

HSC Technology Group September 2022 Quarterly Report

31 October 2022

- **Cash receipts from customers of \$1.7 million for the quarter**
- **Cash and cash equivalents at the end of the quarter was \$0.7 million**
- **Sales growth of 95% year on year for the quarter**
- **Major contract executed and purchase order received for approximately \$2.3 million**
- **Positive outlook for expanding sales pipeline and projects coming online**

HSC Technology Group Ltd (HSC or the Company) (ASX:HSC) is pleased to provide the following activities and business updates alongside its Appendix 4C - Quarterly Cashflow Report for the quarter ended 30 September 2022 (the **quarter**).

During the quarter, HSC was pleased to progress its strategy with further revenue from its sales pipeline, adding new clients for its assistive technology solutions, progressing its projects with development partners, and advancing commercial stages of negotiations with potential new clients.

Given the sales cycle for the industry is relatively long, it was incredibly pleasing to follow the end of the quarter with a major contract win with Lendlease's Retirement Living business. This contract, together with our major contract announced with Chubb / VitalCall in the June quarter, places HSC in a strong position heading into the end of year and beginning of next as these contracted sales are completed and convert to both upfront and recurring revenue.

Major Contract Win

On 6 October 2022, HSC announced that it had been awarded the contract to supply next generation assistive technology solutions to Lendlease's Retirement Living business as part of an upgrade and refurbishment process to the emergency call systems implemented across its retirement village portfolio, consisting of 75 retirement villages and over 16,000 residences.

The contract is for the supply of a customised assistive technology solution providing HSC's Care@home Hub and extra peripherals enabling the upgrade and allowing for future ageing in place solutions. All services will be delivered via HSC's Talius Smart Care Platform as a subscription service.

Revenue for the initial purchase order of 5,000 units is forecast to be approximately \$2.3 million. The project has commenced, and completion is anticipated for Q1 2023.

Sales

The Company received cash payments during the quarter of \$1.7 million from sales of assistive technology to enterprise customers.

In addition to existing reseller and project partners, it was also pleasing to announce new projects and products, including:

- Village Glen will be supplied with HSC's next generation assistive technology solution for 610 villas at their Capel Sound Retirement Village. The project scope included the supply of HSC's Care@Home Nurse Call solution, wearable pendants and voice-activated emergency call technology.
- HSC's partnership with Essence-Singapore and the St. John's Home for Elderly Persons (SJH) continues with the provisioning of an order for Uniper IPTV solution, a recent addition to HSC's solutions suite and Talius Smart Care Platform.

Subscriptions

Subscriptions for the quarter remained stable at approximately 13,000 with a greater level of material growth anticipated for Q4 2022 and Q1 2023 as our projects such as Australian Unity are completed and sites become live, in addition to the substantial number of new customers from the Chubb / VitalCall and Lendlease contracts being onboarded to our Talius Smart Care Platform.

Research and Development

During the quarter HSC produced a milestone release of the new maintenance dashboard for its Talius Smart Care Platform. This provides users multi-level enterprise views of all technical data in an easy-to-understand format for subscriber clients. The presentation of the data is transformed by roles-based hierarchies, allowing all members of a customer organisation to easily visualise only pertinent data.

HSC has continued to work with partners in Singapore to improve the accuracy of the Talius RTLS mapping solution and also resident falls detection, further reducing false positives. HSC is reviewing RTLS visualisation layers to provide enhanced mapping solutions to our customers.

HSC's new MPERS solution (Lifepod) has completed several successful pilots, and we have some large security companies moving to full commercial use of this product.

HSC has also commenced trials with the Cardiacsense wearable with Cardiologists in both Australia and Singapore to ensure robust accuracy and a strong commercial pathway

Marketing

HSC's Managing Director, Graham Russell, recently hosted a webinar with Telstra's Julieanne Pritchett, the Telstra IoT Sales Chapter Lead, on the topic of the 3G sunset and technology migration. Graham and Julieanne discussed how the shutdown of the 3G network will affect aged care, and how aged care providers should look at upgrading their systems now.

Julieanne was able to provide valuable insights on Anglicare Sydney and their adoption of HSC's technology, which HSC was very proud to partner with Telstra and Sapio to deliver the client.

HSC's Managing Director, Graham Russell, was also a guest speaker at The Master Communities Conference in Sydney. Graham's presented HSC's Talius Smart Care Platform to senior executives in the aged care sector, and on how by using HSC's technology, they can provide ageing in place solutions to their new communities.

Financial Position

With sales continuing to grow, HSC recognised revenue of \$1.6 million¹ in the quarter, a significant increase of 95% on the previous period last year. Overall YTD we have seen a 44% year on year sales increase.

The Company closed the quarter with total cash of \$0.67 million. Inventory on the balance sheet was \$3.54 million, which positions the Company well to accommodate the sales pipeline. HSC continues to invest in additional stock on hand to ensure continuity of supply to our clients and anticipated pipeline.

The Company received cash payments during the quarter of \$1.69 million from sales of assistive technology to enterprise customers.

Expenditure incurred throughout the quarter was \$2.53 million, with 65% (\$1.65 million) expended on inventory to accommodate the sales pipeline, 22% (\$0.56 million) on R&D and staff costs, with the remaining balance of 13% (\$0.32 million) going towards marketing, office rent and other general administration costs.

The related party payments of \$89,000 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.

Outlook

HSC continues to develop momentum and a solid pipeline provides the Company confidence that it can achieve a strong finish to the year and places the Company in a promising position for the start of 2023.

As existing projects are completed and hardware for our larger clients delivered, we expect a significant increase in subscriptions which translates into increased recurring revenue for the Company.

HSC will look to continue the technology roll out with existing clients, and to work to gain additional clients from some of our larger customers' client bases. The Company currently has a strong level of active leads, and while there are no guarantees on conversion, we anticipate future sales success for a number of these as they are in commercial stages of negotiation.

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

"We're incredibly pleased to have recently secured a major purchase order with Lendlease and look forward to continuing to work with them beyond this initial order."

"Given the macro environment, we are working closely with our suppliers as well as our customers to ensure we manage our cash efficiently while continuing to mitigate supply chain risks. We continue to be focused on the path to profitability and are targeting being cash flow positive for Q1 2023."

¹ Unaudited

The Company is working diligently on project and product delivery. We continue to build on our existing client base and are committed to being the trusted assistive technology partner in the aged care, retirement living and home care markets."

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

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About HSC Technology Group Ltd. (ASX: HSC)

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 combines 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		30 SEPTEMBER 2022

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	1,694	3,791
1.2	Payments for		
	(a) research and development	(38)	(118)
	(b) product manufacturing and operating costs	(1,649)	(3,847)
	(c) advertising and marketing	(28)	(108)
	(d) leased assets	(25)	(74)
	(e) staff costs	(523)	(1,543)
	(f) administration and corporate costs	(259)	(582)
1.3	Dividends received (see note 3)		
1.4	Interest received		
1.5	Interest and other costs of finance paid	(8)	(25)
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	(836)	(2,506)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(4)	(36)
	(d) investments	-	-
	(e) intellectual property	(2)	(10)
	(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	(6)	(46)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	1,500
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	-	(27)
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	-	1,473

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,511	1,748
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(836)	(2,506)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6)	(46)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	1,473
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	669	669

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	669	1,511
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)	669	1,511

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	89
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)	(836)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	669
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	669
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	0.80
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?	
	<p>Answer:</p> <p>No. The Company expects the net operating cash flow position to improve from this quarter to the next as a result of terms agreed with the Company's major supplier, combined with anticipated material cash receipts from existing contracted sales orders with our larger clients, details of which are referenced in the accompanying activities report. Having a strong inventory build has positioned HSC to service existing and future demand and shortened timeframes for order delivery and cash receipts.</p> <p>Net operating cash flow is anticipated to further improve into Q1 2023 following product delivery for the contracted sales secured with major clients. The continued growth in subscription revenue from these major contracts will also assist cashflow going forward.</p>	

	<p>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?</p>
	<p>Answer:</p> <p>The board continuously monitors the capital needs of the Company and has explored both debt and equity market avenues to fund its cash requirements.</p> <p>The Company intends to fund its operations with cash inflows from major contracts recently awarded and existing sales pipeline. Should the need arise to increase the Company's cash buffer requirements, the Company may consider a short-term debt facility.</p> <p>The board is also confident, if necessary, and based on previous successful funding events that the Company will be able to raise funding through the capital markets.</p>
	<p>3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?</p>
	<p>Answer:</p> <p>Yes, for the reasons outlined in questions 1 and 2 above.</p> <p>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.</p>

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 October 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.