ASX announcement

28 April 2023

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

March Quarter 2023 – Company Update

Hills Limited (ASX:HIL) (**Hills**) provides its quarterly activities report for the third quarter of FY23, along with the Company's Appendix 4C quarterly cashflow report for the period ended 31 March 2023.

3Q23 highlights

- Operating cash outflow reduced to $211,000;
- Cornerstone investor secured - placement of $0.9 million from Historical Holdings Pty Ltd at $0.03 per share;
- Launch of entitlement offer to raise approximately $7 million at $0.02 per share; partially underwritten by Historical Holdings for $3.5 million; and
- Receipt of $0.7 million from security deposits returned for leased property.

Business activities update

The business continued to trade positively and build on the sales order pipeline.

The business remains focused on improving operational performance, service levels and the management of costs.

Cash management was critical in the quarter and the business successfully navigated its immediate financial needs with support of customers and suppliers, whilst securing new capital (refer "Funding" below).

Quarterly cash flow and cash position

As at 31 March 2023, the Company reported a cash balance of $2.8 million.

The $0.2 million net cash used in operations during the quarter included:

- Increase in inventory levels of $0.8 million;
- Net movement in receivables and payables resulted in net cash inflows of $0.6 million.

Investing activities included the purchase of property, plant and equipment of $0.1 million.

Financing activities resulted in a positive cash flow of $1.8 million which includes the proceeds from the share placement of $0.9 million and the return of a security deposit of $0.7 million relating to an exited property lease.

Payments to Related Parties

Payments to related parties of $259,000 include directors' fees and executive director salary, and payments to a partially owned subsidiary, as disclosed in section 6 of the Appendix 4C.

Funding

The Company completed its entitlement offer on 20 April 2023 raising $6.4 million, which includes the placement of $927,000 from Historical Holdings Limited received during the quarter.

As a consequence of the successful capital raising, the forbearance contained in the deed with the Company's financier has come into effect.

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.

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Appendix 4C

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

Name of entity

HILLS LIMITED

ABN	**Quarter ended ("current quarter")**
35 007 573 417	31 March 2023

Consolidated statement of cash flows			**Current quarter $A'000**	**Year to date (12 months) $A'000**
1.	**Cash flows from operating activities**			
1.1	Receipts from customers		14,064	43,724
1.2	Payments for			
	(a)	research and development	-	-
	(b)	product manufacturing and operating costs	(8,195)	(30,160)
	(c)	advertising and marketing	-	-
	(d)	leased assets	-	-
	(e)	staff costs	(4,379)	(12,649)
	(f)	administration and corporate costs	(1,537)	(4,314)
1.3	Dividends received (see note 3)			
1.4	Interest received		19	56
1.5	Interest and other costs of finance paid		(183)	(515)
1.6	Income taxes paid			(1)
1.7	Government grants and tax incentives			
1.8	Other (provide details if material)			
1.9	**Net cash from / (used in) operating activities**		**(211)**	**(3,859)**

2.	**Cash flows from investing activities**			
2.1	Payments to acquire or for:			
	(a)	entities	-	-
	(b)	businesses	-	-
	(c)	property, plant and equipment	(34)	(477)
	(d)	investments	-	-
	(e)	intellectual property	-	-
	(f)	other non-current assets	(66)	(66)

Consolidated statement of cash flows		Current quarter $A'000	Year to date (12 months) $A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	(225)
	(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)	(222)	(1,151)
2.6	**Net cash from / (used in) investing activities**	**(322)**	**(1,919)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	927	927
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	-	6,938
3.6	Repayment of borrowings	(312)	(3,806)
3.7	Transaction costs related to loans and borrowings	-	(180)
3.8	Dividends paid		
3.9	Other (return of security deposit and net payment of lease liabilities and sub-tenant rent income)	1,168	(1,747)
3.10	**Net cash from / (used in) financing activities**	**1,783**	**2,132**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	1,561	6,458
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(211)	(3,859)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(322)	(1,919)

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (12 months) $A'000**
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,783	2,132
4.5	Effect of movement in exchange rates on cash held	9	8
4.6	**Cash and cash equivalents at end of period**	**2,820**	**2,820**

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'000**	**Previous quarter $A'000**
5.1	Bank balances	2,820	1,560
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)**	**2,820**	**1,560**

6.	**Payments to related parties of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to related parties and their associates included in item 1	259
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.

Included payments to directors and to subsidiary.

7.	**Financing facilities** *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.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	6,000	6,000
7.2	Credit standby arrangements		
7.3	Other (please specify)	347	347
7.4	**Total financing facilities**	**6,347**	**6,347**
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'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	(211)
8.2	Cash and cash equivalents at quarter end (item 4.6)	2,820
8.3	Unused finance facilities available at quarter end (item 7.5)	
8.4	Total available funding (item 8.2 + item 8.3)	2,820
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	13.3
	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.	

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:

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:

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:

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: 28 April 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.