

HSC Technology Group March 2022 Quarterly Report

29 April 2022

- **Cash receipts from customers of \$0.7 million for the quarter**
- **Cash and cash equivalents at the end of the quarter was \$0.8 million**
- **A 12.4% increase in subscriptions which now total over 12,200**
- **Inventory on hand in the quarter increased by 86% to cater for the strong sales pipeline**
- **Initial purchase order for 5,000 units received from VitalCALL/Chubb**

HSC Technology Group Ltd (HSC or the Company) (ASX:HSC) is pleased to provide the following activities and business update alongside its Appendix 4C - Quarterly Cashflow Report for the quarter ended 31 March 2022 (the **quarter**).

HSC is continuing to execute on its strategy and increase the strength of its sales pipeline which is laying the foundations for a year of strong growth and increased market share. This was highlighted with the announcement (just after quarter end on 4 April 2022) of an initial purchase order for 5,000 personal emergency response systems (PERs) units from VitalCALL/Chubb, with revenue forecast from the order in excess of \$1.6 million.

In addition to the initial purchase order, the agreement includes a non-binding order target of 20,000 units from VitalCALL, providing a further 15,000 units in potential orders. Should HSC receive orders for the non-binding targeted number under the agreement, it would significantly bolster the Company's revenue going forward. HSC is committed to the execution and delivery of this rollout and have been focused on ensuring a disciplined inventory build to mitigate any potential supply chain issues.

Other recent wins include sales with new partners Globe Smartlife and IOTEC. These sales are within the Residential Aged Care and NDIS sector, continuing to validate the value of the Talius Platform in these higher care and acuity verticals. Partnering with quality reselling partners like Globe Smartlife and IOTEC furthers HSC's sales efforts and reach.

Globe Smartlife has been successful in securing the assistive technology for Heritage Care in Melbourne, who are a premium aged care provider with 10 homes and over 800 beds. Globe Smartlife are part of the wider Globe Telecoms group and specialise in seamless IoT solutions across the health and aged care sector.

IOTEC has been successful in securing a conditional purchase order for the assistive technology for Leigh Place in Roselands, a premium aged care provider with 100 apartments providing bespoke aged care solutions to resident's needs. IOTEC is a specialist IoT system integration company and was engaged as a consultant to Leigh Place Aged Care to identify the best assistive technology to support the future requirements of Leigh Place.

Across our aged care markets, we have seen the following activity this quarter:

Home Care

Our home care sales continue to grow with ongoing orders from ADT, Bolton Clarke, Feros Care, Sapio and Intelligent Home.

This quarter we have completed our first facility with MS QLD to provide our technology in the NDIS sector. HSC believes that the contract is an important first step in providing solutions for this sector. We have a further two sites with MS QLD that will commence shortly.

Residential Aged Care Projects

The HSC Major Projects division has a number of projects in various stages of construction and retrofit:

- Australian Unity – Albert Road, South Melbourne
- Australian Unity – Walmsley, Kilsyth Victoria
- ACH – Yankalilla, Highercombe, Milpara, and Perry Park
- Odyssey Private Aged Care - Robina Tower 3

Sales

Sales revenue recognised in the March quarter was \$0.8 million which was in line with Q1 2021.

On 4 April 2022 HSC announced the initial major purchase order from VitalCALL/Chubb for 5,000 PERs units totalling more than \$1.6 million in revenue. Sales receipts from the order are anticipated to commence in the third quarter this year, as well as increased subscription revenue as the new users are onboarded to the Talius Platform.

Together with our other material inventory order from ADT it brings the overall total from these two clients to \$2.5 million.

Other major projects driving future revenue already underway and due for completion in 2022 are:

	<u>Contract Value</u>
• Australian Unity – Kilsyth Victoria	\$0.9m
• Australian Unity – South Melbourne Victoria	\$1.1m
• Odyssey Private Aged Care - Tower 3 – Robina QLD	\$0.2m
• ACH – 4 sites South Australia	\$0.4m

All projects and hardware are connected to our Talius Smart Care Platform and generate ongoing subscription revenue.

Research and Development

HSC remains committed to a progressive and appropriate R&D program to ensure we meet the needs of our clients and anticipate requirements as those needs evolve.

During the quarter the R&D team continued to improve our Talius Smart Care Platform and have commenced the unified dashboard project. This development will provide our clients a single portal showing full visibility of our technology. The portal is being designed with a role hierarchy to ensure the right reporting and information is available for the specific roles across our clients' operations.

Marketing

With the significant headwinds in the aged care sector, including a number of the Royal Commission recommendations being legislated, and the impending 3G shutdown, the Company has increased its marketing drive with the aim of increasing its market share.

To this end, HSC has exhibited its products and platform at several recent trade shows and is strongly encouraged not only by the increased level of focus on the imminent shutdown of the 3G network but also the increased interest and engagement from aged care providers looking to implement assistive technology solutions. The trade shows attended were the first in two years - Australian Healthcare Week, Aged Care Leaders' Summit and the Aged Care IT Summit were all hosted in Sydney during March.

The Company is currently in advanced stages of negotiations with a number of corporate, not for profit and religious based new clients looking to replace their existing 3G networks and harness the advantages and efficiencies that our assistive technology solutions can deliver.

Financial Position

The Company closed the quarter with total cash of \$0.78 million. Inventory on the balance sheet was \$2.6 million, up from \$1.4 million in the previous quarter. The increase was required to cater for the strong sales pipeline based on recent contract wins.

The Company received payments during the quarter of \$0.67 million from sales of assistive technology to enterprise customers.

Total active subscriptions producing recurring revenue increased to more than 12,200 by the end of the quarter which represents a 12.4% increase from December 2021 and a 95.1% year on year increase.

Expenditure incurred throughout the quarter was \$1.65 million, with 52% (\$0.85 million) expended on investing in inventory for reasons outlined above, 34% (\$0.56 million) on R&D and staff costs including Directors fees with the remaining balance of 14% (\$0.23 million) going towards marketing, office rent and other general administration costs.

The related party payments of \$93,000 during the quarter detailed in Section 6 of the accompanying Appendix 4C relate to payments for Director fees, the Managing Director's salary, and superannuation payments. Please refer to the Company's Appendix 4C for further details.

Corporate

During the quarter the Company issued 50 million ordinary shares which were approved by Shareholders at the meeting held on 23 August 2018, which have been paid to the shareholders of

HomeStay Care Pty Ltd. This issue was triggered on the Company generating cumulative revenue of \$6,000,000 on or before 19 November 2022 and such revenue being independently confirmed. The satisfaction of this vesting criteria was independently verified by the Company's Auditors, the details of which were included in the Company's 2021 Annual Report.

Commenting on the quarter, Mr. Graham Russell, Managing Director said:

"With a challenging past two years of Covid, Royal Commission and record levels of low staff engagement we have seen a fatigued aged care sector make a stuttered start in 2022 with a slow January, looming Delta Covid variant in February but finally a renewed freedom and emergence in March.

We have been buoyed by the significant uplift in engagement of the sector and have seen the realisation of the investment in the HSC sales pipeline. The stall in previous years has provided an increased demand in activity of new developments, refurbishments and the increasing requirement to upgrade due to the impending 3G shutdown.

The HSC team was very excited by the client feedback at the recent trade shows, the first we have attended in two years. This has created a level of urgency and the realisation of how the IoT data our Talius Platform provides improves compliance, performance and visibility, plus an acknowledgement that remote patient monitoring is the only way forward for the future of the aged care sector.

This has delivered the recent wins alongside our existing current project pipeline providing a more stable revenue stream with another significant 12% increase of subscribers for the first quarter reaching over 12,000 subscribers. New reseller partnerships with NCIS, eHomecare, Globe Smartlife, ADT, Telstra Sapio and Vitacall Chubb total a committed sales pipeline so far for 2022 exceeding \$5.5 million, delivering a great start for 2022 and the HSC team and shareholders."

This announcement has been authorised by the Board of Directors of HSC Technology Group Ltd.

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About HSC Technology Group

HSC provides a suite of technology enabled care solutions to the aged and disability sectors, across multiple verticals including retirement living, residential aged care, home, and community settings to improve the quality of life, later in life.

HSC's Software as a Service (SaaS) data analytics platform Talius Smart Care combine smart sensors with AI machine learning (powered by CSIRO) that delivers automated actions. Talius links awareness, analysis, and action through one platform allowing the care model to move from spot check care to sense-respond care. Nursing staff can switch their focus from data collection to building human connection. And, most importantly, residents benefit from a new era of autonomy and dignity.

HSC helps protect and connect our elderly and people with disabilities with a scalable healthcare technology platform integrated with leading third-party providers to ensure end-to-end solutions for Connected Health.

- ❖ HSC Care
- ❖ HSC Home
- ❖ Talius

FORWARD LOOKING STATEMENTS

Certain statements contained in this ASX release, including information as to the future financial or operating performance of the Company and its projects, are forward looking statements. Such forward looking statements:

- (a) are necessarily based upon several estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant technical, business, economic, competitive, political, and social uncertainties and contingencies;*
- (b) involve known and unknown risks and uncertainties that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in such forward looking statements; and*
- (c) may include, among other things, statements regarding estimates and assumptions in respect of prices, costs, results, and capital expenditure, and are or may be based on assumptions and estimates related to future technical, economic, market, political, social, and other conditions. The Company disclaims any intent or obligation to publicly update any forward-looking statements, whether because of new information, future events, or results or otherwise.*

The words "believe", "expect", "contracted", "anticipate", "indicate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "will", "schedule", "planned" and similar expressions identify forward looking statements. All forward looking statements contained in this ASX release are qualified by the foregoing cautionary statements. Recipients are cautioned that forward looking statements are not guarantees of future performance and accordingly recipients are cautioned not to put undue reliance on forward looking statements due to the inherent uncertainty therein.

Appendix 4C

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

Name of entity		
HSC TECHNOLOGY GROUP LTD		
ABN		Quarter ended ("current quarter")
62 111 823 762		31 MARCH 2022

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	666	666
1.2	Payments for		
	(a) research and development	(38)	(38)
	(b) product manufacturing and operating costs	(854)	(854)
	(c) advertising and marketing	(50)	(50)
	(d) leased assets	(13)	(13)
	(e) staff costs	(521)	(521)
	(f) administration and corporate costs	(161)	(161)
1.3	Dividends received (see note 3)		
1.4	Interest received		
1.5	Interest and other costs of finance paid	(8)	(8)
1.6	Income taxes paid		
1.7	Government grants and tax incentives		
1.8	Other (provide details if material)		
1.9	Net cash from / (used in) operating activities	(979)	(979)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(31)	(31)
	(d) investments	-	-
	(e) intellectual property	(8)	(8)
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(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)	-	-
2.6	Net cash from / (used in) investing activities	(39)	(39)
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	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,794	1,794
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(979)	(979)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(39)	(39)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	776	776

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	730	730
5.2	Call deposits	46	46
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)	776	776

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	93
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

7.	Financing facilities <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>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	-	-
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.		
	N/A		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	(979)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	776
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	776
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	0.8
8.6	If Item 8.5 is less than 2 quarters, please provide answers to the following questions:	
	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. Over this quarter and next, inventory orders are larger than historically, to cater for the Company's strong sales pipeline. Net operating cash flow is anticipated to improve as these inventory orders convert to revenue proceeds in later quarters, in line with the reseller business model for hardware sales. The continued growth in subscription revenue will also assist cashflow going forward.	

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 board continuously monitors the capital needs of the Company and has explored both debt and equity market avenues to fund its cash requirements. The Company has received an offer of vanilla trade finance debt from a market leading specialist in the sector, which the board is considering. The board is confident, if necessary, that the Company will be able to raise funding through the capital markets.
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: Yes, for the reasons outlined in questions 1 and 2 above. In addition, the Company has a strong sales pipeline, and as orders are delivered and projects completed, the hardware sales continue to translate into recurring subscription revenue, which provide a path to profitability and net cash inflows.

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: 29 April 2022

Authorised by:By the Board.....
(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 – e.g. 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.