

HSC Technology Group June 2020 Quarterly Report

31 July 2020

- Cash receipts of over \$920,000 during the quarter following \$1 million cash received in Q1
- Quarterly net cash burn of \$296,000, which is a reduction from \$366,000 in Q1
- Over \$900,000 in sales orders received in the quarter, following \$1.5 million in sales orders in Q1
- Cash and cash equivalents at the end of the quarter was \$2.042 million
- The Company now has more than 2,700 active commercial subscriptions in Australia and New Zealand, an increase to the 2,000 reported in Q1
- COVID-19 has highlighted the potential to improve care delivery and safety of the elderly through fast-tracking the adoption and implementation of assistive technology and Personal Emergency Response Systems (PERS), whilst enhancing protection for residents, care workers and improving communication for the family and community

HSC Technology Group Ltd (ASX:HSC) (“HSC”, or “Company”) is pleased to provide the following business update alongside its Appendix 4C Quarterly cashflow report for the quarter ended 30 June 2020 (the “Quarter”).

HSC Business Model and IoT Platform

HSC has created three divisions as part of a revised go-to-market strategy:

- ❖ HSC Care – providing solutions for telehealth and smart care, inclusive of the Personal Emergency Response Systems (PERS) – powered by our brands partners: Essence Ageing in Place, uVue Telehealth, CardiacSense Vital Signs monitoring and G Medical (GMV).
- ❖ HSC Home – incorporates solutions for home automation and smart home, powered by our brand partner Essence’s WeR@Home security product range
- ❖ TALIUS – houses HSC’s IoT ecosystem, including our proprietary Artificial Intelligence capability. The TALIUS solution enables the integration of discrete sensor data across a range of partner products to deliver decision making insights.

The Company’s IoT platform, TALIUS, receives data via multiple sensors aggregated from enterprise grade systems. These detect Activities of Daily Living (ADL) through various sensors from devices integrated into the platform. This data is triaged with customised rule sets and AI predictive analytics, which is then distributed through multiple communication formats to:

- Families through mobile applications
- Carers through mobile applications
- Care teams through dashboard portals
- Executive Management Teams portals
- Nurse Call Systems
- 24 hour Monitoring Response Centres

The Company has distribution rights with numerous global companies to provide best of breed sensor technology to provide cloud based, scalable, low cost sensor data. The business model involves up-front project implementation and ongoing support with recurring revenue streams. The Company focuses on the Aged Care and Community Care markets by partnering with a number of innovative health technology companies to provide a comprehensive suite

of solutions. This will further extend the application of the IoT platform into other areas to provide a holistic solution to the sector and facilitates an integrated delivery platform comprising a large innovative product suite to meet each customer's unique needs.

The Company's IoT platform uses a dashboard to aggregate all of the above data into a single overview to provide carers and families information that can provide insights into a client's or resident's well-being and provide predictive indicators of deterioration in health and allow early intervention to potentially avoid hospitalisation.

Operations and Enterprise Customer Sales

The Company remains focused on delivery of its sales strategy and customer projects. HSC has several enterprise customer projects underway delivering bespoke assistive technology. The Company has more than 2,700 active commercial subscribers in Australia and New Zealand, with further subscriptions to be added pursuant to committed contracts and projects.

During Q1, the Company was awarded a tender to provide Nurse Call Systems in South Australia for Aged Care & Housing Group Inc (**ACH Group**). The project is for the delivery of assistive technology at 9 residential aged care sites which currently includes more than 800 residents collectively. The Company has received purchase orders of over \$1 million for the first four sites pursuant to the project and continues to work closely with the ACH Group to deliver these sites. During this quarter, HSC received further orders from ACH for a fifth site for approximately \$335,000.

HSC has a master services agreement with national aged care provider RSL Care RDNS Limited (trading as Bolton Clarke) (**Bolton Clarke**). During this quarter, the Company has received orders for more than 1,250 additional Personal Emergency Response Systems (PERS) units and continues to work closely with Bolton Clarke on installation and delivery for the programme.

In March 2020, the Company was awarded a contract for the delivery of assistive technology to a development by Odyssey Private Aged Care on the Gold Coast, Queensland (**Odyssey Project**). The project is for new 99 independent living apartments in the first 2 towers built, with the contract direct with the builder J. Hutchinson Pty Ltd. During this quarter (Q2), HSC received additional orders from Odyssey for approximately \$50,000 of project variations. The Odyssey contract has been successfully completed on-time and on-budget.

The Company continues to work with Enliven Housing delivering assistive technology to the disability sector. Enliven Housing is part of the Enliven Group, with Enliven Housing being a specialised provider of disability accommodation (SDA) registered housing, catering for people with assessed as requiring high physical support, fully accessible and improved liveability accommodation. The Company believes this agreement is significant in providing investor confidence in HSC's business model and contribution to overall ramping-up of the business, particularly as a commercial contract in the disability sector.

Financial Position

The Company had a strong June quarter with \$920,000 cash received from sales of assistive technology to enterprise customers despite the challenges of COVID-19 restricting access to many aged care facilities.

HSC is expanding its revenue base by adding complementary products to the solution mix, actively targeting additional reseller partners and new customers, and looking at ways to increase its profit margins.

It is noted that the Quarterly (Q2) net cash burn of \$296,000 has reduced from \$366,000 in Q1. The Company continues to take proactive steps to reduce fixed costs and operational expenditure.

The Company closed the quarter with total cash of \$2,042,000 as at 30 June 2020. The related party payments of \$93,000 noted in Section 6 of the accompanying Appendix 4C during in the quarter relate to payments for director fees, salaries and superannuation, and legal services to Edwards Mac Scovell Legal (an entity associated with Ms Sara Kelly). Please refer to the Company's Appendix 4C for further details.

Corporate

We consider the delivery of assistive technology to Aged Care and Community Care markets to be an essential service in Australia. The Company continues to focus on the delivery of projects and work closely with its partners, enterprise customers and suppliers globally as the team work remotely, other than a small team at the Company's warehouse. HSC continues to actively monitor the impact of COVID-19 on its team, trading and supply chain with the health and safety of the Company's employees and customers being paramount.

The Royal Commission into Aged Care confirmed the need for innovative models of care, in particular the use of assistive and supportive technology. This creates an opportunity for HSC and adoption of its assistive technology to deliver real and tangible benefits to delivery of care to vulnerable people.

Commenting on the Quarter, Mr Graham Russell, Managing Director said: "It has been a tough three months not financially but more operationally, the team has worked extremely hard and I am very proud of what we have achieved within the COVID environment. We have delivered a lot even under the lock down challenges, recently completing the Odyssey Private Aged Care Robina project and nearing completion for ACH Kapara in Adelaide. We have also been able to continue remotely supporting many of our reselling partners with staging, configuration and logistics to roll out Ageing in Place technology.

Internally we have implemented a new Inventory Management System to assist with operational efficiencies in our warehouse dispatching, implemented new business verticals of HSC Care, HSC Home and TALIUS AI Analytics, which in turn has required website updates and refined marketing strategies.

These improvements will position us well to continue to support the health and aged care industry as they look to improve care practices post COVID-19."

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

Investor Enquiries:

Melanie Ross

Company Secretary

08 6188 8181

investors@hsctechnologygroup.com.au

About HSC Technology Group

HSC provides a range of Connected Health and Smart Home solutions.

The HSC assistive technology platform allows seniors and people with disabilities to live independently via "Aging in Place" solutions, through the use of data analysis, as well as human monitoring, to determine residents' routines and detect anomalies. These early insights allow for better decision-making by care providers and families, allowing more focused service, minimising unnecessary care and facilitating welfare checks in a more responsive manner.

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 Technology Group's Software as a Service (SaaS) data analytics platform TALIOUS uses next generation Machine Learning and Artificial Intelligence to deliver decision-making insights that improves people's safety, independence, autonomy and most importantly improves their lives.

- ❖ HSC Care
- ❖ HSC Home
- ❖ TALIOUS

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 a number of 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 as a result 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 June 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	924	1,944
1.2 Payments for		
(a) research and development	(35)	(40)
(b) product manufacturing and operating costs	(883)	(1,806)
(c) advertising and marketing	(16)	(39)
(d) leased assets	(10)	(22)
(e) staff costs	(229)	(468)
(f) administration and corporate costs	(144)	(311)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	2
1.5 Interest and other costs of finance paid	(1)	(20)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	98	98
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(296)	(662)

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2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(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	-	-
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	-	(40)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-

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3.9	Other (provide details if material)	6	6
3.10	Net cash from / (used in) financing activities	6	(34)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,334	2,744
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(296)	(662)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	6	(34)
4.5	Effect of movement in exchange rates on cash held	(2)	(6)
4.6	Cash and cash equivalents at end of period	2,042	2,042

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,016	2,308
5.2	Call deposits	26	26
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,042	2,334

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

Appendix 4C

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7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
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)	296	
8.2 Cash and cash equivalents at quarter end (Item 4.6)	2,042	
8.3 Unused finance facilities available at quarter end (Item 7.5)	-	
8.4 Total available funding (Item 8.2 + Item 8.3)	2,042	
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	6.9	
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: N/A		
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: N/A		
3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?		

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Answer: N/A

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 July 2020

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 – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

June 2020 Quarterly Report Disclosure

HSC provides the following disclosures required by ASX Listing Rule 4.7C.2 regarding a comparison of its actual expenditure to 30 June 2020 since listing on 19 November 2018 against the “use of funds” statement in its supplementary prospectus dated 5 September 2018.

The Company’s total use of funds to the quarter ending 30 June 2020 was \$9.11 million. This was made up of \$6 million (being funds raised at IPO and existing cash), an additional \$2.81 million of cash receipts from sales and government grants, and further net funds received from capital raising of \$3.75 million over the same period.

Comparison table of actual expenditure compared to the use of funds

Use of Funds	Estimate	Actual
Enhancement of platform, including security updates and IoT devices integration	\$800,000	\$1,098,000
Business development	\$370,000	\$89,000
Sales and marketing	\$370,000	\$468,000
Intelligent Home installation, hardware, on-going monitoring services, data management and analytics	\$1,700,000	\$3,268,000
Operations	\$300,000	\$507,000
Identification of new opportunities and market	\$100,000	\$26,000
Working capital	\$1,860,000	\$3,121,000
Expenses associated with the Public Offer	\$500,000	\$532,000
TOTAL	\$6,000,000	\$9,109,000

**The use of funds is allocated on a budgeted basis to which expenditure incurred will be dependent on timing factors, resourcing, sequence & priority of work programs and impact of external economic & operational factors.*

Of the \$6 million (being funds raised at IPO and existing cash), the Company spent less than estimated on “Business development” due to timing factors and spent more than estimated on “Intelligent Home installation, hardware, on-going monitoring services, data management and analytics” and “Working capital”. This increased spend was due to increased demand for products and solutions from current and prospective customers, as well increased corporate and administrative costs over the period.

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