

ASX announcement



2 February 2023

Companies Announcement Office
ASX Limited
Level 6, 20 Bridge Street
Sydney NSW 2000

December Quarter 2022 – Quarterly Activity Report revision

Hills Limited (ASX:HIL) (**Hills**) provides a revision of its quarterly activity report for the second quarter of FY23.

This adds a paragraph to the report providing details of payments to related parties in accordance with listing rule 4.7C.3, and as was disclosed under Section 6 in the Appendix 4C.

For and on behalf of Hills Limited

This ASX announcement is authorised for release by the Board of Hills Limited.

About Hills

Hills (ASX:HIL) is a majority Australian-owned company that designs, develops, distributes, installs and manages integrated health and other technology solutions in homes, hospitals, aged care facilities, health and other settings across Australia and New Zealand. www.hills.com.au.

Contacts

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31 January 2023

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Sydney NSW 2000

December Quarter 2022 – Company Update

Hills Limited (ASX:HIL) (**Hills**) provides its quarterly activity report for the second quarter of FY23, along with the Company's Appendix 4C quarterly cash flow report for the period ended 31 December 2022.

2Q23 highlights

- Health Solutions' project orders remain strong.
- Health Solutions' project delivery and associated revenue was below expectation for the quarter with a marked slowdown in December.
- Patient entertainment income returning to pre-COVID levels.
- Hills Technical Services impacted by significant weather events and supply chain disruptions.
- New sources of finance being actively identified.

Business activities update

The second quarter of FY23 was below expectations for the two operating businesses, with revenue suppressed despite strong order intake and activity in the health business. Health's Nurse Call installation projects have been rescheduled into calendar year 2023 and 2024 and remain focused on delivering COVID period orders; component lead times of up to 12 months has led to significantly increased working capital; and sector-wide supply chain issues have impacted Technical Services' ability to complete installations despite continued demand.

Encouragingly, the Health projects order book continued to grow in the quarter and now stands at an all-time high covering projects across numerous hospitals as well as the recently announced New Footscray Hospital project. The long lifecycles associated with this project activity mean the order book is building a strong revenue pipeline beyond the current financial year.

The Technical Services business was adversely affected by poor weather which restricted site access for the technicians and the unavailability of key wireless componentry, resulted in lower than anticipated installation revenue. This supply situation is expected to recover in the final quarter of FY23 and the business remains well placed to benefit from the continued investment in NBN infrastructure and the next generation technology installations.

The businesses continue to focus on improving operational performance, service levels and the management of costs.

Quarterly cash flow and cash position

As at 31 December 2022, the Company reported a cash balance of \$1.6m.

The \$2.1 million net cash used in operations during the quarter included \$1.8 million of additional working capital requirements as follows:

- increased the level of inventory by \$0.3m.
- prepayments for inventory not yet received of \$1.5m

Investing activities included the purchase of property, plant and equipment primarily relating to company owned patient engagement systems.

Debt relating to asset and operating cost financing was reduced by \$0.5m during the quarter. The balance of financing cash flow is for operating leases disclosed in accordance with accounting conventions.

Payments to Related Parties

Payments to related parties include directors' fees and salaries, and payments to a partially owned subsidiary, as disclosed in section 6 of the Appendix 4C.

Funding

The Company is currently seeking further funding and expects to undertake a further raising of funds during the third quarter of FY23. Hills' directors wish to reiterate to shareholders that when raising capital, where practicable to do so, the Company will structure any proposed issue of securities to facilitate an equitable participation by existing shareholders.

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

HILLS LIMITED

ABN

35 007 573 417

Quarter ended ("current quarter")

31 December 2022

Consolidated statement of cash flows	Current quarter \$A	Year to date (12 months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	12,634,121	29,659,994
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(9,269,290)	(21,964,983)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(3,948,039)	(8,270,115)
(f) administration and corporate costs	(1,342,673)	(2,777,235)
1.3 Dividends received (see note 3)		
1.4 Interest received	53,358	36,696
1.5 Interest and other costs of finance paid	(274,319)	(330,883)
1.6 Income taxes paid		(1,115)
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(2,146,844)	(3,647,641)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(300,034)	(443,325)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A	Year to date (12 months) \$A
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	(225,000)
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	(300,000)	(929,078)
2.6	Net cash from / (used in) investing activities	(600,034)	(1,597,403)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	6,937,576
3.6	Repayment of borrowings	(543,705)	(3,494,210)
3.7	Transaction costs related to loans and borrowings	-	(180,000)
3.8	Dividends paid		
3.9	Other (provide details if material)	(639,242)	(2,914,656)
3.10	Net cash from / (used in) financing activities	(1,182,947)	348,710

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,605,136	6,458,108
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,146,843)	(3,647,641)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(600,034)	(1,597,403)

Consolidated statement of cash flows		Current quarter \$A	Year to date (12 months) \$A
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,182,947)	348,710
4.5	Effect of movement in exchange rates on cash held	(114,853)	(1,316)
4.6	Cash and cash equivalents at end of period	1,560,458	1,560,458

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A	Previous quarter \$A
5.1	Bank balances	1,560,458	5,605,136
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,560,458	5,605,136

6.	Payments to related parties of the entity and their associates	Current quarter \$A
6.1	Aggregate amount of payments to related parties and their associates included in item 1	387,119
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

Payments include directors' fees and payments to subsidiary

7. Financing facilities	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	6,000,000	6,000,000
7.2 Credit standby arrangements		
7.3 Other (please specify)	659,313	659,313
7.4 Total financing facilities	6,659,313	6,659,313
7.5 Unused financing facilities available at quarter end		-
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	
	Causeway Financial Ltd \$6.0 million secured debt finance facility. Facility expires in Sept 2025. Interest is charged at a 11.25% fixed charge. Asset financing is 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. Insurance financing with Momentum Premium Funding for the provision of insurance finance.	

8. Estimated cash available for future operating activities	\$A
8.1 Net cash from / (used in) operating activities (item 1.9)	(2,146,844)
8.2 Cash and cash equivalents at quarter end (item 4.6)	1,560,458
8.3 Unused finance facilities available at quarter end (item 7.5)	
8.4 Total available funding (item 8.2 + item 8.3)	1,560,458
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	0.7
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?
	Answer: Yes
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
	Answer: The entity is currently assessing sources of additional finance. It is the directors' expectation that the additional finance will be received.

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: The entity expects to be able to continue its operations and meet its business objectives by using the additional expected finance sourced.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 January 2023

Authorised by: the Board of Hills Limited
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg *Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.