



Investor Presentation

ASX:HIL

Hills Limited | ABN 35 007 573 417

13 March 2023

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This Presentation contains forward-looking statements and comments about future events, including about the plans, strategies and objectives of Company's management, the Company's expectations about the performance of its business, the potential ongoing impact of the COVID-19 pandemic, the timetable and outcome of the Entitlement Offer and the proceeds to be raised from the Entitlement Offer. Forward-looking statements can generally be identified by the use of forward-looking words such as, "expect", "anticipate", "likely", "intend", "should", "could", "may", "opinion", "predict", "project", "plan", "propose", "will", "believe", "forecast", "estimate", "target" and other similar expressions. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward-looking statements.

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This presentation has been authorised for release by the Company's Board of directors and is issued by the Company.

01 Our Business

HILLS.TM

OUR BUSINESS



Established leader in digital solutions in hospitals and aged care

- Advanced Nurse Call, monitoring and workflow management solutions
- Patient entertainment and digitally connected patient engagement systems (PES)
- Australian designed and manufactured
- Customised solutions in major & complex facilities

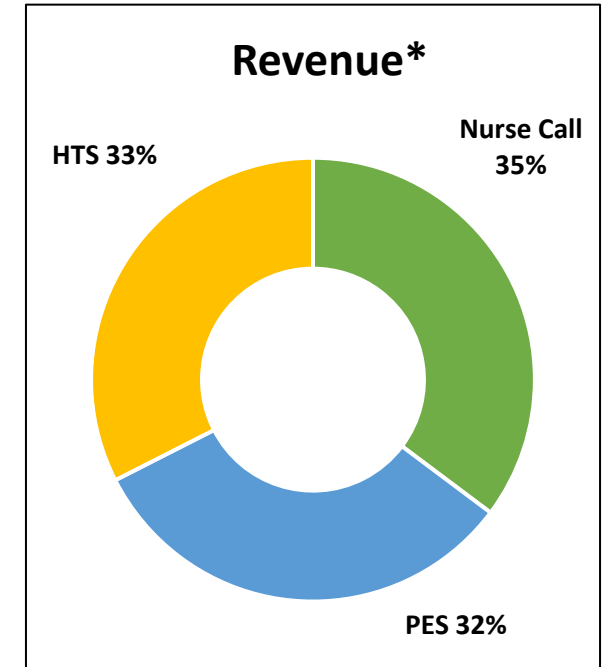
Strong foundation for growth in digital health sector



Technology installation services (NBN) for residential & commercial premises

- NBN wireless and satellite in Australia
- Sky NZ TV in New Zealand

Positioned for NBN upgrade program and expansion of customer base



* Indicative based on FY23 expected revenue

HILLS RENEWAL – IN FY22, ESTABLISHED A PATH FOR PROFITABLE GROWTH DURING FY24



➤ Clear focus on health care technology.

➤ Broadened engagement in the health care sector to include aged care / home care / supported living.

➤ Securing significant project wins in the hospital sector e.g. The New Footscray Hospital.

➤ Established plan for health business recovery and growth.

➤ A renewal at board and management levels.

➤ Structurally improving Hills Technical Services.

➤ Successfully completed major company restructure including the divestment / closure of Security Distribution (Australia and New Zealand), and the re-shaping / re-sizing of remaining operations.

HEALTH LANDSCAPE

2022 -2023

PUBLIC HOSPITALS



674



63,333

PRIVATE HOSPITALS



608



34,300

AGED CARE



5,380



245,000* (residential places)

Key Statistics



- \$83.3BN in revenue
- \$1.5BN in profit
- \$149.8BN in funding over 5 years



- \$22.4BN in revenue
- \$2.0BN in profit



- \$2.5 BN funding over 4 years through AN-ACC model
- \$312.6M over 4 years for IT modernisation

2028 - 2029

PUBLIC HOSPITALS



678



- Forecast of 1,092,000 hospital beds required to support Australia's population growth rate
- *Based on current rates of 3.9 beds per 1000 people
- Trends towards alternate care models such as hospital in the home

PRIVATE HOSPITALS



616

AGED CARE



5,563

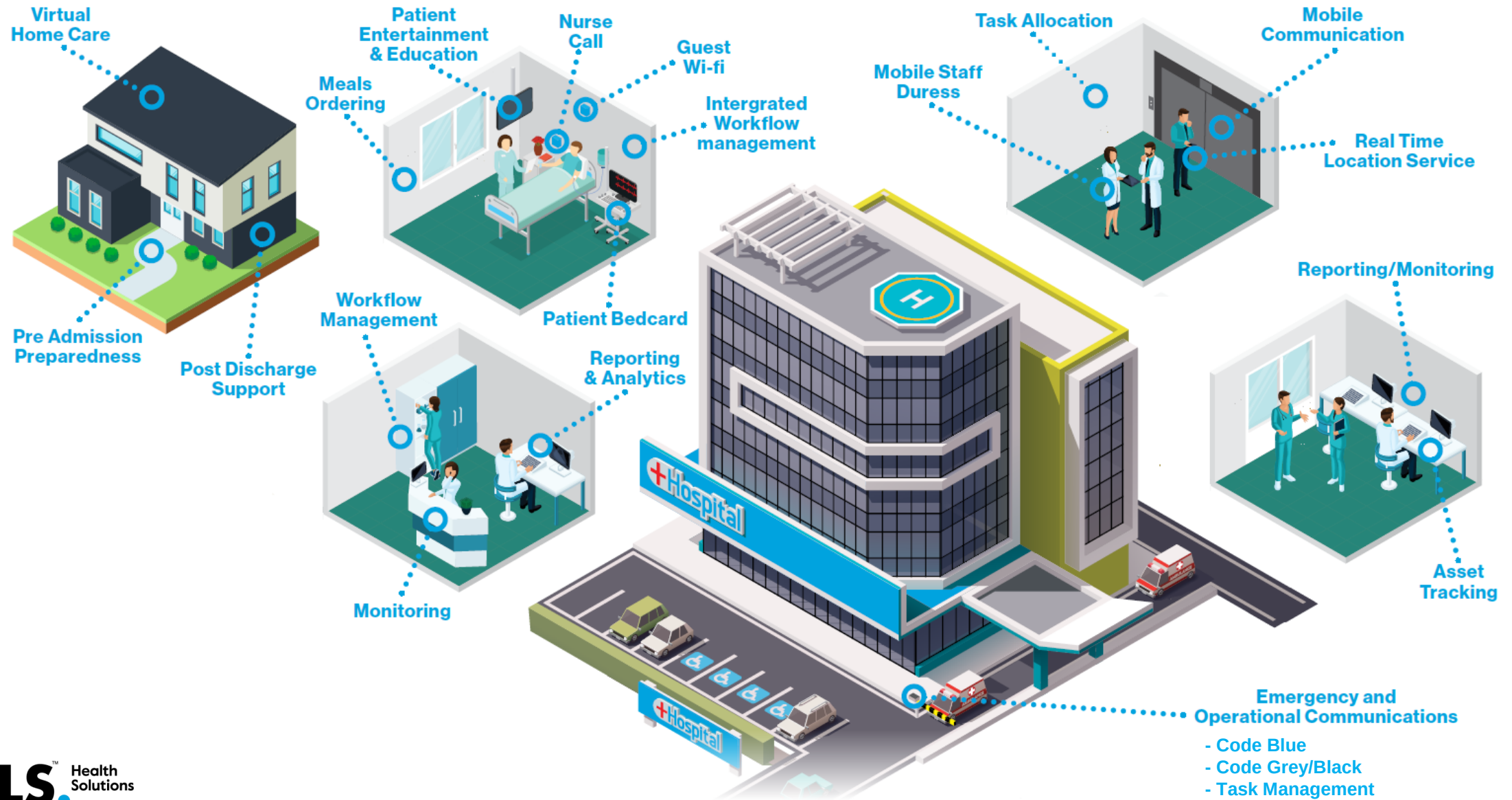


- No. of people aged over 65 will increase from 3.8 million to 5.2 million by 2027
- Home care is the fastest growing model with 25% year on year growth

- **Advanced Nurse Call and integrated workflow solutions** in hospitals and aged care – to efficiently manage patient interactions and communication with care teams
- **Patient entertainment / engagement systems** in hospitals – integrated with clinical systems – to provide information, education and other services directly to patients
- **Hospital Wi-Fi and telephony networks** – to provide patients access to the outside world
- **Pre-admission and post discharge management** – reducing admission delays and avoiding unnecessary re-admission
- **Cloud-based community shared record** – bringing together virtual care teams with curated clinical and social data

PRODUCT PORTFOLIO

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- Strong recovery of orders post-COVID - the timing of delivery of projects, combined with supply chain delays, has however, had a negative impact on FY23 trading.
- Significant pipeline of hospital capital works across Australia.
- **Cash flow and revenue from large orders can take between 6 to 18 months to realise.**



Hills expects to return to sustained net profit during FY24 given:

- the strong demand for our products – the pipeline from delayed projects, along with incoming opportunities, has risen to **\$17.6 million** at 31 December 2022, up from almost **\$8 million** at 30 June 2022;
- the focus on operational performance and an increase in confidence in the health sector.

PRODUCTS AND SERVICES – TECHNICAL SERVICES

- 45,000+ successful appointments completed in Australia:
 - 25,000 installations
 - 12,000 assurance and maintenance
 - 7,000 upgrades
 - 1,000 satellite installations
 - Installation of back-up equipment to emergency evacuation centres
- 250+ skilled technicians
- Systems deeply integrated with customer
- NBN wireless network next generation upgrade program commences 2023
- Opportunity to expand field installation capabilities to other applications



02

The Environment for Growth

TRENDS AND OPPORTUNITIES IN HEALTH

Health care system under pressure

Practitioner
shortages
impacting
access to care

Workforce
shortages
impacting
patient care

Governments'
focus and
funded

Health care fragmented, disconnected, duplicated, inefficient,
and isolated

Increasing public
scrutiny of
outcomes

Consumerisation of
health and well
being

Focus on
prevention and
outcomes

Acceleration of care in home (aged care, recovery, disability care)

Technology driven solutions

- **Connected ecosystems** driven by interoperability and intermediation
- **Workflow management, messaging & communication, automation** to reduce workload, improve care and manage costs
- **Data capture and reporting** enables transparency, improves management, simplify mandated reports
- **Monitoring and remote care** includes Telehealth, IoT, sensors, devices, and shared records
- **Patient engagement and education** to improve care outcomes including pre and post acute care

THE HOSPITAL ROOM OF THE FUTURE

Patient engagement transitions to patient centred care. Nurse Call becomes clinical workflow management

In room security

- Entertainment
- Medical Information
- Meal Ordering
- Treatment Education
- Internet Content
- Physician Consultation

- QR Code/Facial Recognition
- Vital Signs
- Clinical History
- Administration

- Nurse Call/Monitoring
- Circadian rhythm Lighting
- Bed relaxation Controls
- Patient caring notes / updates

03

Our Plan

RENEWAL PLAN

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Activity

Purpose

Timing

Stage 1 (complete) Divest and clean		Stage 2 Simplify and Recapitalise	Stage 3 Grow
Activity	➤ Leadership renewal ➤ Divestment / closure of Hills security and IT distribution in Australia and NZ ➤ Addressed legacy issues	➤ Internal re-organisation ➤ Investment in technology ➤ Raise capital	➤ Build additional capability for organic growth across all businesses ➤ Invest in acquisitions and partnerships
	Purpose ➤ Focus on health care technology sector ➤ Simplify investment proposition for shareholders ➤ Reduce cash drain	➤ Reduce corporate and operational structure and costs ➤ Improve business performance ➤ Protect working capital ➤ Enable investment in performance and growth	➤ Drive revenue and margin growth through investment in commercial capacity, capability and marketing ➤ Accelerate product development pipeline ➤ Strengthen customer service levels ➤ Expand to adjacent markets and products
	Timing ➤ Divestment completed May/June 2022 ➤ Significant legal matter addressed 2022	➤ Re-organisation in 2022 ➤ Capital raise early 2023 ➤ Technology, process and team transformation during 2023	➤ Calendar 2023 / 2024

Create interconnected digital health solutions that support patient care, save lives, and are delivered with integrity

- Hills has a clear focus on digital health solutions in hospital, aged care, virtual care and in-home care
- With world class communication, workflow and interconnectivity solutions
- The timely provision of critical information to care teams, improve efficiencies for providers, enable engagement with patients, and improve patient care
- Hills is known for reliability, integrity and understanding of the people and markets we serve

STRATEGIC GOALS



Drive organic growth through expanded sales capabilities and coverage in existing and adjacent markets



Support organic growth through accelerated product upgrades and extensions, to lead digital transformation

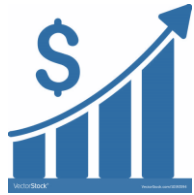


Scale the business with targeted acquisitions in adjacent or complimentary markets and technologies



Improve performance through renewal of internal systems and new technology

Revenue Growth



- Project orderbook \$17.6m to be delivered over next 18 months
- Strengthen commercial team to increase market share
- Reshape and re-price patient engagement offering
- Rollout of new platform for NBN wireless
- Expand opportunities in aged care and home care

Product Development



- Upgrade software to support and extend core Nurse Call platforms
- Enhance core hardware for installation, cost, and supply chain efficiency
- Next generation patient engagement platform
- Product extensions for aged care and home care
- Design for integration, partnerships and cyber security

Improving Operational Performance



- Improving performance in service, design, logistics and supply chain
- Employing technology to support and automate operations and reduce cost to serve
- Removing legacy ERP
- Upgrading cyber security

Financing



- Capital raising through Entitlement Offer
- Borrowing from Financier
- Agreement for covenant relief during rebuild, with successful capital raise

04 The Entitlement Offer

ENTITLEMENT OFFER SUMMARY



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Offer size and structure	• 3 for 2 pro-rata renounceable Entitlement Offer to raise approximately \$7 million (Entitlement Offer). • Approximately 348 million new fully paid ordinary shares in the Company (New Shares) to be issued under the Entitlement Offer, representing 150% of existing shares on issue.
Offer Price	• Offer price of \$0.02 per share representing: ▪ 13% discount to the last traded price of \$0.023 on 10 March 2023. ▪ 5% discount to the 10-day VWAP of \$0.021, calculated up to and including 10 March 2023.
Use of funds	• Net proceeds from the Entitlement Offer will be used to expand and invest in commercial capabilities, upgrade product offering to support those initiatives, improve operational systems and performance, strengthen the balance sheet and to pursue acquisition opportunities.
Underwriting	• The Entitlement Offer is partially underwritten to \$2.5 million by entities associated with the Hill-Ling family. Details of the underwriting are included in the Offer Booklet.
Ranking	• New Shares issued under the Entitlement Offer will rank equally with existing fully paid ordinary shares from their time of issue.
Top up facility / shortfall shares	• Eligible Shareholders who exercise their full Entitlement may seek to apply for additional shares under the top up facility at the Offer Price. • Any further shortfall shares will be offered to new institutional and sophisticated investors at the Offer Price. • In each case, subject to the extent permitted by law, the discretion of the board and the allocation policy detailed in the Offer Booklet.
Borrowing facility	• The Entitlement Offer is supported by the Company's lender and the covenant breach is waived upon successful completion.

PURPOSE OF THE OFFER



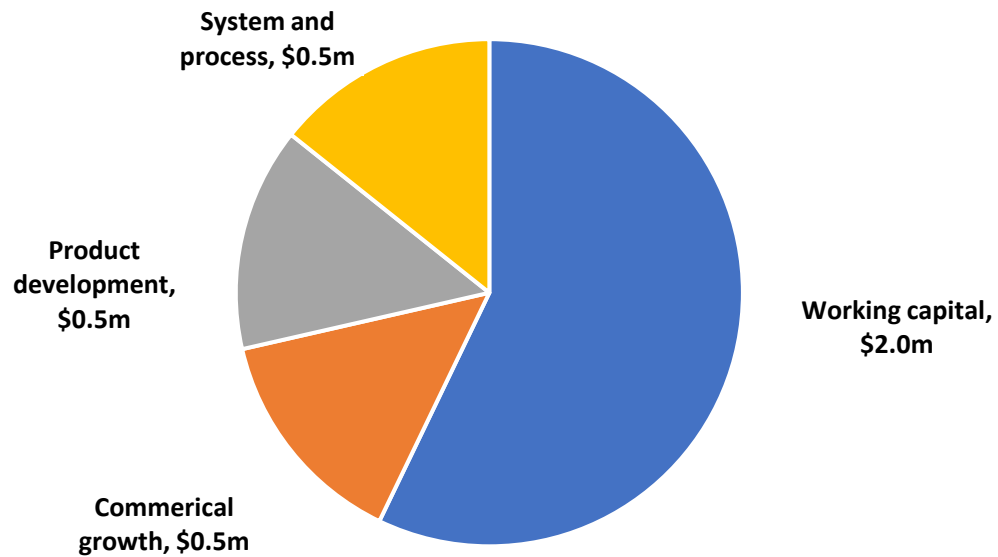
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Strengthen balance sheet	Support the Company’s working capital requirements ; increased due to the growing order-book, timing of new project delivery and disrupted electronics supply chain.
Seize positive market conditions	Support expanded commercial and marketing capabilities to increase order intake in FY23/FY24, and investment in services to enhance brand reputation.
Focus on strategy and driving shareholder returns	Enable focus on and acceleration of longer term product and market development Provide ability to pursue acquisition and partnering inorganic opportunities.
Improve operational performance	Allow upgrades to systems and processes to take advantage of technology-supported efficiencies and performance.
Invest in Hills’ Iconic Brand Power	Hills is an iconic and trusted brand, with a solid customer base and a leading position in existing markets.

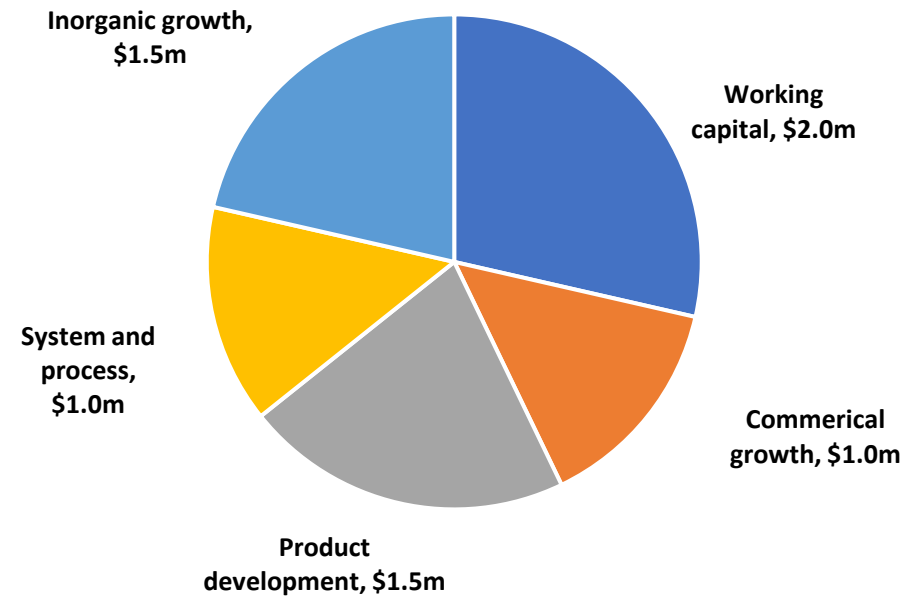
USE OF FUNDS* - SEEKING TO RAISE UP TO \$7M TO FUND GROWTH AND WORKING CAPITAL

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Use of Funds \$3.5 million



Use of Funds \$7 million



* This proposed allocation of funds is indicative only and may be changed at the discretion of the Company's Board

TIMETABLE



Announcement Date of the Entitlement Offer	Monday, 13 March 2023
Shares quoted on an “ex” basis and trading of Entitlements starts on a deferred settlement basis	Thursday, 16 March 2023
Entitlement Offer Record Date (7:00pm Sydney time)	Friday, 17 March 2023
Dispatch of Entitlement Offer Booklet and Entitlement and Acceptance Form to Eligible Shareholders	Wednesday, 22 March 2023
Entitlement Offer opens	Wednesday, 22 March 2023
Entitlements trading ends	Friday, 24 March 2023
New shares under the Entitlement Offer commence trading on ASX on a deferred settlement basis	Monday, 27 March 2023
Entitlement Offer closes (5:00pm Sydney time)	Friday, 31 March 2023
Notification of shortfall of Entitlement Offer	By Tuesday, 4 April 2023
Anticipated date for the issue of New Shares under the Entitlement Offer	Thursday, 6 April 2023
New Shares under the Entitlement Offer expected to commence trading on ASX on a normal settlement basis	Tuesday, 11 April 2023
Dispatch of holding statements for New Shares under the Entitlement Offer	Tuesday, 11 April 2023

These dates are indicative only and, subject to compliance with applicable law, may be changed at the discretion of the Company's Board.

PROFORMA BALANCE SHEET



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	31 December 2022	\$3.2m Rights issue	\$7m Rights issue
	\$'000	\$'000	\$'000
ASSETS			
Cash and cash equivalents	1,569	4,569	8,369
Trade and other receivables	10,391	10,391	10,391
Inventories	5,031	5,031	5,031
Investments	2	2	2
Property, plant and equipment	7,784	7,254	7,254
Right-of-use asset	2,985	1,583	1,583
Intangible assets	1,355	1,355	1,355
Total assets	29,117	30,184	33,984
LIABILITIES			
Trade and other payables	8,149	8,149	8,149
Provisions	4,512	4,009	4,009
Lease liabilities	4,495	1,921	1,921
Borrowings	6,498	6,498	6,498
Total liabilities	23,654	20,577	20,577
Net assets	5,463	9,607	13,407

Note: Hills Limited has carried forward tax losses of \$289 million, as at 30 June 2022, which are expected to continue to be available subsequent to this capital raise.
A minimum raise of \$3.2 million to secure underwriting.

05 Company Information

BOARD AND LEADERSHIP



David Chambers

BSc, Dip Bus Mgt

Chairman

appointed July 2021

Non-executive director

appointed July 2020

- 30+ years of international experience in the healthcare and technology sectors, specifically in Australia, the US, Europe and Asia.
- Former Managing Director of Asia-Pac operations at Allscripts Healthcare Solutions Inc (Nasdaq-listed global leader in healthcare information technology).
- Former CEO of ASX listed health software business Pro Medicus Ltd.
- Chairman of ASX listed healthcare software provider, Mach7 Technologies Ltd.



Peter Steel

BEd, MBA (Executive)

Non-executive director

appointed March 2021

- Considerable experience in the consumer goods and logistics industries.
- Strong skills in strategy, business planning, acquisitions, and business development.
- Former senior finance executive for 20+ years, including General Manager, Finance, and IT, at Toll Priority and General Manager, Planning & Strategy at Coca-Cola Amatil Ltd.



David Clarke

BCom, DipGrad, CA, GAICD

Managing Director

appointed 30 September 2022

Chief Executive Officer

appointed May 2021

- Experienced ASX listed CEO with significant experience in technology and healthcare; operational expertise in wholesale distribution, field service, retail, and manufacturing.
- Former CFO and CEO at ASX listed pharmaceutical software company, Corum Group.
- Served in senior executive leadership positions at Medtronic Australasia, Fisher & Paykel, and the ASX listed Nick Scali Ltd.



Natalie Scott

BCom, CA, GAICD

Chief Financial Officer

appointed March 2021

GM Operations

appointed May 2022

- Significant experience as a senior financial executive at ASX listed companies including Village Roadshow Ltd, Event Hospitality & Entertainment Ltd.
- Served as Chief Financial Officer/Chief Operating Officer at Scalabrini Village residential aged care group.
- Strong focus on technological innovation, aligning products and services with market demand and digital evolution to drive long-term sustainability.

SHARE REGISTRY OVERVIEW



ASX code	HIL
Ordinary shares	231,985,526
Share price close 10 March 2023	\$0.023
Market capitalisation as at 10 March 2023	\$5.79m

Top 20 (excl. substantial holders)	60,941,984	26.3%
Substantial holders	46,175,613	19.9%
Balance of register	124,867,929	53.8%
Shares on issue	231,985,526	100.0%

Substantial shareholders

Hills Limited has been notified of the following substantial shareholdings:

Name	Number held	% of shares issued
Ms Jennifer Hill-Ling, Ms Bronwyn Marie Veal and Mr Gregory Mark Hill-Ling ⁽¹⁾	46,175,613	19.90%
Poplar Pty Limited ⁽²⁾	17,739,763	7.65%
Hills Associates Limited ⁽²⁾	17,957,359	7.74%

(1) These substantial shareholders control the other two substantial shareholders Poplar Pty Ltd and Hills Associates Limited, and their holdings form a part of the 19.9%.

(2) Includes 1,188,918 shared held jointly by Poplar Pty Limited and Hills Associates Limited.

06 Key Risks

Introduction

This section discusses some of the risks associated with an investment in Hills. Hills' business is subject to a number of risk factors both specific to its business and of a general nature which may impact on its future performance. Before subscribing for New Shares, prospective investors should carefully consider and evaluate Hills and its business and whether the New Shares are suitable to acquire having regard to their investment objectives and financial circumstances and taking into consideration material risk factors. The below list of risk factors ought not to be taken as exhaustive of the risks faced by Hills or by investors in Hills. The below factors, and others not specifically referred to, may in the future materially affect the financial performance of Hills and the value of Shares. Please refer also to Hills' previous ASX announcements.

Shares carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Shares (including the New Shares). Potential investors should consider the investment carefully and should consult their professional advisers before deciding whether to apply for New Shares, or to otherwise trade in Shares.

Specific Risks to the Company

- **(Going concern risk)** The Company's auditor's review report in the Company's interim financial report for the half year ended 31 December 2022 noted the following:

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

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

The Company has announced to the ASX that its group is in breach of an undertaking in relation to its pre-existing \$6 million finance facility borrowed from AMAL Security Services P/L atf CWPDMF (**Financier**) and that the Hills group was actively working with the Financier to obtain relief of the breach. The Financier has now conditionally granted forbearance from that breach, and from any further anticipated breaches. The forbearance deed is conditional of a minimum raise of \$3 million prior to 30 June 2023.

In the event that the Company is unable to raise at least \$3 million pursuant to the Entitlement Offer, nor secure alternative funding from other sources, the Board anticipates the Company may be unable to continue to fund its activities. The Financier has various rights pursuant to the Financier's loan, such as the power to call in its security over the assets of the Company if breaches are not remedied.

- **(Risk of continuing to be unprofitable):** The Company has incurred significant net losses. Most recently, the Company reported a statutory net loss after tax of \$3.8m for the six months ending 31 December 2022 and a \$24 million net loss after tax for the financial year ended 30 June 2022. The current year losses reflected the delivery of the reduced orders taken during COVID-19 pandemic levels. The prior financial year losses predominantly related to the divested Australian security and IT distribution business and a number of one-off write offs of assets. The return to the projected profitable position is dependent on the successful execution of the turn-around work required. As a consequence, there is a risk that the Company will continue to be unprofitable, with consequential adverse impacts on the financial position of the Company and the value of Shares.
- **(Ability to win and retain key customers):** The Company's business is dependent on:
 - Securing contracts to provide and support Nurse Call solutions in hospital and aged care sectors;
 - Maintaining utilisation rates of the assets deployed that provide patient entertainment systems;
 - Securing contracts to sell patient entertainment systems;
 - Installing NBN connections;
 - Installing SKY TV services in New Zealand.

RISKS (CONTINUED)

The Company may fail to win or retain customers. The Company has no control over the timing of potential customer opportunities or in respect of the awarding of such contracts or the timing of the customer's requirement to install its products and services.

The Company may not meet the level of service expected to adequately support the installed systems due to increase in cost to deliver the service. This may result in a contract not being renewed.

(Supply chain risks): The Company depends on key suppliers for the supply of critical and unique components to deliver the Nurse Call and patient entertainment solution. If key componentry can not be sourced in a timely and cost effective manner, the cost and time to deploy contracts will increase which may result in an unprofitable project and reputational risk.

The Technical Services business installs NBN hardware specified and provided by the customer. The Company has no influence over the supply or change of the components deployed. This can adversely impact the number of installations completed and thus revenue earned.

Key suppliers may require payment for goods at the time of ordering to secure supply. This could have a materially adverse impact on the Company's financial position and its ability to continue trading as a going concern.

Key suppliers may become insolvent or cease operating for various reasons. Supply chain interruptions have the capacity to adversely impact upon the Company's financial performance and financial position.

(Implementation of business strategy risk): There is a risk that the Company is unable to execute its business strategy of organic (product and market development focusing on next generation solutions with a focus on aged care, acute care and community settings) and acquisitive growth (targeting businesses with complementary health solutions with an existing footprint in target growth markets or businesses with market ready next generation solutions) as well as strengthening its leadership and commercial capabilities.

The Company is not currently in any active negotiation for an acquisition or disposal. However, it remains open to opportunities that may arise in the future.

Any delay in implementation of, failure to successfully implement, or unintended consequences of implementing any or all of the Company's growth strategies may have an adverse effect on the Company's future financial performance and growth prospects.

(Refinancing loan facilities): Historically, the Company has successfully refinanced its borrowing facilities. However, there is a refinancing risk that replacement debt facilities will not be available or will not be available on terms as favourable to the Company as its previous borrowing facilities. If the Company is not able to refinance its corporate debt facility (the Financier's Loan) when it falls due (September 2025), this could have a materially adverse impact on the Company's financial position and its ability to continue trading as a going concern.

There is also a risk of secured creditors, such as the current Financier exercising security over assets of the Company, for example in the event the Company defaults on its debt repayment obligations (refer also to the going concern risk above).

(Legal liabilities): Disputes or litigation may arise from time to time in the course of the business activities of the Company. There is a risk that any material or costly dispute or litigation could adversely the Company's reputation, financial position, performance or prospects. Two claims are currently outstanding against the Company. One, which was related to a dispute concerning a third-party contract. This claim has been dismissed by the Court, with costs awarded in favour of the Company. The decision has been appealed by the other party. The appeal is currently listed for hearing in May 2023. Based on legal advice, the Directors are of the opinion that no provision is required in respect of this outstanding matter 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. The other claim relates to a contractual dispute with a US supplier to the divested Security and IT business and has not reached a stage of negotiation to confidently predict any future outflow of economic benefit.

Furthermore, the Company notes the possibility of future legal liabilities arising, which may be caused by, and not limited to, the operation of its products and services and meeting its contractual obligations for installation of its products.

RISKS (CONTINUED)

- **(Future capital requirement risk):** The Company may require additional capital (in addition to the Entitlement Offer), such as via raising equity, debt, hybrid funding or asset sales, for example for the purpose of funding acquisitions (although no forecast is made of whether any acquisitions will occur).

The Company's ability to raise sufficient further capital within an acceptable time frame and on terms acceptable to it will vary according to a number of factors including (without limitation) the prospects of new product development and enhancements, new acquisition opportunities, the results of its operations and broader industry and stock market conditions. There is no guarantee that necessary funding will be available, and (if it is) it may dilute the interests of existing shareholders of the Company. There is a risk that the Company will be unable to secure necessary funding in future. If the Company is unable to obtain additional financing as needed, it may be required to reduce, delay or suspend its operations and this could have a material adverse effect on the Company's activities and could affect the Company's ability to continue as a going concern or remain solvent.

- **(Key personnel risk):** The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its ability to attract and retain qualified and experience staff. There is no guarantee that the Company will be able to attract and retain its key personnel. Any difficulty in so far as attracting or retaining staff could disrupt and materially affect the operations of the Company. Such occurrences could reduce the Company's competitiveness, disrupt operations or adversely affect the Company's business and financial position.
- **(Material contracts):** The Company's business relies on business relationships, including (without limitation) its relationship with its suppliers and key customers. There are risks of the Company suffering adverse impacts in the event of any breaches by the Company, its group or third parties of material contracts. The contract with Ericsson, the key customer of the Hills Technical Services business, expires in June 2023. The renewal of this contract is dependent on the contractual arrangements between Ericsson and NBN. There is a risk that the Company defaults on obligations pursuant to this contract, with consequential adverse impacts on the Company's reputation, financial performance and financial position.
- **(Regulatory, compliance and legislative change risk):** A range of legislation and regulation in Australia and overseas govern the Company's business undertakings. Non-compliance with regulatory requirements may result in financial penalties or reputational damage to the Company. Regulatory changes which the Company considers beneficial may cease to exist, which may impact on the Company's financial position and financial performance. The Company may also be impacted by the effects of international regulation.
- **(Competition):** The markets in which the Company operates are particularly competitive and are subject to domestic and global competition. While the Company will try to manage this risk with a targeted marketing strategy, competition arises from a number of sources including companies with greater capital resources than the Company. The Company's performance could be adversely affected if existing or new competitors reduce the Company's market share, such as through technology development, marketing and increased product or technology offerings or through price reduction for alternatives.

Many of the Company's competitors have greater financial and other resources than the Company and, as a result, are in a better position to compete for future business opportunities. There can be no assurance that the Company can compete effectively with its competitors. The Company's products and services may not be able to compete in the market and they may become obsolete.

- **(Currency risk):** Revenue and expenditures in overseas jurisdictions are subject to the risk of fluctuations in foreign exchange markets. For example, the Company has certain payment obligations that are denominated in foreign currencies. Accordingly, payment will be made in those countries' currencies, and may exceed the budgeted expenditure if there are adverse currency fluctuations against the Australian dollar.

The Company's main foreign exchange risk exposure is to US dollars. The Company's policy provides for management to hedge approximately three months of anticipated cash flows (mainly purchases of inventories). However, there is no guarantee that such measures will be sufficient to hedge against the risks associated with currency fluctuations, and a failure to do so could have a material adverse effect on the business, its operating results and financial prospects.

- **(Inflation risk):** As the Company may fix prices under its contractual arrangements with third parties, it may be affected by the rate of inflation which may result in lower margins for the Company and higher wages, operational costs and overheads which, in turn, impact the Company's financial performance and shareholders' interests. The Company has recently seen reduced margins due to long lifecycle project work being contracted in prior years at fixed rates and, subsequently, component and labour costs have risen substantially when the Company has begun installation of its products. Inflation in any other country in which the Company operates may similarly have an adverse effect on the Company's business and the value of the shares in the Company.
- Further, increases in the rate of inflation may also result in higher costs associated with supply and manufacture of the Company's products. If these costs are not successfully passed onto the Company's consumers or the Company fails to efficiently manage these costs, this may result in an adverse impact on the operations, financial performance and/or position of the Company.

RISKS (CONTINUED)



- **(Interest rate risk):** If the Company seeks further debt financing in the future, it would again be subject to interest rate fluctuations on its debt facilities. Variations in interest rates that are not effectively hedged may increase the Company's debt funding costs, and consequently have a material adverse impact on the Company's operations and financial performance.
- **(Product liability exposure):** There is no assurance that unforeseen adverse events or manufacturing defects will not arise in the Company's products. Adverse events could expose the Company to product liability claims or litigation, resulting in the removal of regulatory approval for the relevant products and/or monetary damages and other remedies being awarded against the Company. There is also a risk of the Company failing to deliver on customer contract technical requirements. In such events, the Company's liability may exceed the Company's insurance coverage, if any.
- **(Dividends):** There are a range of factors that determine and will determine whether any dividend may be paid by the Company. These factors include (without limitation) the profitability of the Company, its cash reserves, future capital requirements, legal requirements and the discretion of the Company's Board. The Company has announced net losses and is not in a position to pay any dividend and no forecast is made of future dividends. There is no guarantee that any dividend will be declared and paid by the Company.
- **(Pandemic risks):** Like many businesses in Australia and around the world, the Company has been adversely affected by the Coronavirus (**COVID-19**) pandemic. The Company has incurred significant losses due to reduced customer demand for its products and services, and due to supply chain disruptions, attributed (in part) to the COVID-19 pandemic. There is a risk that such factors may recur in future.

The long-term effect of COVID-19 on economies and the Company's business is not known, nor is the time-period in which COVID-19 will continue to have a global impact. The impact of the COVID-19 pandemic (or any future pandemics) on the group may change over time and affect different parts of the group in different ways. This could include (without limitation) impacting some of the Company's supply chain, operations, people and customers. There is also a risk that government or industry measures taken in response to COVID-19, such as lockdowns and other restrictions on movements, may restrict the Company's undertaking of ordinary business operations. There is also a risk that persons whom the Company is reliant on to conduct its business may be unable to work for a period of time if they contract COVID-19 or are required to isolate or quarantine. These business interruptions may have an adverse impact on the Company's operations.

There remains a risk that the COVID-19 pandemic, and any future pandemics or other natural disasters, may adversely affect the Company's financial position and financial performance.

- **(Ground water contamination):** In consultation with the Environmental Protection Authority, ground water contamination potentially originating from two of the Company's former South Australian sites continues to be monitored by the Company and it is anticipated that ongoing monitoring will be required to be undertaken by the Company. The Company has provided for the anticipated costs of ongoing assessments until 2029 in accordance with the Company's environmental monitoring plan. Currently no contamination has been identified, however the Company could be adversely affected by discovery of an environmental contamination or incorrect assessment of costs associated with an environmental contamination.
- Furthermore, any negative publicity or announcement relating to ground water contamination may adversely affect the price at which Shares trade on ASX, whether or not that negative publicity is justifiable.
- **(Organisational Capability Risks):** The Company must effectively manage the Company's skills, knowledge and resources to provide quality products and services to its customers. There is a risk that the loss of key personnel may adversely impact on the Company's ability to provide its products and services.
 - **(Product faults and research and development):** There is a risk of the products sold by the Company being faulty or otherwise breaching product specification requirements and contractual obligations. These matters could adversely affect the Company's financial performance, financial position and reputation. The Company's business activities and operations involve research and development, which has inherent risk, such as infringing third party intellectual property, non-compliance with laws and potentially wasted resources.
 - **(Insurance):** The Company's insurance policies, in some circumstances may not provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company.
 - **(Control risks):** The Entitlement Offer is partially underwritten by entities associated with the Hill-Ling family who currently hold voting power in approximately 19.90% of the Shares in the Company. This may potentially increase to up to approximately 47.95% pursuant to the Hill-Ling Parties' participation in the Entitlement Offer and (subject to the availability of shortfall of the Entitlement Offer) the underwriting of the Entitlement Offer.

RISKS (CONTINUED)



The potential consequences of the effect which the issue of New Shares pursuant to the Entitlement Offer may have on the control of the Company is that the Hill-Ling Parties may increase their abilities to influence the composition of the Company's board and the Company's management and strategic direction and to impact the outcome of resolutions of shareholders of the Company.

The Hill-Ling Parties' interests may not align with those of all other shareholders or management. The Hill-Ling Parties may, upon completion of the Entitlement Offer, hold voting power in approximately 47.95% of the Shares in the Company. This means that they would have the ability to prevent a special resolution from being passed by the Company (such resolution requiring at least 75% of the votes cast by members entitled to vote on the resolution) and would have the de facto ability to pass ordinary resolutions of the Company's shareholders, or to prevent ordinary resolutions from being passed, given that less than 100% of the shareholders are expected to vote at any general meeting.

• **(Underwriter risks):** The Entitlement Offer is partially underwritten (pursuant to an underwriting agreement) by Greybox Holdings Pty Ltd, Magnolia (SA) Pty Ltd and Juniper (SA) Pty Ltd (the **Underwriters**) (being entities associated with the Hill-Ling family) to the extent of \$2.5 million, less the aggregate offer price for any entitlements taken up by the Underwriters and any of their associates (together the **Hill-Ling Parties**) under the Entitlement Offer. The Offer Booklet summarises the terms and conditions of the underwriting agreement, which includes various conditions precedent, termination events and other provisions in favour of the Underwriters. There are risks the conditions precedent may not all be satisfied, or that some other termination event occurs, any of which could lead to the Underwriters terminating their partial underwriting of the Entitlement Offer. For example, there is a condition precedent to the underwriting that the Company receives applications for at least \$700,000 under the Entitlement Offer, in addition to the underwriting and in addition to any applications from the Hill-Ling Parties to participate in their entitlements under the Entitlement Offer (if any).

If the Underwriters terminate their underwriting, this:

- would likely have an adverse impact on the prospects of the Entitlement Offer;
- may (depending on the level of acceptances under the Entitlement Offer) reduce the likelihood of Hills raising the minimum \$3 million which is needed in order to satisfy one of the conditions precedent to the Company's lender's forbearance; and
- may negatively impact on the financial position and financial performance of the Company, and its ability to continue trading as a going concern.

In those circumstances, the Company may need to withdraw the Entitlement Offer, but the Board of Hills reserves its discretion not to do so.

• **(Workplace Health and Safety risks):** The Company's business activities may expose the Company's staff to potentially dangerous working environments. Workplace health and safety legislation and regulations differ in each jurisdiction. If any of the Company's employees suffers injury or death, compensation payments or fines may be payable and such circumstances could result in the loss of a licence or permit required to carry on the business. Such an incident may also have an adverse effect on the Company's business and reputation.

General Risks to the Company

• **(Ukraine Conflict):** The current evolving conflict between Ukraine and Russia (**Ukraine Conflict**) is creating and is likely to continue to create unpredictable impacts to the global economy and financial markets. The nature and extent of the effect of the Ukraine Conflict on the performance of the Company remains uncertain at this time. The trading price of Shares may be adversely affected in the short to medium term by the economic uncertainty caused by the Ukraine Conflict and the wider effect the conflict has on the global economy and financial markets.

Secondary and tertiary macroeconomic impacts of the Ukraine Conflict may continue to adversely impact the Company, including the fluctuations in commodity and energy prices and the potential risk of cyber activity impacting governments and businesses. Further, any governmental or industry measures taken in response to the Ukraine Conflict may potentially adversely impact the Company's operations and are likely to be beyond the control of the Company.

While the Company has not assumed any ongoing direct business with Ukrainian, Belarusian or Russian companies, the indirect impacts of the conflict may have unpredictable indirect consequences on the Company's future business. It is expected that the situation will continually evolve, and the consequences are therefore, inevitably uncertain.

RISKS (CONTINUED)

- **(General equity market risks):** The price at which Shares trade on ASX may be affected by a number of factors, such as the financial and operating performance of the Company and external factors over which the Company and its Directors have no control. These external factors include (without limitation) actual, expected and perceived general economic conditions, changes in government policy or regulation, significant events such as natural disasters or acts of terrorism, epidemics and pandemics, investor attitudes, changes in taxation, movements in interest rates, movements in stock markets, and general conditions in the markets in which the Company operates. In addition, investors should consider the historical volatility of Australian and overseas share markets.
- **(Economic conditions):** The performance of the Company is likely to be affected by changes in economic conditions. Profitability of the business may (without limitation) be affected by some or all of the matters listed below, each of which is inherently uncertain: (i) general financial issues which may affect policies, exchange rates, inflation and interest rates; (ii) deterioration in economic conditions, possibly leading to reductions in business spending and other potential revenues which could be expected to have a corresponding adverse impact on the Company's operating and financial performance; (iii) the strength of the equity and share markets in Australia and throughout the world; (iv) financial failure or default by any entity with which the Company is or may become involved in a contractual relationship; (v) industrial disputes in Australia and overseas; and (vi) increased commodity prices and other costs.
- **(Force majeure):** Events may occur within or outside the markets in which the Company operates that could impact upon the global and Australian economies, the operations of the Company and the market price of its Shares. These events include (without limitation) acts of terrorism, outbreaks of international hostilities, fires, pandemics, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease and other man-made or natural events or occurrences that can have an adverse effect on the demand for the Company's products and services and its ability to conduct business. Given the company has only a limited ability to insure against some of these risks, its business, financial performance and operations may be materially adversely affected if any of the events described above occurs.
- **(Climate Change):** Climate change may have an adverse effect on demand for the Company's products and services and on the feasibility of the Company's operations. A decrease in demand for the Company's products and services could have a significant adverse effect on its operations, business, and financial condition.

The activities and operations of the Company are subject to laws and regulations (and any changes to them) related to climate change mitigation efforts, specific taxation or penalties for carbon emissions or environmental damage and other possible restraints that may adversely impact the Company, its financial performance and the value of Shares. There can be no guarantee that the Company will not be impacted by these matters.

Climate change may also cause certain physical or environmental risks that cannot be predicted by the Company, such as events such as increased severity of weather patterns, incidence of extreme weather events and longer term physical risks such as shifts in climate patterns. Additionally, climate change may result in shortages in certain consumables and other products required to sustain the Company's operations, and any such shortage could impact its capacity to provide its products and services.

All of these risks associated with climate change may significantly and negatively affect the way the Company operates.

- **(Cyber security):** The Company relies heavily on its information technology systems including its networks, equipment, hardware, software, telecommunications and other information technology (collectively, **IT Systems**), and the IT Systems of third-party service providers, to operate its business as a whole. The Company's operations depend on the timely maintenance, upgrade and replacement of its IT Systems, as well as pre-emptive efforts to mitigate cybersecurity risks and other IT System disruptions.

IT Systems are subject to an increasing threat of continually evolving cybersecurity risks from sources such as computer viruses, cyber-attacks, natural disasters, power loss, defects in design, security breaches and other manipulation or improper use of the Company's systems and networks, resulting in, among other things, unauthorised access, disruption, damage or failure of the Company's IT Systems (collectively, **IT Disruptions**). Although to date the Company has not experienced any material data losses or financial impost relating to such IT Disruptions, there can be no assurance that it will not incur such losses in the future.

The occurrence of one or more IT Disruptions could have effects such as damage to the Company's equipment, downtimes, operational delays, destruction or corruption of data, increases in capital expenditures, expensive remediation efforts, distraction of management, damage to the Company's reputation or events of noncompliance which could lead to regulatory fines or penalties or ransom payments. Any of the foregoing could have a material adverse effect on the Company's results of operations and financial performance.

RISKS (CONTINUED)

- **(Litigation):** The Company has, and may in the future, become involved in litigation and disputes (see also the legal liabilities risk above). Any litigation or dispute could be costly and damaging to the Company's reputation and business relationships, which could have an adverse effect on its financial performance and industry standing.
- **(Taxation):** Changes in tax laws such as income tax, capital gains tax, GST or stamp duty legislation, case law, rulings and determinations issued by the Australian Commissioner of Taxation, foreign tax regulators or other practices of tax authorities, or the way they are interpreted, may adversely affect the Company's financial position or performance.
- **(Unforeseen Expenses):** While the Company is not aware of any expenses that may need to be incurred that have not been taken into account, if such expenses were subsequently incurred, the expenditure proposals of the Company may be adversely affected.
- **(Accounting standards):** Australian accounting standards are subject to change from time to time which could adversely affect the Company's reported earnings performance in any given period and its financial position or performance from time to time.
- **(Broader General Risks):** There are also a number of broader general risks which may impact the Company's performance. These include (without limitation):
 - abnormal stoppages in normal business operations due to factors such as war, political or civil unrest, terrorism, infrastructure failure or industrial disruption; and
 - higher than budgeted costs associated with the provision of product and service offerings.
- **(Speculative Nature of Investment):** The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of Shares. Therefore, Shares carry no guarantee with respect of dividends, returns of capital or their market value. Potential investors should consider that the investment in the Company is speculative and should consult professional advisers before deciding whether to invest.

HILLS.TM

David Clarke

**Managing Director and
Chief Executive Officer**

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