of shares	% of shares issued
Hills Associates Limited	16,668,441	7.19%
Poplar Pty Limited	16,550,845	7.13%
Greybox Holdings Pty Ltd	7,373,738	3.18%
Cariste Pty Ltd (CARISTE PTY LTD S/FUND A/C)	6,891,872	2.97%
Ace Property Holdings Pty Limited	6,220,000	2.68%
Jacaranda Pastoral Pty Ltd	5,868,699	2.53%
Cambrose Pty Limited	4,676,510	2.02%
Mr Keith Knowles	4,600,000	1.98%
HSBC Custody Nominees (Australia) Limited	3,744,834	1.61%
Mr Alan Richard Bignell & Mrs Glenda Ellen Bignell (BIGNELL SUPER FUND A/C)	3,653,530	1.57%
Mr John Gassner & Mr Nathan Rothchild	3,475,001	1.50%
Carrier International Pty Limited (SUPER FUND A/C)	3,281,698	1.41%
Parks Australia Pty Ltd	3,023,002	1.30%
BNP Paribas Nominees (NZ) Ltd (DRP)	2,354,337	1.01%
V M Nominees Pty Ltd	2,250,000	0.97%
Mr Rahmon Charles Coupe & Mrs Julia Deborah Coupe (COUPE SUPER FUND A/C)	2,009,000	0.87%
Luton Pty Limited	2,000,000	0.86%
Mr Joseph Zanca & Mrs Szerenke Zanca (ZANACORP SUPER FUND A/C)	2,000,000	0.86%
W K Super Pty Ltd (WOOLLEY KENCIAN S/F A/C)	1,770,000	0.76%
Mr Peter Howells	1,583,608	0.68%
	99,995,115	**43%**

Substantial shareholders

The names of the Substantial Shareholders listed in the Company's Register pursuant to substantial shareholder notices via ASX are:

Name	Number held	% of shares issued
Ms Jennifer Hill-Ling, Ms Bronwyn Marie Veal and Mr Gregory Mark Hill-Ling, each	46,175,613	19.90%
Poplar Pty Limited	17,739,763	7.65%
Hills Associates Limited	17,957,359	7.74%

Voting rights

The voting rights attaching to each class of equity securities are set out as follows:

Ordinary shares:	On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
Rights / options:	No voting rights.

On-Market buyback

There is no current on-market buyback in place.

Direct payment to shareholder accounts

Dividends maybe paid directly to bank, building society or credit union accounts in Australia. Payments are electronically credited on the dividend date and confirmed by mailed payment advice. Shareholders who want their dividends paid this way should advise the Company's share registry in writing.

Securities exchange

The Company is listed on the Australia Securities Exchange. The home exchange is Sydney.

Corporate directory

Registered office
Unit 1, Building F, 3-29 Birnie Avenue
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Australia

Telephone:	+61 2 9216 5510
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Web:	http://www.hills.com.au

Executives
David Clarke, *Chief Executive Officer*
Natalie Scott, *Chief Financial Officer*

Non-executive directors
David Chambers
Kenneth Dwyer
Jennifer Hill-Ling
Peter Steel

Company Secretary
David Fox

Share registry
Link Market Services Limited
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