

APPENDIX 4D

HALF YEAR REPORT

PERIOD ENDING 31 DECEMBER 2019



HiTech Group Australia Limited

A.B.N. 41 062 067 878

APPENDIX 4D

Half Year Report

HiTech Group Australia Limited	
A.B.N 41 062 067 878	Half Year ended 31 December 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Revenues from ordinary activities	Up	12%	To	\$15,795,944
Profit from ordinary activities after tax attributable to members	Up	14%	To	\$1,409,451
Net profit for the period attributable to members	Up	14%	To	\$1,409,451
NTA per share	\$0.19 (31 Dec 2019)		\$0.19 (31 Dec 2018)	
Dividends (paid 12 September 2019)	Fully franked 4 cents per share			
Interim dividend and Special Dividend	Interim dividend of 4 cents per share fully franked plus a special dividend of 1.5 cents per share fully franked			
Previous corresponding period	Fully franked 4 cents/share paid 12/09/2018			

HITECH GROUP LTD (HIT.ASX) ANNOUNCES RECORD FIRST HALF RESULTS AND SPECIAL DIVIDEND

HiTech Group (HIT.ASX, HiTech), is a specialist provider of recruitment services to the private and Australian government sectors. HiTech are experts at sourcing and placing, ICT, Finance and office support personnel for permanent and contract positions. HiTech is broadening its business operations with the development of its ICT services and consulting business lines as it seeks to take advantage of higher margin assignments.

HiTech today released its first half results and Appendix 4D for FY2020. The Company is pleased to provide commentary on its activities in 1H FY2020 to accommodate the lodgement of results. Key highlights include:

- **Revenue of \$15.76m up 12% of 1H FY19 (\$14.06m)**
- **Gross profit \$2.93m up 11% on pcp**
- **EBITDA of \$1.98m up 10% on pcp**
- **Net profit before tax \$1.95m up 14% on pcp**
- **Net profit after tax \$1.41m up 14% on pcp**
- **Cash on hand \$6.71m up 10% on pcp**
- **Interim dividend 4.0 cents per share**
- **Special dividend 1.5 cents per share**

INTERIM DIVIDEND & SPECIAL DIVIDEND

The Company is pleased to declare an **interim fully franked dividend of 4 cents per share. Additionally, the Directors are pleased to announce a fully franked special dividend of 1.5 cents per share.** The special dividend will trade ex-dividend and be paid on the same dates as the interim dividend.

The Company will have approximately \$1.14 million retained earnings and \$1.16 million in franking credits following payment of the interim and special dividend for future capital management initiatives. Cash reserves available following the special dividend will be \$4.62 million which will be utilised for working capital and any potential expansion opportunities the Directors may consider from time to time.

Dates applicable for the interim dividend and special dividend are:

Ex-dividend date: 04 March 2020

Record date: 05 March 2020

Payment date: 19 March 2020

Outlook

HiTech has significantly increased profit through a determined focus on profitable engagement and targeting new business opportunities primarily in the ICT contingent workforce and projects sector. HiTech remains fully prepared to take advantage of the strong demand for skilled IT talent and growth of the Australian economy. We continue to see strong federal and state government demand for ICT talent and services as multi-year transformation projects progress and new ones are created.

HiTech has several active mandates and continues to see a robust tender pipeline for new business in both the federal and state government sectors where digital transformation initiatives are in full swing. ICT transformation projects have also created a need for specialised services such as cyber security. We are well positioned to capture this new pipeline of work via our talent pool.

Along with its government customers, the Company is pleased to see some growth in private sector demand for ICT talent. This is a relatively untapped opportunity for HiTech and one that we will pursue to further bolster our revenue stream.

HiTech is well positioned to leverage further growth of the Company's proprietary HiBase predictive intelligence candidate database. HiBase is a database of more than 360,000 professional candidates available for contract or permanent positions in private and public sectors.

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2019**

		Consolidated Group	
		31 December 2019	31 December 2018
		\$	\$
Sales Revenue	2(a)	15,795,944	14,057,500
Cost of sales	3	(12,864,822)	(11,416,039)
Gross Profit		2,931,122	2,641,461
Other revenue	2(b)	10,397	592
Unrealised gain/(loss) on financial assets			
Marketing expenses		(10,906)	(11,065)
Occupancy expenses		(93,153)	(78,506)
Insurance and legal expenses		(5,659)	(3,958)
Administration expenses		(710,539)	(743,088)
Other expenses from ordinary activities		(173,715)	(104,907)
Profit/(Loss) before income tax		1,947,547	1,700,529
Income tax (expense)/benefit		(538,095)	(470,165)
Profit attributable to members of the parent entity		1,409,451	1,230,264
Other comprehensive income		-	-
Total comprehensive income for the year		1,409,451	1,230,264
Earnings per Share:			
Basic earnings (cents per share)		3.70	3.23
Diluted earnings (cents per share)		3.70	3.23

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT HALF YEAR ENDED 31 DECEMBER 2019**

	Notes	Consolidated Group 31 December 2019 \$	31 December 2018 \$
CURRENT ASSETS			
Cash and cash equivalents		6,715,931	6,103,775
Trade and other receivables		2,650,041	1,655,175
Other current assets		66,536	53,452
TOTAL CURRENT ASSETS		9,432,508	7,812,402
NON-CURRENT ASSETS			
Plant and equipment	4	238,346	407,183
Deferred tax assets		100,778	81,759
Rights Of Use Assets		483,459	-
Intangible assets		-	10,523
Other non-current assets		685,271	684,293
TOTAL NON-CURRENT ASSETS		1,507,855	1,183,758
TOTAL ASSETS		10,940,362	8,996,160
CURRENT LIABILITIES			
Trade and other payables		2,388,913	1,266,526
Provision for taxation		523,254	409,258
Lease Liabilities		75,376	-
Other current liability		851	-
Short-term provisions		194,107	154,025
TOTAL CURRENT LIABILITIES		3,182,502	1,829,809
NON-CURRENT LIABILITIES			
Deferred tax liabilities		156,843	-
Lease Liabilities		408,053	-
Long term provisions		39,335	46,154
TOTAL NON-CURRENT LIABILITIES		604,261	46,154
TOTAL LIABILITIES		3,786,763	1,875,963
NET ASSETS		7,153,599	7,120,197
EQUITY			
Contributed equity		3,738,213	3,738,213
Reserves		185,638	185,638
Retained profits/(losses)		3,229,748	3,196,346
TOTAL EQUITY		7,153,599	7,120,197

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2019**

	Issued Capital Ordinary	Retained Profits/ (Accumulated Losses)	Employee Equity- settled benefits Reserve	Total
	\$	\$	\$	\$
Balance at 1/7/2018	3,738,213	3,487,983	185,637	7,411,833
Total Dividends paid for the half year	-	(1,522,000)	-	(1,522,000)
Total comprehensive income for the half year	-	1,230,364	-	1,230,364
Balance at 31/12/2018	<u>3,738,213</u>	<u>3,196,347</u>	<u>185,637</u>	<u>7,120,197</u>
Balance at 1/7/2019	3,738,213	3,342,297	185,638	7,266,148
Employee share options – value of employee services	-	-	-	-
Total Dividends paid for the half year	-	(1,522,000)	-	(1,522,000)
Total comprehensive income for the half year	-	1,409,451	-	1,409,451
Balance at 31/12/2019	<u>3,738,213</u>	<u>3,229,748</u>	<u>185,638</u>	<u>7,153,599</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Consolidated Group	
	31 December 2019	31 December 2018
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	17,712,564	16,517,871
Payments to suppliers and employees	(15,360,644)	(13,946,609)
Dividends received	-	-
Interest received	10,397	491
Interest paid	-	-
Income tax (expense)/ refund	(263,704)	(553,021)
Net cash provided by operating activities	2,098,613	2,018,732
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for investment	-	(491)
Payment for property, plant and equipment	211,628	(255,452)
Net cash provided / (used in) by investing activities	211,628	(255,943)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(1,522,000)	(1,522,000)
Net cash (used in) / provided by financing activities	(1,522,000)	(1,522,000)
Net (decrease)/increase in cash held	788,241	240,789
Cash at the beginning of the financial year	5,927,690	5,862,986
Cash at the end of the half year	6,715,931	6,103,775

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

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

a) Reporting Entity

HiTech Group Australia Limited ("HiTech" or the "Company") is a public Company Limited by shares, incorporated and domiciled in Australia. The consolidated half year financial report of the Company as at, and for the half-year ended 31 December 2019, comprises the Company and its controlled entities (together referred to as the "Group" and individually as the "Group entities"). It is also recommended that these half-year financial reports be read in conjunction with the annual financial reports for the year ended 30 June 2019 and public announcements made by the Company during the half year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

b) Statement of compliance

The consolidated half-year financial report is a general-purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134: Interim Financial Reporting. It does not include full disclosure of the type normally included in annual financial statements. The accounting policies applied by the Group in this consolidated half-year financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2019.

This consolidated half-year financial report was authorised for issue in accordance with a resolution of Directors on 12 February 2020.

c) Basis of measurement

The consolidated half year financial reports have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

d) New, revised or amending Accounting Standards and Interpretations adopted

The Company has adopted all new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards and Interpretations that are not yet mandatory have not been early adopted. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Company.

e) A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following Standard:

- AASB 16 Leases

The impact of the adoption of these Standards and the new accounting policies are disclosed below. The other Standards did not have any impact on the group's accounting policies and did not require retrospective adjustments.

AASB 16 Leases

This Standard and its consequential amendments were applied from 1 July 2019, replacing the accounting requirements applicable to leases in AASB 117 Leases and related interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. This means that for most leases, a right of use asset and a lease liability will be recognised, with the right of use asset being depreciated and the lease liability being unwound in principal and interest components over the life of the lease.

The Group transitioned to AASB 16 using the modified retrospective approach, where the right of use asset is recognised at the date of initial application at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position immediately before the date of initial

application, using the entity's incremental borrowing rate at the date of the initial application. Comparative figures are not restated.

For leases previously classified as finance leases the entity recognised the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement of principles of AASB 16 are only applied after the date. There were no re-measurement adjustments for these leases immediately after the date of initial application.

Initial measurement of lease liabilities:

Operating Lease Commitments Disclosed as at 30 June 2019	692,559
Additional future lease payments for excepted extension options	-
Discounted using the entity's incremental borrowing rate	483,459
Add: Finance lease liabilities recognised 30 June 2019	-
Lease Liability Recognised as at 1 July 2019	483,459

Adjustments recognised in the statement of financial position on 1 July 2019:

Plant and Equipment Decreased By	-
Right Of Use Assets Increased By	483,459
Borrowings Decreased By	-
Lease Liabilities Increased By	483,459

There was no impact on accumulated losses upon adoption of AASB 16.

In applying AASB 16 for the first time, the group has used the following practical expedients permitted by the Standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;

There are no other Standards that are yet effective and that would be expected to have material impact on the group in the current or future reporting periods and on foreseeable future transactions.

2. REVENUE

	Half year ended	
	31 December 2019	31 December 2018
	\$	\$
Revenue from operating activities		
(a) Contracting and permanent placement revenue	15,795,944	14,057,500
(b) Other Revenue		
- Interest received - other entities	10,397	490
- Sundry Income	-	101
	15,806,341	11,147,423

3. EXPENSES

	Half year ended	
	31 December 2019	31 December 2018
	\$	\$
Cost of providing services	12,864,822	11,416,039
Rental expenses on operating leases		
- Minimum lease payments	75,376	69,256
Depreciation and amortisation of non-current assets		
- Plant and equipment	27,481	80,612
- Motor vehicles	14,613	13,949
- Software	-	1,672
Net transfers to provisions – employee benefits		
Share based employee benefits	-	-

4. PLANT AND EQUIPMENT

	Consolidated Entity			
	Plant & Equipment	Leasehold Improvements	Motor vehicles	TOTAL
	\$	\$	\$	\$
As at 30 June 2019				
Cost or fair value	429,923	79,303	84,530	593,756
Accumulated depreciation	(405,140)	(58,951)	(54,984)	(519,075)
Net book value	24,784	20,351	29,547	74,682
Half Year ended 31 December 2019				
Opening net book balance	24,784	20,351	29,547	74,682
Additions	2,213		194,242	196,455
Disposals	-	-	-	-
Depreciation charge	(13,492)	(4,684)	(14,613)	(32,789)
Net book balance	13,504	15,667	209,176	238,346
As at 31 December 2019				
Cost or fair value	432,136	79,303	278,772	790,211
Accumulated depreciation	(418,632)	(63,636)	(69,597)	(551,865)
Net book value	13,504	15,667	209,175	238,346

5. LEASES

An extension option is included in the existing office lease. The extension and termination option is exercisable only by the group and not by the respective lessor.

In determining the lease term, the group considers all facts and circumstances that create an economic incentive to exercise an option. When exercising lease extensions of building premises, the group considers the following factors:

- Any termination and make good penalties;
- Value of leasehold improvements;
- Cost of disruption to the business to relocate; and
- Availability and cost other suitable properties.

Extension options are only included in the lease term if the lease is reasonably certain to be explained. As a result, the group has not included the extension option.

	31 December 2019 \$	31 December 2018 \$
Amounts recognised in the statement of financial position		
Right Use Assets		
Leased buildings – right of use	483,459	-
	483,459	

Additions to the right of use assets during the period \$Nil

Lease Liabilities		
Current		
Leases for building premises	75,376	-
	75,376	
Non-Current		
Leases for building premises	408,083	-
	408,083	

6. CURRENT PROVISIONS

Current provisions are for staff entitlements and accrued expenses expected to be settled within twelve months.

7. EQUITY SECURITIES

No shares were issued in the reporting period. There are currently 38.05 million listed shares on issue.

8. SHARE-BASED PAYMENTS

No shared base payments were granted in the reporting period.

9. NTA BACKING

	Half year ended	
	31 December 2019 \$	31 December 2018 \$
Net tangible asset backing per ordinary security (per share)	0.19	0.19

10. CONTINGENT LIABILITIES

There are no contingent liabilities and contingent liabilities at balance date.

11. EVENTS SUBSEQUENT TO REPORTING DATE

There are no circumstances that have arisen since the end of the financial period which significantly affect or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

12. CONTROL GAINED OR LOST OVER ENTITIES HAVING MATERIAL EFFECT

The group has not gained or lost control over any entity during the financial period.

13. DETAILS OF ASSOCIATE OR JOINT VENTURES ENTITIES

The group has no associate or joint venture entities.

14. RELATED PARTIES DISCLOSURES

All arrangements with related parties are consistent with those disclosed in the 2019 Annual Report.

15. COMMENTARY ON RESULTS FOR THE PERIOD

General

The group's core business is in recruitment of permanent and contracting ICT professionals. We have won new business which led to increasing our revenue and profit.

EPS

Basic earnings per share for the first half of the current financial year were 3.70 cents per share compared to 3.23 cents per share in the previous corresponding period.

Segment Information

The consolidated entity reports to management and allocates resources on a single reporting entity basis.

Significant features of operating performance

HiTech currently supplies permanent and contract staff from its large proprietary database of over 360,000 specialised and skilled professionals that have been secured through a strategy of multiple sourcing tools and networking drives. HiTech's candidate database is the primary source of skilled professionals that we draw upon to fulfil our clients' personnel demands. This is a proprietary database that is invaluable to our business and ensures we maintain our sustainable competitive advantage in the market place. This same database is utilised to resource our ICT Services business.

The HiTech Client base includes corporate and government clients and is well established, with strong representation by high technology companies, banking/financial services companies plus Federal Government departments and agencies. HiTech has also entered into preferred supplier agreements for the supply of staff in both the public and private sectors.

ICT contracting, comprising the provision of ICT professionals for temporary and other non-permanent staffing needs of clients for specific projects, has continued to supply HiTech with strong cash flow. ICT contracting is viewed as a relatively higher volume business with lower margins. We have worked on reducing low margin contracting business and building higher margin contract opportunities. This strategy has delivered favourable results without the need to significantly increase the operating cost base.

Factors which are likely to affect results in the future

While there is still a relatively short supply of good quality candidates, any potential drop in ICT resources demand will result in lower margins and downward pressure on permanent placement numbers.

We continue to explore participation in the rationalisation of the recruitment and ICT industries. We have looked and are still looking at potential acquisitions that are EPS accretive and suit our criteria.

We have retained our preferred supplier status with our valued clients, increased our client base and are working towards further developing these relationships. We are constantly evolving and improving our systems and productivity to provide a better service to our clients and candidates.

HiTech has tendered for private and government recruitment business recently and has been successful. We expect to secure further contracts soon and win more business as the economy continues to grow.

16. REVIEW OF ACCOUNTS

This report is based on accounts that have been reviewed and are not subject to dispute or qualification. Copies of the review report and independence declaration from Scott Bennison are attached.



Ray Hazouri
Director

Sydney, 12 February 2020



HiTech Group Australia Limited

DIRECTORS' REPORT

The directors of HiTech Group Australia Limited ("HiTech Group" or "the company") submit herewith the financial report of the consolidated entity for the half-year ended 31 December 2019. To comply with the provisions of the Corporations Act 2001, the directors report the following:

Directors

The names of directors of the company during or since the end of the half-year are:

Mr Raymond Hazouri, Chairman

Mr Elias Hazouri, Chief Executive Officer

Mr George Shad

Principal activities

The consolidated entity's principal activity, during the financial year, was the supply of recruitment services for permanent and contract staff to the ICT sector.

Review of operations

HiTech's core business is the provision of recruitment services to both the private and Australian government sectors. HiTech sources and places ICT, Finance and Office support personnel for permanent and contracting positions.

The directors are pleased to release to the market HiTech's half yearly FY2020 results. The details are as follows:

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Auditor's declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is attached.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



R. Hazouri, Director
Sydney, 12 February 2020

HiTech Group Australia Limited DIRECTORS' DECLARATION

The directors declare that:

1. The financial statements and notes are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Accounting Standards AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*; and
 - (b) give a true and fair view of the group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



R Hazouri
Director

Sydney, 12 February 2020