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Annual Report

31 DECEMBER 2021



The information contained in this document should be read in conjunction with HSC Technology Group Ltd's public announcements made in accordance with the continuous disclosure obligations arising from the Corporations Act 2001 and the ASX Listing Rules.

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DIRECTORS

Mr Leylan Neep	(Executive Chairman)
Mr Graham Russell	(Managing Director)
Mr Ramsay Carter	(Non-Executive Director)

COMPANY SECRETARY

Stephen Rodgers

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Dear Shareholders

It is our pleasure to present the 2021 Annual Report of HSC Technology Group Ltd.

The board is pleased with the progress the Company has made over the past 12 months, especially considering the impact COVID-19 has had on markets and particularly our sector. During the year, we laid key foundations for future growth, by establishing additional strategic partnerships with Telstra / Sapio, VitalCall, Tunstall and ADT, as well as winning new projects, developing new product lines, and growing our subscribers on our Talius Smart Care Platform, which we continue to invest in.

The current challenges in the aged care industry serve as a perfect catalyst for providers to look towards innovative solutions, which only increases the relevance of our products and platform, assisting facilities as they strive to meet added compliance and monitoring obligations.

HSC continued to progress its sales strategy across our aged care markets, including continued sales in home care and retirement villages. Our projects division was also kept very busy, completing projects such as St John's Home for the Elderly Persons, Singapore, and winning major new contracts, including two new sites for Australian Unity.

We were also pleased to announce a partnership with integratedliving, which will see the first commercial use of CSIRO-researched and patented Smarter Safer Homes (SSH) technology, which is exclusively embedded in our Talius platform.

Our revenue for 2022 grew by 17% from the previous year, and our annualised recurring revenue grew by 108%, as our hardware sales are delivering more subscribers to our platform. We reached the important milestone of 10,000 subscriptions, and at the date of this report, have over 11,000 subscriptions on our Talius platform.

We continued to invest in our Talius Smart Care Platform and expanded our suite of sensors and features to incorporate new product lines such as our HSC Sleepsense bed sensor and Talius Track RTLS: real time locating system technology that is aimed at delivering a comprehensive solution to our customers.

As the tailwinds of the Royal Commission recommendations being legislated and the impending 3G shutdown gather pace, together with increasing levels of compliance and skills shortages, we anticipate that the delayed decision making witnessed in the industry this year will shift to an ever-pressing need and willingness to adopt technology solutions. We are well placed for this and continue to see strong growth opportunities across the sector.

We are confident in our strategy of offering a business-to-business enterprise solution and aware of the challenges faced by the organisations we support. We look forward to continuing working closely with providers and increase the technology implementation which provides immediate benefits to carers and residents and the operator's bottom lines.

We'd like to take this opportunity to thank all our staff for their contribution during the year – we have a team that is strongly focused on our purpose, which is 'to improve the quality of life, later in life'. We would also like to thank our fellow Director, Ramsay Carter, for his ongoing commitment and effort.

Finally, we offer our gratitude to our shareholders for their continued support. We are optimistic regarding our pipeline for 2022 and beyond and look forward to delivering value for our shareholders.



Leylan Neep
Chairman



Graham Russell
Managing Director

Your directors present their report, together with the financial statements on the consolidated entity, consisting of HSC Technology Group Ltd (or 'the Company') and the entities it controlled at the end of, or during, the year ended 31 December 2021 ('consolidated entity' or 'Group').

DIRECTORS

The names of directors in office at any time during or since the end of the year are listed below. Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

NAME OF PERSON	POSITION
Graham Russell	Managing Director
Ramsay Carter	Non-Executive Director
Leylan Neep	Executive Chairman

COMPANY SECRETARY

Stephen Rodgers

OPERATING RESULTS

The loss of the consolidated entity amounted to \$2.1 million (2020: \$2.4 million) after providing for income tax.

DIVIDENDS

No dividends were paid or declared since the start of the financial year. No dividend has been recommended.

PRINCIPAL ACTIVITIES

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 Talus Smart Care combines smart sensors with AI machine learning (powered by CSIRO) that delivers automated actions. Talus links awareness, analysis, and action through one platform allowing the care model to move from spot check care to sense-respond care.

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.

REVIEW OF OPERATIONS

Despite COVID-19 posing unprecedented operational challenges which impacted the pace at which implementation decisions were made in the Aged Care Industry, HSC achieved sales growth of 17% for the year. During the financial year, HSC continued to execute its corporate strategy through:

- ❖ **Hardware sales growth:** HSC is seeing continued growth across our aged care markets:
 - Home Care – with our reselling partners Telstra/Sapio, ADT, Bolton Clarke, Tunstall, Feros Care, Meditrak and Hammond Care.
 - Retirement Villages – with the impending 3G network shutdown and the need to replace 3G personal medical emergency devices across the sector, our partner Telstra / Sapio has commenced the upgrade of 2,300 devices for Anglicare Retirement Villages in NSW.

- Residential Aged Care – projects with our reselling partner ehome care for the Finley Residential Aged Care home and Intelligent Home for the NDIS Summer Housing Project and our continued rollout of sites with the ACH Group.
- International – the completion of the St John's Home for Elderly Persons in Singapore
- ❖ **SaaS revenue growth:** HSC's subscriptions to our Talius Smart Care platform by the end of the financial year had reached more than 10,900 and by February 2022 have surpassed 11,000. Subscription numbers at year end represent a 132% year on year increase.
- ❖ **Continued investment in HSC's Talius Smart Care platform:** In the pursuit of meeting our clients' needs and anticipated future needs we continue to evolve the capability of Talius. In this financial year the development team have:
 - Integrated CSIRO's Activities of Daily Living algorithm. This software delivers insight on each resident by creating a profile of daily living activities with data captured through a bespoke wristband. It provides care teams with a first to market proactive care platform.
 - Integrated the Toch Sleepsense bed sensor. This sensor provides real time information on in and out of bed status, heart rate, breathing rate and sleep assessment reporting.
 - Integrated HSC's Talius Track RTLS (Real-time locating systems) into the Talius Smart Care Platform which allows residents as they approach a door it locks or unlocks automatically depending on the residents' access rights. This assists with safety concerns and dementia wandering providing more peace of mind for families, improving operational efficiencies for carers, as well as improving dignity and autonomy for residents.
 - Integrated HSC's Life Pod which is a waterproof 4G smart personal mobile alarm and emergency location device.
 - Integrated HSC's Laundry Garment Management system, a comprehensive tracking solution for the monitoring and management of resident's laundry items.
- ❖ **Significant new partnerships in the distribution network:** This year HSC has entered into pivotal reseller partnerships with Tunstall Healthcare, VitalCaLL/Chubb, and Johnson Control's ADT.
- ❖ **Future projects awarded for delivery in 2022 include:**
 - Australian Unity - Albert Road and Walmsley in Victoria
 - ACH – Yankalilla, Highercombe, Milpara, Daw Park, Perry Park, and West Park in South Australia
 - The Healey Retirement Village in Victoria
 - Odyssey Private Aged Care - Robina Tower 3 at the Gold Coast QLD
- ❖ **Balance Sheet:** HSC has finalised the closure of overseas entities and simplified HSC's corporate structure.

The 2021 year has provided a solid foundation to build on as we continue our journey into 2022 and beyond. With market leaders in aged care joining us as partners and clients we are building our credibility and reputation as leaders and innovators in assistive technology for the aged care sector.

Through our Talius Smart Care Platform and sensor technology we are shifting the paradigm from spot-check care to sense-respond care. Our technology is assisting the aged care sector to solve the industry's big five challenges:

- ❖ **Better Compliance** by capturing, analysing and using the right data to ensure compliance at the click of a button.

- ❖ **Staff Engagement** by maximising staff utilisation, removing unnecessary repetition to increase satisfaction.
- ❖ **Family Communication** by giving families access to information in real-time, reducing stress and the likelihood of complaints.
- ❖ **Resident Autonomy** through data-informed management that helps to create more dignified and private environments.
- ❖ **Commercial Viability** through improved technology and care that provides a competitive edge that increases occupancy.

FINANCIAL POSITION

HSC's revenue for the year ended 31 December 2021 (FY21) was \$3.6 million which is an increase of \$0.5 million or 17% compared to \$3.1 million for the year ended 31 December 2020 (FY20). The growth was hampered by the challenges presented to the aged care sector through the continuing COVID-19 pandemic.

The Group's total loss for the year ended 31 December 2021 was \$2.1 million, an improvement of \$0.3 million or 13% compared to FY20. Net cash outflows from operations were \$2.5 million (2020: \$1.2 million). There was a slight increase in gross margin in FY21 to 32.4%, up from 31.6% in FY20.

Included in the Group's loss for FY21 is a provision of \$0.3 million for legacy 3G stock. While there may be value for this inventory in other jurisdictions, we have chosen to be conservative in our classification given the impending 3G shutdown in Australia. Also included was an increase of \$0.9 million to employee benefits expenses, of which \$0.6 million was attributed to an incremental investment in team resources to strengthen our business development team, technical support, and corporate services. We believe this investment appropriately sets the foundation for future growth. The balance of the employee benefit expenses was due to the cessation of the COVID-19 jobkeeper support of \$0.3 million which offset this expense line in FY20. Through 2021 HSC has devoted considerable energy into our marketing resources and collateral including a full rebrand, new website, business development materials and investor presentations.

During 2021, HSC finalised the balance sheet initiatives commenced in 2020 with the shutdown of the final overseas subsidiaries across Singapore and the USA:

- HomeStay Care Solutions Pte Ltd was deregistered on 8 February 2021.
- Advance Wolfberry Inc was deregistered on 11 April 2021.
- Advance Exploration and Production was deregistered on 11 August 2021.

The net asset position of the Company at 31 December 2021 was \$3.5 million which is a decrease of \$1.9 million compared to \$5.4 million in FY20. The movement was primarily made up of a decrease in cash of \$2.7 million, an increase in inventory of \$0.3 million to cater for a growing sales pipeline, and the net movement in receivables and payables of \$0.3 million. HSC ended the period with cash of \$1.8 million.

The consolidated entity's net working capital, being current assets less current liabilities is a surplus of \$3.4 million (2020: \$5.0 million).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year.

EVENTS AFTER THE REPORTING PERIOD

In compliance with its continuous disclosure obligations, the Company will continue to update the market in regard to the impact of COVID-19 on its revenue channels and adverse impact on the Company. If any of these impacts appear material, the Company will notify investors through appropriate market updates.

The directors are not aware of any other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

LIKELY DEVELOPMENTS

The Company will continue to develop and commercialise its assistive technology platform and deliver its existing client projects. After considering external factors such as the shut-down of the 3G telecommunications network and the final report from the Royal Commission into Aged Care, the Company expects continuing strong growth in the use of assistive technology.

ENVIRONMENTAL REGULATION

The Company's operations are not subject to any significant environmental regulation under Australian Commonwealth or State law.

INFORMATION ON DIRECTORS

Mr Leylan Neep	Director (Executive Chairman) (appointed 1 September 2020)
Qualifications	B.Com, FCPA, GAICD, FGIA, FCIS
Experience	<p>Mr Neep is a highly experienced Director and C-Suite Executive who brings a wealth of corporate skills and market knowledge to his role at HSC Technology Group.</p> <p>He has held senior roles across a range of both ASX-listed and private entities, possessing over two decades of expertise in the financial services industry.</p> <p>Mr Neep has a proven track record in finance, governance and funds management and has been involved in several IPO's/ ASX listings and numerous capital raising efforts, including rights offers, institutional and private placements for both corporate entities and managed investment schemes.</p> <p>He is a Fellow of CPA Australia (FCPA), a Fellow of Governance Institute of Australia (FGIA), and a Graduate of the Company Directors Course run by the Australian Institute of Company Directors (GAICD).</p>
Interest in shares, options and performance rights	<p>6,000,000 fully paid ordinary shares</p> <p>6,000,000 performance rights</p>
Directorships held in other listed entities	Nil

Mr Graham Russell

Managing Director

Experience

Mr. Russell has over 25 years' experience in Systems Integration and Sensor technology solutions across all verticals of Healthcare, Utilities, Mining and Governments. Mr Russell is incredibly passionate about helping our older generation stay independent, and pioneering the adoption of seamless technology solutions to help families, care providers and the elderly.

Mr Russell has been instrumental in developing and localising assistive technology that is a cost effective, scalable solution using Artificial Intelligence and an integrated IoT platform to detect health deterioration, fall alerts and provide early intervention, including the Essence Care@home solutions in the APAC region. Mr Russell currently works with numerous National Aged Care providers, Government, Utility and Telecommunication companies throughout APAC to transform their clients' lives, connect with their families and provide operational efficiencies and financial returns to all involved.

Mr Russell was previously the CEO of the Ambush Group, a national Systems Integration business where he started on the tools as an Electronics Technician installing and integrating solutions like Nurse Call, CCTV, Access Control, Security, WiFi, Internet, Fibre solutions, etc for Hospitals, Residential Aged Care, Councils, Financial and Government facilities.

Interest in shares, options and performance rights

145,800,000 fully paid ordinary shares
30,000,000 performance rights

Directorships held in other listed entities

Nil

Mr Ramsay Carter

Director (Non-Executive) (appointed 16 June 2020)

Qualifications

LLB, B. Int.Bus., MAICD

Experience

Mr. Carter brings over 20 years' experience in global investment banking holding senior positions in Australia, Tokyo, Hong Kong and Singapore. Most recently, he was Head of Global Capital Markets, Asia Pacific for Scotiabank. He has thorough knowledge and governance over multiple jurisdictions throughout his career, in a highly regulated industry, especially within Asia Pacific, UK and North America. Mr Carter is a proven leader with particular focus on clear lines of communication and accountability, alignment of interests and creating an environment of respect, diversity and challenge. Mr Carter has a Bachelor of Laws and International Business and is a member of AICD.

Interest in shares, options and performance rights

15,000,000 fully paid ordinary shares
Nil performance rights

Directorships held in other listed entities

Nil

MEETING OF DIRECTORS

Name	Number eligible to attend	Number attended
Graham Russell	8	8
Leylan Neep	8	8
Ramsay Carter	8	8

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company has indemnified the directors and executives of the Company for the costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith. During the financial year, the Company paid a premium in respect of a contract to ensure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

SHARES UNDER OPTION

At the date of this report there are 100,000,000 unissued ordinary shares in respect of which options are outstanding.

Expiry date	Grant Date	Exercise price	Number of options
13 November 2023	13 November 2018	\$0.03	80,000,000
1 August 2022	28 May 2019	\$0.05	4,000,000
1 February 2023	28 May 2019	\$0.07	4,000,000
3 February 2023	14 January 2020	\$0.02	10,000,000
3 February 2022	14 January 2020	\$0.05	2,000,000
Total number of options outstanding at the date of this report			100,000,000

Option holders do not have any rights to participate in any issues of shares or other interests of the Company or any other entity.

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

REMUNERATION REPORT (Audited)

This report details the nature and amount of the remuneration for each Key Management Person ('KMP') of the consolidated entity for year ended 31 December 2021.

The remuneration report is set out under the following headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Shareholdings
- F Performance rights holdings
- G Options

The information provided under headings A-G includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited.

A. Principles used to determine the nature and amount of remuneration

The Board of Directors is responsible for determining and reviewing compensation arrangements for KMP. It assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of high quality KMP.

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Transparency
- Capital management

The Board policy is to remunerate non-executive directors at fair market rates for comparable companies for the relevant time, commitment, and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually based on market practice, duties and accountability. The maximum amount of fees that can be paid to directors is subject to approval by shareholders at General Meetings.

Fees for non-executive directors are currently not linked to the financial performance of the consolidated entity. However, to align director's interests with shareholder interests, the directors are encouraged to hold shares in the Company and may be issued with additional securities as deemed appropriate.

The Board believes that the remuneration policy is appropriate given the stage of development of the Company and the activities which it undertakes and is appropriate for aligning KMP objectives with shareholder and business objectives. The Board will continue to develop new practices which are appropriate to the Company's size and stage of development.

Engagement of Remuneration Consultants

During the financial year, no remuneration consultants were engaged.

Fixed remuneration

Fixed remuneration consists of a base remuneration package, which includes directors' fees (in the case of Directors), salaries, consulting fees and employer contributions to superannuation funds.

Fixed remuneration levels for KMP will be reviewed annually by the Board through a process that considers the employee's personal development, achievement of key performance objectives for the year, industry benchmarks wherever possible and CPI data.

Appropriate key performance indicators (KPIs) will be developed by the Board for each KMP each year and reflect an assessment of how that individual can fulfil their particular responsibilities in a way that best contributes to Company performance and shareholder wealth in that year.

Performance-based Remuneration

Remuneration packages do not include performance-based components. An individual members of staff's performance assessment is done by reference to their contribution to the consolidated entity's overall operational achievements.

During the year the Company issued performance rights to directors, as detailed in this Remuneration Report.

B. Details of remuneration

Remuneration expense details for the year ended 31 December 2021

The following table of benefits and payments represents the components of the current year and comparative year remuneration expenses for each member of KMP of the consolidated entity. Such amounts have been calculated in accordance with Australian Accounting Standards:

KMP		Short-term Benefits		Post-employment Benefits	Share based Payments		Total	Fixed remuneration	Short term incentive	Long term incentive
		Salary & Consulting fees	Bonus	Superannuation	Equity	Options				
					(Shares & Performance Rights)					
		\$	\$	\$	\$	\$	\$	%	%	%
Executive Directors										
Mr Graham Russell	2021	166,800	-	14,625	-	-	181,425	100	-	-
	2020	139,454	-	13,191	367,500	-	520,145	29	-	71
Ms Shannon Robinson (resigned 1 September 2020)	2020	33,525	-	3,167	11,700	-	48,392	76	-	24
Mr Leylan Neep (apointed 1 September 2020)	2021	57,197	-	1,136	59,396	-	117,729	50	-	50
	2020	16,667	-	-	-	-	16,667	100	-	-
Non-Executive Directors										
Mr Wayne Cahill (resigned 16 June 2020)	2020	34,659	-	3,293	-	-	37,952	100	-	-
Ms Sara Kelly (resigned 16 June 2020)	2020	22,133	-	-	-	-	22,133	100	-	-
Mr Ramsay Carter (appointed 16 June 2020)	2021	12,500	-	1,250	-	-	13,750	100	-	-
	2020	-	-	-	33,200	-	33,200	-	-	100
	2021	236,497	-	17,011	59,396	-	312,904			
	2020	246,438	-	19,651	412,400	-	678,489			

C. Service agreements

Contracts of KMP

Each member of the consolidated entity's KMP is employed on open-ended employment contracts between the individual employee and the Company.

The below are the contract details at the date of the financial report:

Key Management Person	Appointment	Term of Agreement	Base Salary (excludes GST) \$	Other (eg. Options and Performance Rights)	Termination Benefit
Mr Leylan Neep	Executive Chairman	No fixed term, termination at any time	150,000 pa	<p>3,000,000 performance rights in the capital of the Company subscribed for at \$0.0001 each right vesting on the date that the 20 day volume weighted average price (vwap) of the Company's shares is equal to or in excess of \$0.03 per share on or before 15 June 2022</p> <p>3,000,000 performance rights in the capital of the Company subscribed for at \$0.0001 each right vesting on the date that the 20day vwap of the Company's shares is equal to or in excess of \$0.04 per share on or before 15 June 2022.</p> <p>Continue to remain a Director of the Company as at the date the vesting criteria is satisfied</p> <p>The offer for the issue of the performance rights will allow until 15 June 2022 to exercise the right to convert those rights to shares provided the vesting criteria has been satisfied</p>	Nil
Mr Ramsay Carter	Non-Executive Director	No fixed term, termination at any time	50,000 pa + superannuation	Nil	Nil
Mr Graham Russell	Managing Director	No fixed term, two months' written notice by either party	170,000 pa + superannuation	<p>15,000,000 performance rights vesting on the date that the 20 day volume weighted average price (vwap) of the Company's Shares is equal to or in excess of \$0.02 per share</p> <p>15,000,000 performance rights vesting on the date that the 20 day volume weighted average price (vwap) of the Company's Shares is equal to or in excess of \$0.03 per share</p>	Nil

D Share-based compensation

Options

No options were granted as share-based compensation for key management personnel provided during the financial year affecting remuneration in this or future reporting periods.

Shareholdings

Refer to Section E for details of fully paid ordinary shares on issue during 2021.

Performance Rights

Refer to Section F for details of performance rights on issue during 2021.

E Shareholdings

The number of fully paid ordinary shares in the Company held during the financial year by KMP of the consolidated entity, including their personally related parties, is set out below:

31 December 2021	Balance at beginning of the year	Granted as remuneration/ consideration during the year	Purchased via Capital Raising	On-market Transactions	Other changes during the year (resignation)	Balance at end of year
Mr G Russell	120,800,000	25,000,000	-	-	-	145,800,000
Mr R Carter	5,500,000	6,000,000	-	3,500,000	-	15,000,000
Mr L Neep	-	-	-	6,000,000	-	6,000,000
	126,300,000	31,000,000	-	9,500,000	-	166,800,000

F Performance Rights Holdings

The number of performance rights in the Company held during the financial year by KMP of the consolidated entity, including their personally related parties, is set out below:

31 December 2021	Balance at beginning of the year	Granted as remuneration/ consideration during the year	Converted during the year	Cancelled during the year	Balance at end of year
Mr G Russell	55,000,000	-	25,000,000	-	30,000,000
Mr R Carter	10,000,000	-	6,000,000	4,000,000	-
Mr L Neep	-	6,000,000	-	-	6,000,000
	65,000,000	6,000,000	31,000,000	4,000,000	36,000,000

G Options

The number of options in the Company held during the financial year by KMP of the consolidated entity, including their personally related parties, is set out below:

31 2021	December	Balance at beginning of the year	Granted as remuneration during the year	Exercised during the year	Expired during the year/resigned	Balance at end of year or date of resignation
Mr G Russell		-	-	-	-	-
Mr Ramsay Carter		-	-	-	-	-
Mr Leylan Neep		-	-	-	-	-
		-	-	-	-	-

Other Equity-related KMP Transactions

There have been no other transactions involving equity instruments apart from those described in the tables above relating to options, shareholdings and performance rights.

Other Transactions with KMP and/or their Related Parties

There were no other transactions conducted between the Group and KMP or their related parties, apart from those disclosed in Note 27 Related Parties and those above relating to equity and compensation, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's length dealing with unrelated persons.

Voting and comments made at the Company's 2020 Annual General Meeting ('AGM')

At the 2020 AGM, 98.71% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2020. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Additional information

The losses of the consolidated entity for the five years to 31 December 2021 are summarised below:

	2021 \$	2020 \$	2019 \$	2018 \$	2017 \$
Sales revenue	3,623,059	3,104,466	577,372	39,663	30,354
EBITDA	(1,730,469)	(1,729,911)	(3,724,888)	(4,245,578)	(401,416)
EBIT	(2,023,240)	(2,326,984)	(4,375,172)	(4,505,967)	(420,341)
Loss after income tax	(2,065,597)	(2,366,476)	(4,412,504)	(4,501,024)	(417,493)

The factors that are considered to affect total shareholders' return ('TSR') are summarised below:

	2021	2020	2019	2018	2017
Share price at financial year end (\$)	0.015	0.016	0.005	0.036	N/A
Total dividends declared (cents per share)	Nil	Nil	Nil	Nil	Nil
Basic loss per share (cents per share)	(0.11)	(0.14)	(0.54)	(1.27)	(0.21)

This concludes the remuneration report, which has been audited.

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 23 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 23 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

AUDITOR

RSM Australia Partners continues in office in accordance with section 327C of the *Corporations Act 2001*.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included within this financial report.

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.



Graham Russell
Managing Director

Dated this 28th day of February 2022

Corporate Governance Overview Statement

The Directors and management of HSC Technology Group Ltd ("HSC or Company") are committed to maintaining high standards of corporate governance to ensure that it operates in the best interests of shareholders to whom they are ultimately responsible to.

During the year ended 31 December 2021, the Company worked towards implementing corporate governance practices and policies as outlined in the ASX Corporate Governance Council's Principles and Recommendations (4th Edition) ("ASX Recommendations"), with a view to making amendments where applicable after considering the Company's size and the resources it has available.

Details of these ASX Recommendations that HSC have adopted and those that have not been fully complied with are outlined in the Company's annual Corporate Governance Statement.

Where there is deviation from the ASX Recommendations, the Company continues to review and update its policies and practices in order that these are consistent with the growth of the Company, the broadening of its activities, current legislation, and good practice.

The ASX Corporate Governance Council's (the Council) recommendations are not prescriptive but are rather guidelines. If certain recommendations are not appropriate for the Company given its circumstances, it may elect not to adopt that particular practice in limited circumstances. Where the Company's practices do not correlate with the ASX Recommendations the Company does not consider that the recommended practices are appropriate, due to either the size of the Board or management team, or due to the current activities and operations being carried out by and within the Company.

A copy of HSC's 2021-2022 Corporate Governance Statement, which provides detailed information about governance and a copy of the Company's Appendix 4G which sets out the Company's compliance with the ASX Recommendations is available on the Investors page of the Company's website at:

www.hsctg.com.au/investor-centre

AUDITOR'S INDEPENDENCE DECLARATION



RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of HSC Technology Group Ltd for the year ended 31 December 2021, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM AUSTRALIA PARTNERS

TUTU PHONG
Partner

Perth, WA
Dated: 28 February 2022

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS &
OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021**

	Notes	2021 \$	2020 \$
Revenue	3	3,623,564	3,107,445
Government grant	3	52,941	71,864
Cost of sales		(2,448,746)	(2,124,079)
Amortisation and depreciation expense		(292,771)	(597,073)
Consulting fees		(225,861)	(119,015)
Employee benefits expenses		(1,846,106)	(913,933)
Marketing expenses		(174,374)	(101,893)
Rental expenses		(9,064)	(14,080)
Finance costs		(42,357)	(36,358)
Share based payments		(182,093)	(347,108)
Write-off of intangible asset		-	(814,420)
Other expenses		(520,730)	(477,826)
Loss before income tax		(2,065,597)	(2,366,476)
Income tax expense	4	-	-
Total loss for the year		(2,065,597)	(2,366,476)
Other comprehensive income			
<i>Items that may be reclassified subsequently to operating result</i>			
Exchange differences on translating foreign controlled entities		(3,021)	(18,232)
Other comprehensive income for the year		(3,021)	(18,232)
Total comprehensive loss for the year		(2,068,618)	(2,384,708)
Loss per share			
Basic and diluted loss (cents per share)		(0.11)	(0.14)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION **AS AT 31 DECEMBER 2021**

	Notes	2021 \$	2020 \$
ASSETS			
Current assets			
Cash and cash equivalents	5	1,794,262	4,457,264
Other assets	7	538,091	864,285
Trade and other receivables	6	667,653	194,693
Inventory	8	1,403,157	1,148,638
Total current assets		4,403,163	6,664,880
Non-current assets			
Plant and equipment	9	17,656	26,810
Right-of-use assets	10	269,962	163,871
Intangible assets	11	52,860	146,500
Total non-current assets		340,478	337,181
Total assets		4,743,641	7,002,061
LIABILITIES			
Current liabilities			
Trade and other payables	12	670,767	1,126,692
Contract liabilities	13	267,870	325,598
Lease liability	14	63,290	128,552
Provisions	15	38,949	34,872
Total current liabilities		1,040,876	1,615,714
Non-current liabilities			
Lease liability	14	238,655	35,712
Total non-current liabilities		238,655	35,712
Total liabilities		1,279,531	1,651,426
Net assets		3,464,110	5,350,635
EQUITY			
Issued capital	16	16,205,123	15,985,123
Reserves	17	1,068,395	1,109,323
Accumulated losses		(13,809,408)	(11,743,811)
Total equity		3,464,110	5,350,635

The accompanying notes form part of these financial statement

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Share Based Payments Reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 January 2020	11,917,250	(9,377,335)	20,023	910,087	3,470,025
Loss for the year	-	(2,366,476)	-	-	(2,366,476)
Other comprehensive loss	-	-	(18,232)	-	(18,232)
Total comprehensive loss for the year	-	(2,366,476)	(18,232)	-	(2,384,708)
Transactions with owners, directly in equity					
Issue of share capital	4,161,500	-	-	(182,500)	3,979,000
Capital raising costs	(93,627)	-	-	-	(93,627)
Issue of options	-	-	-	379,945	379,945
Balance at 31 December 2020	15,985,123	(11,743,811)	1,791	1,107,532	5,350,635
Balance at 1 January 2021	15,985,123	(11,743,811)	1,791	1,107,532	5,350,635
Loss for the year	-	(2,065,597)	-	-	(2,065,597)
Other comprehensive (loss)	-	-	(3,021)	-	(3,021)
Total comprehensive (loss) for the year	-	(2,065,597)	(3,021)	-	(2,068,618)
Transactions with owners, directly in equity					
Issue of share capital	220,000	-	-	(220,000)	-
Capital raising costs	-	-	-	-	-
Issue of options	-	-	-	182,093	182,093
Balance at 31 December 2021	16,205,123	(13,809,408)	(1,230)	1,069,625	3,464,110

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASHFLOWS **FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021**

	Notes	2021 \$	2020 \$
Cash flows from operating activities			
Receipts from customers		3,505,367	4,119,733
R&D tax incentive receipts		-	71,864
Payments to suppliers and employees (excluding research and development expenditure)		(5,968,130)	(5,240,500)
Payments for research and development expenditure		-	(121,255)
Interest received		505	2,979
Interest paid		(42,357)	(39,492)
Net cash used in operating activities	21	(2,504,615)	(1,206,671)
Cash flows from investing activities			
Payments for platform development expenditure		(2,600)	-
Purchase of plant and equipment		(9,044)	-
Proceeds from disposal of financial assets		-	77,965
Net cash (used in) / from investing activities		(11,644)	77,965
Cash flows from financing activities			
Proceeds from issue of shares		-	2,998,000
Proceeds from issue of performance rights		-	5,600
Transaction costs relating to the issue of shares		-	(70,627)
Repayment of lease liability		(146,743)	(91,417)
Net cash (used in) / provided by financing activities		(146,743)	2,841,556
Net (decrease) / increase in cash held		(2,663,002)	1,712,850
Cash at the beginning of the financial year		4,457,264	2,744,414
Cash at the end of the financial year	5	1,794,262	4,457,264

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

These consolidated financial statements and notes represent those of HSC Technology Group Ltd (or 'the Company') and its controlled entities (the "consolidated entity" or "Group"). The separate financial statements of the parent entity, HSC Technology Group Ltd have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on 28 February 2022 by the directors of the Company.

1. Summary of significant accounting policies

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Corporations Act 2001, Australian Accounting Standards, Interpretations of the Australian Accounting Standards Board ("AASB") and International Financial Reporting Standards as issued by the International Accounting Standards Board. The consolidated entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated. Except for cash flow information, these financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets, and financial liabilities.

Going Concern

For the year ended 31 December 2021, the consolidated entity incurred a loss after income tax of \$2,065,597 and had net cash outflows from operating activities, investing activities and financing activities of \$2,504,615, \$11,644 and \$146,743 respectively.

This financial report has been prepared on the basis that the consolidated entity will continue to meet its commitments and can therefore continue normal business activities and realise assets and settle liabilities in the ordinary course of business.

The Directors believe that there are reasonable grounds to believe that the consolidated entity will continue as a going concern for a period of at least 12 months following the date of this report, after consideration of the following factors:

- the Company has capacity to raise additional capital through access to capital market; and
- the consolidated entity has the ability to curtail discretionary administrative and overhead cash outflows as and when required.

a) Comparatives

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

1. Summary of significant accounting policies (continued)

b) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company as listed in Note 18 (collectively the “consolidated entity” or “Group”). Control is achieved where the Company is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns. All inter-company balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries are consistent with those policies applied by the parent entity.

c) New accounting standards and interpretations

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

Conceptual Framework for Financial Reporting (Conceptual Framework)

The consolidated entity has adopted the revised Conceptual Framework from 1 January 2021. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the consolidated entity's financial statements.

d) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax is provided on all temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and are recognised for all taxable temporary differences:

- Except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

1. Summary of significant accounting policies (continued)

d) Income tax (continued)

- Except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future to the extent that it is probable that the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred and income taxes relating to items recognised directly in equity are recognised directly in equity.

e) Foreign Currency Transactions and Balances

Functional and Presentation Currency

The functional currency of each of the entities in the consolidated entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date when fair values were determined.

Exchange differences arising from the translation of monetary items are recognised directly in profit or loss except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise, the exchange difference is recognised in profit or loss.

Group companies

The financial results and position of foreign operations whose functional currency is different from the presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in profit or loss in the period in which the operation is disposed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

1. Summary of significant accounting policies (continued)

f) Trade receivables

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 120 days from the date of recognition.

Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for expected credit losses is raised when some doubt as to collection exists.

g) Inventories

Inventories are stated at the lower of cost and net realisable value on a moving average costs basis. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

h) Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

The depreciable amount of all plant and equipment is depreciated on a straight-line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use.

The expected useful lives are as follows:

- Office equipment 2 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

1. Summary of significant accounting policies (continued)

i) Intangible assets

Intangible assets acquired separately are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs, when available for use in the manner intended by management, are amortised on a straight-line basis over the period of their expected benefit.

The expected useful lives are as follows:

- Research and development 3 years
- Customer lists 2 years
- Licences 3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

j) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A loss allowance for expected credit losses is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

k) Trade and other payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the consolidated entity during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

l) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with short periods to maturity and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

1. Summary of significant accounting policies (continued)

m) Revenue and Other Income

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered based on a fixed price.

Interest revenue

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

n) Employee benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy vesting requirements. Those cash outflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

1. Summary of significant accounting policies (continued)

n) Employee benefits (continued)

Equity-settled compensation

From time to time, the consolidated entity provides benefits to employees (including directors) of the consolidated entity in the form of share-based payment transactions, whereby personnel render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using an appropriate valuation model.

In valuing equity-settled transactions, no account is taken of any performance conditions.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately unless the original vesting conditions are not market related and those conditions have not been met. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

o) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

1. Summary of significant accounting policies (continued)

o) Right-of-use assets (continued)

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

p) Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

q) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

r) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

s) Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

t) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

1. Summary of significant accounting policies (continued)

t) Earnings per share (continued)

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

u) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

v) Provisions

Provisions are recognised when the consolidated entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result, and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

w) Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

x) Critical accounting judgments, estimates and assumptions

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income, and expenses. These estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Following is a summary of the key assumptions concerning the future and other key sources of judgement and estimation at reporting date that have not been disclosed elsewhere in these financial statements.

Share based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using an appropriate valuation model. Management are required to make judgements on the probabilities of milestones being achieved to calculate the value of the transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

2. Segment Information

The Directors have considered the requirements of AASB 8 *Operating Segments* and the internal reports that are reviewed by the Board in allocating resources and have concluded that at this time there are no separately identifiable segments. All revenues and costs are handled centrally and management reviews financial information on a consolidated basis. On this basis it is considered that there is only one operating segment, the details of which are disclosed within this financial report.

	Consolidated	
	2021	2020
	\$	\$
3. Revenue and other income		
Sale of goods and services	3,623,059	3,104,466
Interest revenue	505	2,979
	<u>3,623,564</u>	<u>3,107,445</u>
<i>Other income</i>		
Government grant	52,941	71,864
	<u>52,941</u>	<u>71,864</u>
<i>Disaggregation of revenue</i>		
The disaggregation of revenue from sale of good and services is as follows:		
<i>Geographical regions</i>		
Australasia	3,623,059	3,104,466
	<u>3,623,059</u>	<u>3,104,466</u>
<i>Timing of revenue recognition</i>		
Goods and services transferred at a point in time	2,613,404	1,538,707
Goods and services transferred over time	1,009,655	1,565,759
	<u>3,623,059</u>	<u>3,104,466</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	Consolidated	
	2021	2020
	\$	\$
4. Income tax expense		
Loss before income tax expense	(2,065,597)	(2,366,476)
Tax at the Australian tax rate of 25% (2020: 26%)	(516,400)	(615,284)
Tax effect amounts which are not deductible in calculating taxable income:		
Expenditure not allowable for tax purposes	72,337	412,454
Income not assessable for tax purposes	(13,223)	(54,272)
Deferred tax assets not brought to account	457,286	257,102
Income tax expense	-	-
Unused tax losses for which no deferred tax asset has been recognised	19,630,045	18,210,256

The deferred tax assets have not been brought to account, as the availability of future profits to recoup these losses is not considered probable at the date of this report, and they will only benefit the Company if future assessable income is derived of a nature and amount sufficient to enable the benefits to be realised, the conditions for deductibility imposed by the tax legislation continue to be complied with and the Company is able to meet the continuity of ownership and/or continuity of business tests.

	Consolidated	
	2021	2020
	\$	\$
5. Cash and cash equivalents		

A reconciliation between cash and cash equivalents as disclosed in the statement of financial position and cash as disclosed in the statement of cash flows is as follows:

Cash at bank	1,794,262	4,457,264
	1,794,262	4,457,264

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	Consolidated	
	2021	2020
	\$	\$
6. Trade and other receivables		
Trade receivables	586,169	171,111
Accrued income	60,153	-
Other receivables	21,331	23,582
	<u>667,653</u>	<u>194,693</u>

Allowance for expected credit losses

The consolidated entity did not recognise any losses (2020: Nil) in profit or loss in respect of the expected credit losses for the year ended 31 December 2021.

Past due but not impaired

Customers with balances past due but without allowance for expected credit losses:

Not overdue	190,509	19,075
0 to 6 months overdue	304,401	152,036
6 to 12 months overdue	54,337	-
12 to 18 months overdue	36,922	-
	<u>586,169</u>	<u>171,111</u>

7. Other assets

Prepayments	538,091	536,152
Security deposits	-	11,000
Other assets	-	317,133
	<u>538,091</u>	<u>864,285</u>

8. Inventory

Inventory on hand	1,403,157	1,148,638
	<u>1,403,157</u>	<u>1,148,638</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2021

	Consolidated	
	2021	2020
	\$	\$
9. Plant and equipment		
Office equipment	54,018	44,974
Less: accumulated depreciation	(36,362)	(18,164)
Total office equipment	17,656	26,810
Total plant and equipment	17,656	26,810

Reconciliations

Reconciliations of the carrying amounts of each class of plant and equipment at the beginning and end of the current financial year are set out below.

Consolidated	Office Equipment	Total
	\$	\$
Carrying amount at 1 January 2020	33,805	33,805
Depreciation expense	(6,995)	(6,995)
Carrying amount at 31 December 2020	26,810	26,810
Additions	9,044	9,044
Depreciation expense	(18,198)	(18,198)
Carrying amount at 31 December 2021	17,656	17,656

	Consolidated	
	2021	2020
	\$	\$
10. Right-of-use assets		
Carrying amount at beginning of year	163,871	341,124
Additions	333,461	-
Disposals	(49,037)	-
Depreciation	(178,333)	(177,253)
Carrying amount at end of year	269,962	163,871

The consolidated entity leases a building for its office, under an agreement until April 2025 with option to extend. On renewal, the terms of the leases are renegotiated

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	Consolidated	
	2021	2020
	\$	\$
11. Intangible assets		
Licences		
At cost	250,000	250,000
Less: Accumulated amortisation	(199,740)	(103,500)
Net carrying amount	50,260	146,500
Other		
At cost	47,600	45,000
Less: Accumulated amortisation	(45,000)	(45,000)
Net carrying amount	2,600	-
Total intangible assets	52,860	146,500

Reconciliations

Reconciliations of the carrying amounts of each class of intangible assets at the beginning and end of the current financial year are set out below.

Consolidated	Platform development expenditure	Licences	Other	Total
	\$	\$	\$	\$
Carrying amount at 1 January 2020	1,142,873	242,616	-	1,385,489
Amortisation expense	(319,240)	(96,116)	-	(415,356)
Write off/impairment of asset	(814,420)	-	-	(814,420)
Foreign exchange movement	(9,213)	-	-	(9,213)
Carrying amount at 31 December 2020	-	146,500	-	146,500
Additions	-	-	2,600	2,600
Amortisation expense	-	(96,240)	-	(96,240)
Carrying amount at 31 December 2021	-	50,260	2,600	52,860

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	Consolidated	
	2021	2020
	\$	\$
12. Trade and other payables		
Trade payables	410,701	906,310
Other payables	260,066	220,382
	<u>670,767</u>	<u>1,126,692</u>

13. Contract liabilities

Contract liabilities	267,870	325,598
	<u>267,870</u>	<u>325,598</u>

Related to income received in advance with performance obligations that are unsatisfied at the end of the reporting period. The amount is expected to be recognised as revenue within the next 12 months.

14. Lease liabilities

Carrying amount at beginning of year	164,264	335,775
Lease liabilities recognised upon entering lease agreement	333,461	-
Repayments of lease liabilities	(195,780)	(171,511)
Carrying amount at end of year	<u>301,945</u>	<u>164,264</u>

Breakdown of current and non-current

Current	63,290	128,552
Non-current	238,655	35,712
Total	<u>301,945</u>	<u>164,264</u>

15. Provisions

Employee entitlements	38,949	34,872
	<u>38,949</u>	<u>34,872</u>

Amounts not expected to be settled within the next 12 months.

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. The consolidated entity expects all employees to take the full amount of accrued leave or require payment within the next 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. Issued Capital

	Consolidated	
	2021	2020
	\$	\$
1,972,739,337 (2020: 1,886,739,337) Ordinary shares – Fully paid ('FPO')	17,617,436	17,397,436
Capital raising costs	(1,412,313)	(1,412,313)
	<u>16,205,123</u>	<u>15,985,123</u>

a) Movements in ordinary shares on issue

	Number	\$
At 1 January 2020	<u>1,478,686,397</u>	<u>11,917,250</u>
Shares issued during the 2020 year		
- 28 January 2020 – FPO shares ⁽¹⁾	176,700,000	897,500
- 29 January 2020 – FPO shares ⁽²⁾	20,000,000	100,000
- 2 November 2020 – Conversion of Performance Rights at \$0.005	25,000,000	125,000
- 2 November 2020 – Conversion of Performance Rights at \$0.0041	10,000,000	41,000
- 24 December 2020 – Placement of shares at \$0.017	176,352,940	2,998,000
Less capital raising costs	-	(93,627)
At 31 December 2020	<u>1,886,739,337</u>	<u>15,985,123</u>
Shares issued during the 2021 year		
- 1 March 2021 - Conversion of Performance Rights at \$0.005	4,000,000	20,000
- 7 April 2021 - Conversion of Performance Rights at \$0.005	25,000,000	125,000
- 11 May 2021 - Issue of First Milestone Shares	50,000,000	-
- 22 July 2021 - Conversion of Performance Rights at \$0.005	2,000,000	10,000
- 10 December 2021 - Conversion of Performance Rights at \$0.013	5,000,000	65,000
Less capital raising costs	-	-
At 31 December 2021	<u>1,972,739,337</u>	<u>16,205,123</u>

(1) Included 500,000 shares issued on conversion of performance rights at fair value of \$0.033 per share, 100,000,000 shares issued on conversion of convertible notes at fair value of \$0.005 per share, and 76,200,000 shares issued to various suppliers in lieu of cash payment for services received at fair value of \$0.005 per share.

(2) Shares issued to an employee pursuant to employment agreement at fair value of \$0.005 per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. Issued Capital (continued)

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll, each share is entitled to one vote.

b) Options

For details of options issued, exercised, and lapsed during the financial year and the options outstanding at year-end, refer to Note 17(a) Share-based payments.

c) Capital Management

The objectives of management when managing capital is to safeguard the Group's ability to continue as a going concern, so that the Group may continue to provide returns for shareholders and benefits for other stakeholders.

The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group at 31 December 2021 and 2020 is as follows:

	Consolidated	
	2021	2020
	\$	\$
Cash and cash equivalents	1,794,262	4,457,264
Other assets	538,091	864,285
Trade and other receivables	667,653	194,693
Inventory	1,403,157	1,148,638
Trade and other payables	(670,767)	(1,126,692)
Contract liabilities	(267,870)	(325,598)
Lease liabilities	(63,290)	(128,552)
Provisions	(38,949)	(34,872)
Working capital position	3,362,287	5,049,166

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17. Reserves

	Consolidated	
	2021	2020
Foreign currency translation	(1,230)	1,791
Share based payments	1,069,625	1,107,532
	<u>1,068,395</u>	<u>1,109,323</u>

Movements in reserves

Share based payments

Balance at the beginning of the year	1,107,532	910,087
Options issued during the year	-	27,237
Options vested during the year	-	2,500
Options lapsed during the year	-	(7,205)
Amortisation of performance rights issued in prior period	147,914	-
Performance rights issued during the year	34,179	357,413
Performance rights converted to shares during the year	(220,000)	(182,500)
Balance at the end of the year	<u>1,069,625</u>	<u>1,107,532</u>

Foreign currency translation

Balance at the beginning of the year	1,791	20,023
Exchange differences on translating foreign controlled entities	(3,021)	(18,232)
Balance at the end of the year	<u>(1,230)</u>	<u>1,791</u>

(a) Share-based payments – options

A summary of the movements of all options issued is as follows:

	Number	Weighted average exercise price
Options outstanding as at 31 December 2019	<u>94,486,188</u>	\$0.041
Granted on 14 January 2020 ⁽²⁾	12,000,000	\$0.021
Lapsed on 16 June 2020 ⁽¹⁾	(4,000,000)	\$0.090
Expired on 23 June 2020	(2,486,188)	\$0.246
Options outstanding as at 31 December 2020	<u>100,000,000</u>	\$0.031
No change during 2021 year	-	
Options outstanding as at 31 December 2021	<u>100,000,000</u>	\$0.031

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17. Reserves (continued)

The weighted average remaining contractual life of options outstanding at year end was 1.6 years. The weighted average exercise price of outstanding options at the end of the reporting period was \$0.031.

Year ended 31 December 2020

⁽¹⁾ 4,000,000 options lapsed due to vesting conditions not being met. This resulted in a reversal of \$7,205 recognised against the share-based payments expense in the profit or loss for the year ended 31 December 2020.

Of the 12,000,000 options granted on 28 May 2019, 4,000,000 options vested on 1 February 2020 upon satisfaction of vesting conditions. Fair value of \$2,500 is recognised as share-based payments expense in the profit or loss for the year ended 31 December 2020.

⁽²⁾ On 14 January 2020, the Company granted 12,000,000 options to various consultants, for nil cash consideration per their engagement agreements for services received in the year ended 31 December 2019. The options were issued on 3 February 2020. Fair value of \$2,787 was recognised as marketing expenses in the profit or loss for the year ended 31 December 2019, and \$24,450 was recognised as capital raising expenses in the statement of financial position at 31 December 2019. The fair value of these options of \$27,237 was offset against the creditors in the year ended 31 December 2020.

The total amount recognised as share-based payment expense in relation to the issue of options during the year ended 31 December 2021 is nil.

(a) Share-based payments – performance rights

A summary of the movements of all performance rights issued is as follows:

	Number
Performance rights outstanding as at 31 December 2019	500,000
Converted to shares on 28 January 2020 ⁽¹⁾	(500,000)
Granted on 14 January 2020 ⁽²⁾	50,000,000
Granted on 8 June 2020 ⁽³⁾	10,000,000
Granted on 15 June 2020 ⁽⁴⁾	46,000,000
Lapsed on 1 September 2020 ⁽⁵⁾	(6,000,000)
Converted to shares on 2 November 2020 ⁽⁶⁾	(35,000,000)
Granted on 2 November 2020 ⁽⁷⁾	10,000,000
Performance rights outstanding as at 31 December 2020	75,000,000
Converted to shares on 1 March 2021 ⁽⁸⁾	(4,000,000)
Converted to shares on 7 April 2021 ⁽⁹⁾	(25,000,000)
Granted on 20 May 2021 ⁽¹⁰⁾	3,000,000
Granted on 20 May 2021 ⁽¹¹⁾	3,000,000
Lapsed on 19 July 2021 ⁽¹²⁾	(4,000,000)
Converted to shares on 22 July 2021 ⁽¹³⁾	(2,000,000)
Converted to shares on 10 December 2021 ⁽¹⁴⁾	(5,000,000)
Performance rights outstanding as at 31 December 2021	41,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17. Reserves (continued)

Year ended 31 December 2020

⁽¹⁾ On 28 January 2020, 500,000 performance rights were converted to shares by an employee upon satisfaction of vesting conditions.

⁽²⁾ On 14 January 2020, the Company granted 50,000,000 performance rights to a Director, for nil cash consideration. Performance rights will vest subject to attainment of certain revenue values, together with employment continuity. Total fair value of \$250,000 is recognised as share-based payments expense in the profit or loss for the year ended 31 December 2020.

⁽³⁾ On 8 June 2020, the Company granted 10,000,000 performance rights to a Director, for cash consideration of \$1,000. Performance rights will vest subject to the attainment of certain share price values, together with employment continuity. Total fair value of \$24,139 is recognised as share-based payments expense in the profit or loss for the year ended 31 December 2020.

⁽⁴⁾ On 15 June 2020, the Company granted 46,000,000 performance rights to Directors, for cash consideration of \$4,600. Performance rights will vest subject to the attainment of certain share price values, together with employment continuity. Total fair value of \$57,495 is recognised as share-based payments expense in the profit or loss for the year ended 31 December 2020.

⁽⁵⁾ 6,000,000 performance rights lapsed due to vesting conditions not being met. This resulted in a reversal of \$240 recognised against the share-based payments expense in the profit or loss for the year ended 31 December 2020.

⁽⁶⁾ On 2 November 2020, 35,000,000 performance rights were converted to shares by a Director upon satisfaction of vesting conditions. 25,000,000 performance rights were linked to a vesting condition of \$2,000,000 of revenue being received by the Company during the vesting period. The remaining 10,000,000 performance rights were linked to a vesting condition of the Company's shares remaining at least \$0.01 calculated upon the 20-day volume weighted average price, as well as continued service by the Director.

⁽⁷⁾ On 2 November 2020, the Company granted 10,000,000 performance rights to employees, for nil cash consideration. Performance rights will vest subject to employment continuity. Total fair value of \$20,419 is recognised as share-based payments expense in the profit or loss for the year ended 31 December 2020.

Year ended 31 December 2021

⁽⁸⁾ On 1 March 2021, 4,000,000 performance rights were converted to shares by a Director upon satisfaction of vesting conditions.

⁽⁹⁾ On 7 April 2021, 25,000,000 performance rights were converted to shares by a Director upon satisfaction of vesting conditions.

⁽¹⁰⁾ On 20 May 2021, the Company granted 3,000,000 performance rights to a Director. Performance rights will vest and become exercisable to shares upon a 20-day VWAP of shares being at least \$0.03 together with continued service. Total fair value of \$18,992 is recognised as share-based payments expense in the profit or loss for the year ended 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17. Reserves (continued)

⁽¹¹⁾ On 20 May 2021, the Company granted 3,000,000 performance rights to a Director. Performance rights will vest and become exercisable to shares upon a 20-day VWAP of shares being at least \$0.04 together with continued service. Total fair value of \$15,187 is recognised as share-based payments expense in the profit or loss for the year ended 31 December 2021.

⁽¹²⁾ 4,000,000 performance rights lapsed due to vesting conditions not being met. This resulted in a reversal of \$3,078 recognised against the share-based payments expense in the profit or loss for the year ended 31 December 2021.

⁽¹³⁾ On 22 July 2021, 2,000,000 performance rights were converted to shares by a Director upon satisfaction of vesting conditions.

⁽¹⁴⁾ On 10 December 2021, 5,000,000 performance rights were converted to shares by members of the Advisory Board upon satisfaction of vesting conditions.

The total amount recognised in the share-based payments reserve in relation to the issue of performance rights during the period is \$182,093, all being a share-based payment expense.

Under AASB 2 Share-based Payment, the expense is recognised over the vesting period. The performance rights have been valued at the share price of the Company on grant date. The fair value inputs included in the performance right valuations were as follows:

No. of performance rights	Grant date	Vesting date	Expiry date	Fair value at grant date
15,000,000	15-Jun-20	15-Jun-22	15-Jun-25	\$0.003
15,000,000	15-Jun-20	15-Jun-22	15-Jun-25	\$0.002
2,500,000	2-Nov-20	3-May-22	3-May-22	\$0.013
2,500,000	2-Nov-20	3-May-22	3-May-22	\$0.013
3,000,000	20-May-21	15-Jun-22	15-Jun-22	\$0.011
3,000,000	20-May-21	15-Jun-22	15-Jun-22	\$0.009

The total amount recognised as share-based payments expense in the profit or loss for the year ended 31 December 2021 is \$182,093, all being share based payment expense from performance rights.

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18. Controlled entities

		Percentage Owned	
Name	Country of Incorporation	2021	2020
Parent entity			
HSC Technology Group Ltd	Australia		
Name of controlled entity			
HomeStay Care International Pty Ltd	Australia	100%	100%
Home Service Solutions Pty Ltd	Australia	100%	100%
HomeStay Care Solutions Pte Ltd ⁽¹⁾	Singapore	-	100%
Advance Exploration and Production Inc ⁽²⁾	USA	-	100%
Advance Wolfberry Inc ⁽³⁾	USA	-	100%

⁽¹⁾ HomeStay Care Solutions Pte Ltd was deregistered on 8 February 2021.

⁽²⁾ Advance Exploration and Production Inc was deregistered on 11 August 2021.

⁽³⁾ Advance Wolfberry Inc was deregistered on 11 April 2021.

19. Events after the reporting period

In compliance with its continuous disclosure obligations, the Company will continue to update the market in regard to the impact of COVID-19 on its revenue channels and adverse impact on the Company. If any of these impacts appear material, the Company will notify investors through appropriate market updates.

The directors are not aware of any other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

20. Contingent liabilities

The Group had no contingent liabilities as at 31 December 2021 and 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. Cash flow information

	Consolidated	
a) Reconciliation of loss from ordinary activities after income tax to net cash outflow used in operating activities	2021	2020
	\$	\$
Loss from ordinary activities after income tax	(2,065,597)	(2,366,476)
Non-cash flow in loss from continuing operations:		
Depreciation	196,531	181,717
Amortisation expense	96,240	415,356
Share based payments	182,093	347,108
Impairment of inventory	270,016	-
Write off of intangible asset	-	814,420
Loss on disposal of assets	-	1,859
Interest on borrowings	-	(3,134)
Change in operating assets and liabilities:		
Trade and other receivables	(472,960)	657,815
Other assets	326,194	(442,905)
Inventory	(524,535)	(987,379)
Trade and other payables	(458,946)	86,054
Contract liabilities	(57,728)	55,107
Provisions	4,077	33,787
Net cash outflow used in operating activities	(2,504,615)	(1,206,671)

22. Loss per share

	Consolidated	
a) Reconciliation of loss to profit or loss:	2021	2020
	\$	\$
Net (loss) from operations attributable to ordinary shareholders for basic and diluted earnings per share	(2,065,597)	(2,366,476)
b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	1,941,903,721	1,670,317,882

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23. Remuneration of Auditor

	Consolidated	
	2021	2020
	\$	\$
<i>RSM Australia Partners</i>		
Audit and review of financial statements	57,000	52,000
Taxation services	25,434	25,584
	<u>82,434</u>	<u>77,584</u>

24. Commitments to Expenditure

Contractual commitments

The contractual commitments for 2021 and 2020 are under the licensing agreement with CSIRO for the minimum annual royalty and minimum research payments. These are detailed in the table below:

	2021	2020
	\$	\$
Within 1 year	50,000	-
Between 1 and 5 years	200,000	200,000
More than 5 years	350,000	400,000
Total	<u>600,000</u>	<u>600,000</u>

Deferred Consideration

As part of the transaction approved by shareholder on 23 August 2018 and as consideration for the issued capital of HomeStay Care International Pty Ltd, HSC Technology Group Ltd will be required to issue up to 200,000,000 deferred shares to the shareholders of HomeStay Care International Pty Ltd as contingent consideration, with 50,000,000 ordinary shares to be issued upon each of the following milestones being met:

- The Group generating cumulative revenue of \$3,000,000 within 36 months of the date that HSC is re-admitted to the ASX List;
- The Group generating cumulative revenue of \$6,000,000 within 48 months of the date that HSC is re-admitted to the ASX List;
- The Group generating cumulative revenue of \$9,000,000 within 54 months of the date that HSC is re-admitted to the ASX List;
- The Group generating cumulative revenue of \$12,000,000 within 60 months of the date that HSC is re-admitted to the ASX List.

The Company has been granted a waiver of ASX Listing Rule 7.3.2 to permit it to issue Deferred Consideration Shares to the Vendors upon satisfaction of the milestones set out above.

Capital commitments

The capital commitments contracted for as at 31 December 2021 is nil (31 December 2020: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25. Parent Entity disclosures

	2021	2020
	\$	\$
(a) Financial Position		
Assets		
Current Assets	1,726,026	4,049,266
Non-Current Assets	2,750,260	2,846,500
Total Assets	4,476,286	6,895,766
Liabilities		
Current Liabilities	1,012,176	1,545,131
Total Liabilities	1,012,176	1,545,131
Net Assets	3,464,110	5,350,635
Equity		
Issued capital	50,961,364	50,741,364
Reserves	1,077,625	1,115,532
Accumulated losses	(48,574,879)	(46,506,261)
Total Equity	3,464,110	5,350,635
(b) Financial Performance		
Loss for the year	(2,068,618)	(2,384,709)
Total Comprehensive Loss	(2,068,618)	(2,384,709)

(c) Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2021 and 31 December 2020.

(d) Commitments

The parent entity had no contractual and capital commitments as at 31 December 2021 and 31 December 2020, other than as disclosed in note 24.

26. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and aging analysis for credit risk.

Risk management is carried out by the Directors and other KMP.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

The Group's exposure to foreign exchange risk at the reporting date is limited to the purchase of inventory, where the exchange rate is relatively stable.

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26. Financial Risk Management (continued)

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from both short and long-term borrowings and cash at bank. Borrowings issued at variable rates would expose the Group to cash flow interest rate risk. During 2021 and 2020, the Group had no borrowings at a variable rate of interest. The Group reviews its arrangements on a regular basis. The Group had no fixed rate borrowings as at 31 December 2021 and 31 December 2020.

Group sensitivity

At 31 December 2021, if interest rates had changed by ± 100 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for both the consolidated entity would have been \$5 lower/higher as a result of lower/higher interest income from cash and cash equivalents. Management have deemed a movement of 100 basis points to be an appropriate measure for this sensitivity analysis.

(b) Credit risk

The Group has no significant concentrations of credit risk. The cash balances are held in financial institutions with high ratings and the receivables comprise of customer receivables. The Group has assessed that there is minimal risk that the cash and receivables balances are impaired.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to ensure the ability to meet operational cash flow requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group aims at maintaining flexibility in funding by having in place operational plans to source further capital as required.

(iii) Maturities of financial liabilities

The tables below analyse the Group's material financial liabilities based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows as at 31 December 2021. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

26. Financial Risk Management (continued)

(iii) Maturities of financial liabilities (continued)

Consolidated		2021					
	Weighted-average interest rate	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
		\$	\$	\$	\$	\$	\$
Financial Liabilities							
Trade and other payables	-	670,767	-	-	-	670,767	670,767
Lease liabilities	12.00%	94,061	196,264	94,780	-	385,106	301,945
Total Financial Liabilities		764,828	196,264	94,780	-	1,055,872	972,712
Consolidated		2020					
	Weighted-average interest rate	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
		\$	\$	\$	\$	\$	\$
Financial Liabilities							
Trade and other payables	-	1,126,692	-	-	-	1,126,692	1,126,692
Lease liabilities	6.10%	151,256	41,200	-	-	192,456	164,264
Total Financial Liabilities		1,277,948	41,200	-	-	1,319,148	1,290,956

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

27. Related Party Transactions

a) Transactions with related parties

Directors and officers, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the reporting period. The terms and conditions of these transactions, which involved primarily the Company, being charged by related entities for legal services, cost of goods sold, office, administration, and company secretarial services, and for travel and accommodation costs, were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The amounts paid to directors and their related parties during the financial year are disclosed in Section B of the Remuneration Report and note 28 below.

During the year, there were expenses transacted between the Company and Automation Australia Pty Ltd, a company of which Graham Russell is a shareholder and director. Expenditure for cost of goods sold amounted to \$250,000 (2020: \$1,102,110).

b) Payables owing to related parties as at 31 December

	2021 \$	2020 \$
Automation Australia Pty Ltd (A company of which Mr Graham Russell is a director)	-	250,000
	-	250,000

c) Receivables due from related parties

There were no receivables due from related parties at the current and previous reporting date.

d) Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

28. Key Management Personnel Compensation

	2021 \$	2020 \$
Short-term employee benefits	236,497	246,438
Post-employment benefits	17,011	19,651
Share based payments	59,396	412,400
Total KMP compensation	312,904	678,489

Short-term employee benefits

These amounts include fees and benefits paid to the non-executive directors as well as all salary, paid leave benefits for executive directors and other KMP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

28. Key Management Personnel Compensation (continued)

Post-employment benefits

These amounts are the current year's superannuation contributions made during the year.

Share-based payments

These amounts represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the shares, options and performance rights granted on grant date.

Further information in relation to KMP remuneration can be found in the directors' report.

The directors of the Company declare that:

1. the financial statements and notes, as set out in the financial report, are in accordance with the Corporations Act 2001 and:
 - a) comply with Australian Accounting Standards, which, as stated in Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and
 - b) give a true and fair view of the financial position as at 31 December 2021 and of the performance for the year ended on that date of the consolidated entity;
2. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
3. the directors have been given the declarations required by s295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors.



Graham Russell
Managing Director

Dated this 28th day of February 2022

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**INDEPENDENT AUDITOR'S REPORT
 TO THE MEMBERS OF
 HSC TECHNOLOGY GROUP LTD**

Opinion

We have audited the financial report of HSC Technology Group Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the year then ended; and
- (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed this matter
Going Concern Refer to Note 1 in the financial statements	
<p>For the year ended 31 December 2021, the Group incurred a net loss of \$2,065,597 and had net cash outflows from operating activities, investing activities and financing activities of \$2,504,615, \$11,644 and \$146,743 respectively.</p> <p>The directors have prepared the financial report on the going concern basis. The directors' assessment of the Group's ability to continue as a going concern is based on a cash flow budget.</p> <p>We determined this assessment of going concern to be a key audit matter due to the significant judgments involved in preparing the cash flow budget and the potential material impact of the results of management's assessment.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Critically assessing the directors' reasons as to why they believe it is appropriate to prepare the financial report on a going concern basis; • Assessing the appropriateness and mathematical accuracy of the cash flow budget prepared by management; • Challenging the reasonableness of key assumptions used; and • Assessing the adequacy of the going concern disclosures in the financial report.
Revenue Refer to Note 3 in the financial statements	
<p>As disclosed in the statement of profit or loss and other comprehensive income for the year ended 31 December 2021, the Group has recognised revenue from the sale of goods and services of \$3,623,059.</p> <p>We determined revenue recognition to be a key audit matter due to the following:</p> <ul style="list-style-type: none"> • The balance is material to the Group and there are risks associated with management judgements, which includes identification of contracts and performance obligations, determination of the transaction price and the timing of revenue recognition; and • Revenue recognition is a presumed fraud risk under the Australian Auditing Standards. 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Ensuring the Group's revenue recognition policies are in accordance with Accounting Standards; • On a sample basis, we agreed revenue transactions to supporting documentation to assess whether the revenue recognition criteria were met; • Reviewing revenue transactions before and after the reporting date to ensure that revenue is recognised in the correct financial period; and • Reviewing the disclosures in the financial statements.



Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2021 but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of HSC Technology Group Ltd for the year ended 31 December 2021, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

RSM

RSM AUSTRALIA PARTNERS

A handwritten signature in black ink, appearing to read 'Tutu Phong'.

TUTU PHONG
Partner

Perth, WA
Dated: 28 February 2022

ADDITIONAL INFORMATION

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 4 February 2022.

(a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Range	Total Holders	Units	% of Issued Capital
1 – 1,000	491	41,544	0.00%
1,001 – 5,000	47	104,207	0.01%
5,001 – 10,000	11	84,985	0.00%
10,001 – 100,000	562	30,728,221	1.56%
100,001 and above	835	1,941,780,380	98.43%
Total	1,946	1,972,739,337	100.00%

Unmarketable Parcels

Minimum Parcel Size	Holders	Units
Minimum \$500.00 parcel at \$0.016 per unit	38,462	748
		5,426,362

(b) Substantial shareholders

Name	Units	% of Units
Kyle Haynes	147,500,000	7.5%
Russell Acquisitions Pty Ltd <Campbell House A/C>	145,800,000	7.4%

(c) Twenty largest shareholders

The names of the twenty largest holders of quoted ordinary shares are:

Rank	Name	Units	% of Units
1	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	306,603,098	15.54%
2	MS NICOLE GALLIN & MR KYLE HAYNES <GH SUPER FUND A/C>	114,000,000	5.78%
3	RUSSELL ACQUISITIONS PTY LTD <CAMPBELL HOUSE A/C>	145,800,000	7.39%
4	SHANE MAJELLA DOHERTY	46,350,000	2.35%
5	CELTIC CAPITAL PTY LTD <THE CELTIC CAPITAL A/C>	45,000,000	2.28%
6	CITICORP NOMINEES PTY LIMITED	29,441,663	1.49%
7	BERGER INVESTMENT FUND PTY LTD <BERGER INVESTMENT FUND A/C>	28,250,000	1.43%
8	WIMALEX PTY LTD <TRIO S/F A/C>	27,750,000	1.41%
9	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	25,692,573	1.30%
10	NINETY THREE PTY LTD <ONE MILE S/F A/C>	25,000,000	1.27%
11	BNP PARIBAS NOMS PTY LTD <DRP>	24,527,117	1.24%
12	SHARKY HOLDINGS PTY LTD <THE MORRIS FAMILY A/C>	24,000,000	1.22%
13	ONSWITCH INVESTMENTS PTY LTD <FOXFIRST A/C>	22,983,333	1.17%
14	RAVENHILL INVESTMENTS PTY LTD <HOUSE OF EQUITY A/C>	22,500,000	1.14%
15	CELTIC CAPITAL PTE LTD <INVESTMENT 1 A/C>	21,193,371	1.07%
16	ALTOR CAPITAL MANAGEMENT PTY LTD <ALTOR ALPHA FUND A/C>	20,000,000	1.01%
17	TEMPLETON SWEETWATER PTY LTD <TEMPLETON SWEETWATER FAMILY A/C>	20,000,000	1.01%
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	19,696,481	1.00%
19	MRS MICHELLE DENNY <PIRATE'S COVE A/C>	17,000,000	0.86%
20	MR SIMON WILLIAM TRITTON <INVESTMENT A/C>	17,000,000	0.86%
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)		1,002,787,636	50.83%

(d) Voting rights

All fully paid ordinary shares carry one vote per share on a poll.

(e) Unlisted Options

The following options are on issue:

80,000,000 unlisted options with an exercise price of \$0.03 expiring 13 November 2023

4,000,000 unlisted options with an exercise price of \$0.05 expiring 1 August 2022

4,000,000 unlisted options with an exercise price of \$0.065 expiring 1 February 2023

10,000,000 unlisted options with an exercise price of \$0.015 expiring 3 February 2023