Mach7 Technologies Limited

ACN 007 817 192

and controlled entities (Mach7 Technologies Group)

Appendix 4D and Half Year Report
For the half year ended
31 December 2018

Provided to the ASX in accordance with listing rule 4.2A

Results for announcement to the market

1 Current reporting period is 1 July 2017 to 31 December 2018
Previous corresponding period is 1 July 2016 to 31 December 2017

			% Change from previous corresponding period		Current reporting period $'000
2.1	Revenues from ordinary activities	down	9%	to	3,516
2.2	Loss from ordinary activities after tax attributable to members	increased	31%	to	(4,438)
2.3	Loss for the period attributable to members.	increased	31%	to	(4,438)
2.4	**Dividends**				
	Interim dividend		–		–
	Final dividend		–		–

Net Tangible Asset Backing

		31 December 2018	30 June 2018
3	Net tangible asset backing per ordinary share	2 cents	2 cents

Comments by directors

Please refer to the "Operating and Financial Review" in the directors' report for a detailed explanation and analysis of the Group's performance for the six months ended 31 December 2018.

Review opinion

This report is based on accounts which have been independently reviewed by the Company's external auditors. A copy of the directors' report and financial statements, together with the auditors' review report, is attached.

Your directors submit their report for the half year ended 31 December 2018 ("H1 2019"). The previous corresponding period (PCP) is 31 December 2017 ("H1 2018").

Directors

The following persons were Directors or Company Secretary of Mach7 Technologies Limited (Company) during the whole of the six-month period ended 31 December 2018 and up to the date of this report, unless otherwise stated:

Director	
Damien Lim	Non-Executive Chairman
Mike Jackman	CEO, Managing Director
A. Wayne Spittle	Non-Executive Director
Eliot Seigel	Non-Executive Director (appointed 3 August 2018)
David Chambers	Non-Executive Director (appointed 3 August 2018)
Dr Nigel Finch	Non-Executive Director (resigned 3 August 2018)
Nobuhiko Ito	Non-Executive Director (resigned 3 August 2018)
Jennifer Pilcher	Company Secretary

Principal activities

The principal activity of the Company is the development and commercialisation of medical imaging data solutions for healthcare enterprises. The Mach7 data services platform enables the sharing, storage and workflows of all types of medical images data across any, and all, modalities thus enabling interoperability for the healthcare enterprise.

Operating and financial review

The operating and financial review section of the directors' report is outlined in the following sections:

- Financial position
- Review of operations

Financial position

At 31 December 2018, the Group reported net current assets of $1.9 million, which includes cash on hand of $3.2 million. Also included in net current assets is deferred revenue liabilities of $3.2 million which will result in a cash outflow, but rather will be recognised as revenue in future periods. During the current reporting period, the Group raised capital of $2.8 million (after transaction costs), by way of a private placement of 15 million shares at a share price of 20 cents per share. During the current period, a large customer contract won required a 5% performance bond to be placed with the customer, which will be due back to the Company at the expiry in the contract in 2024. This has resulted in a non-current asset of $743.6k being recognised on the balance sheet. To fund that contract deposit, the Company has taken out a loan valued at $637.2k, which is subject to a 10% interest rate per annum and has a maturity date of 15 November 2019.

Review of operations

Revenue from continuing operations

Revenue recognised for the current reporting period was $3.5 million (H1 2018: $3.9 million). Revenue for the current period is lower than the previous corresponding period mainly due to lower reported software sales occurring this half. Software sales continue to have a long sales cycle (> 12 months) and therefore revenue reported for a relatively short (i.e. six-month) period can be very lumpy from one period to the next, given software revenue is recognised 100% on delivery. For example, one customer alone contributed >$1 million to the previous corresponding period software revenue.

Revenue from continuing operations (continued)

It should also be noted that the current period revenue does not include any revenue from the HAHK contract win, however with implementation now underway the full year result is expected to recognise both software and services revenue from this contract.

Offsetting the lumpiness in software revenue, are implementation service fees which are relatively constant, and the growing annual recurring revenue (ARR) base which has grown by 52% over the prior corresponding period. This recurring revenue recognised is very stable and continues to grow with every successful new software implementation, as the customer enters the support and maintenance phase. As this recurring continues to grow, the impact of lumpy software revenue will be diminished. Total ARR under contract (CARR) is now at $7.2 million per annum at 31 December 2018. This means, once all current contracted customers are fully live and on support, the Group would be recognising $7.2 million per annum in ARR. CARR has grown significantly, +64%, over PCP which is a direct result of the new deals won in the last 12 months.

The table below provides a breakdown of revenue recognised by product/service (table 1):

Revenue from continuing operations	Mach7 Group H1 2019	Mach7 Group H1 2018	
	6 months to 31 December 2018 $	6 months to 31 December 2017 $	% Change
Software licence fees	542,364	1,478,082	(63%)
Professional service fees	874,314	865,375	1%
Annual maintenance fees	1,983,724	1,309,161	52%
Subscription, Pay-per-use	116,013	208,588	(44%)
Revenue from continuing operations	**3,516,415**	**3,861,206**	(9%)

Expenses from operations

Operating expenditure (excluding interest expense, share-based payments expense, depreciation & amortisation) for the current reporting period was $6.0 million (H12018: $5.5 million). Operating expenditure has risen by $0.5 million (9%) compared to the previous corresponding period mainly due to an increased investment in marketing campaigns and trade shows, and additional labour resources to meet the demands of our growing customer base. The table below presents the operating expenses from operations (table 2):

Operating expenses	Mach7 Group H1 2019	Mach7 Group H1 2018	
	6 months to 31 December 2018 $	6 months to 31 December 2017 $	% Change
Employee benefits expenses	4,526,608	4,329,306	5%
Corporate and professional fees	214,620	182,099	18%
Marketing expenses	461,092	236,194	95%
Travel and related expenses	233,399	229,019	2%
Administration, insurance and other	417,962	397,614	5%
Distributor expenses and license fees	138,328	139,866	(1%)
Expenses from operations*	**5,992,009**	**5,514,098**	9%

*excluding interest expense, share-based payments expense, depreciation & amortisation

Loss after tax

The loss after tax for the half year is $4.4 million (H12018: $3.4 million). The difference of $1.0 million is largely explained by the fall in revenues ($0.4 million) and the increase in operating expenditure ($0.5 million) as mentioned above.

Significant events occurring after balance date

There were no significant events that occurred after 31 December 2018.

Outlook

Mach7 will continue to track towards profitability by growing its annual recurring revenue base and being efficient with costs. Mach7 will continue to win customers, and with that, continue to grow its annual recurring revenue base to a level that can support the underlying operations.

Mach7 is well placed to take advantage of the buoyant PACS replacement market, with the delivery of its new modernized PACS solution. Mach7 recently released version 11.8 of the Mach7 Platform, our core product and competitive differentiator. Version 11.8 is a major update adding new features and functionality to the system, such as a Smart Worklist and a whole new module, Analytics Studio, to predict operational workloads, track system efficiency metrics and define key performance indicators. Two of Mach7's most innovative solutions are the Modernized PACS and Smart Universal Worklist. The Mach7 Modernized PACS, powered by our advanced AI-enabled data platform, gives radiologists tools and functionality that go beyond their existing PACS. It provides a scalable base that can expand with the enterprise and minimise the cost of future infrastructure upgrades. Our Smart Worklist incorporates weighted priors, load balancing, enhanced hanging protocols, and integrations with viewers, reporting tools, and AI algorithms to drive even greater usability and radiologist efficiency, saving time and money while enhancing patient care.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial half-year.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Damien Lim
Chairman
22 February 2019
Singapore

RSM Australia Partners

Level 21, 55 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West VIC 8007

T +61 (0) 3 9286 8000
F +61 (0) 3 9286 8199

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Mach7 Technologies Limited and its controlled entities for the half year ended 31 December 2018, 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

RSM AUSTRALIA PARTNERS

R B MIANO
Partner

Dated: 22 February 2019
Melbourne, Victoria

	Note	CONSOLIDATED 31 Dec 18 $	30 Jun 18 $
ASSETS			
Current assets			
Cash and cash equivalents	5	3,204,235	2,504,587
Trade and other receivables	6	3,077,330	3,691,234
Other current assets	7	364,372	300,051
Total current assets		6,645,937	6,495,872
Non-current assets			
Plant and equipment		171,475	174,226
Investments		318,016	318,016
Customer performance bond deposits	8	743,603	-
Intangible assets		12,402,079	14,217,807
Total non-current assets		13,635,173	14,710,049
Total assets		20,281,110	21,205,921
LIABILITIES			
Current liabilities			
Trade and other payables		867,012	1,263,423
Interest bearing liabilities	9	653,515	13,538
Contract liabilities	10	3,202,833	2,715,538
Total current liabilities		4,723,360	3,992,499
Non-current liabilities			
Deferred tax liability		2,584,632	2,966,622
Total non-current liabilities		2,584,632	2,966,622
Total liabilities		7,307,992	6,959,121
Net assets		12,973,118	14,246,800
EQUITY			
Contributed equity		58,635,684	55,557,122
Reserves		3,540,404	3,454,851
Accumulated losses		(49,202,970)	(44,765,173)
Total Equity		12,973,118	14,246,800

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Profit and Loss and Other Comprehensive Income

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

		CONSOLIDATED	
	Note	31 Dec 2018	31 Dec 2017
		$	$
Revenue from continuing operations			
Revenue from sales	4	3,516,415	3,861,206
Other income		119,129	292,467
		3,635,544	4,153,673
Employee benefits & staff related expenses		(4,526,608)	(4,329,306)
Professional, consultancy, and corporate expenses		(214,620)	(182,099)
Marketing expenses		(461,092)	(236,192)
Travel and related expenses		(233,399)	(229,020)
General administration expenses		(417,962)	(397,615)
Distributor and license fees		(138,328)	(139,866)
Other expenses		(254,586)	(275,782)
Share-based payments expense		(343,420)	(443,222)
Finance costs		(13,999)	(10,832)
Depreciation and amortisation		(1,851,317)	(1,850,920)
Loss from continuing operations before income tax		(4,819,787)	(3,941,181)
Income tax benefit		381,990	545,700
Loss for the year		(4,437,797)	(3,395,481)
Other comprehensive income		43,206	25,145
Total comprehensive loss for the year, net of tax, attributable to equity holders of the parent		(4,394,591)	(3,370,336)
Earnings per share (cents per share)			
- Basic earnings/(loss) per share		(3 cents)	(3 cents)
- Diluted earnings/(loss) per share		(3 cents)	(3 cents)
Dividends per share (cents)		-	-

The above statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes.

Mach7 Technologies Limited
Statement of Changes in Equity
FOR THE HALF YEAR ENDED 31 DECEMBER 2018

Consolidated	Share Capital	Share Based Payments Reserve	Foreign Exchange Translation Reserve	Accumulated losses	Total Equity
	$	$	$	$	$
At 1 July 2017	53,090,510	2,351,762	308,283	(39,811,777)	15,938,778
Loss for the half-year	–	–	–	(3,395,481)	(3,395,481)
Other comprehensive income/(loss) for the year	–	–	25,145	–	25,145
Total comprehensive loss for the half-year	–	–	25,145	(3,395,481)	(3,370,336)
Issue of share capital	2,000,000	–	–	–	2,000,000
Capital raising costs	(10,462)	–	–	–	(10,462)
Share based payments	–	443,222	–	–	443,222
Foreign exchange	–	(1,957)	1,957	–	–
At 31 December 2017	55,159,498	2,713,577	335,385	(43,207,258)	15,001,202
At 1 July 2018	55,557,122	3,130,478	324,373	(44,765,173)	14,246,800
Loss for the half-year	–	–	–	(4,437,797)	(4,437,797)
Other comprehensive income/(loss) for the year	–	–	43,206	–	43,206
Total comprehensive loss for the half-year	–	–	43,206	(4,437,797)	(4,394,591)
Issue of share capital	3,000,000	–	–	–	3,000,000
Share-based payment securities converted to ordinary fully paid shares	278,650	(278,650)	–	–	–
Capital raising costs	(200,088)	–	–	–	(200,088)
Share based payments	–	343,420	–	–	343,420
Foreign exchange	–	(22,423)	–	–	(22,423)
At 31 December 2018	58,635,684	3,172,825	367,579	(49,202,970)	12,973,118

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

		CONSOLIDATED	
	Note	31 Dec 2018	31 Dec 2017
		$	$
Cash flows from operating activities			
Receipts from customers		4,396,322	6,110,144
Payments to suppliers and employees		(6,386,319)	(6,126,078)
Interest received		15,064	13,371
Other receipts		2,681	205,036
Net cash (used in) / provided by operating activities		(1,972,252)	202,473
Cash flows from investing activities			
Proceeds from sale of plant and equipment		–	965
Cash transferred to term deposits (financial assets)		–	(309,917)
Payments for contract performance bonds		(726,246)	–
Payment for plant and equipment		(30,318)	(31,078)
Net cash flows used in investing activities		(756,564)	(340,030)
Cash flows from financing activities			
Proceeds from issues of shares, options etc		3,000,000	2,000,000
Proceeds from borrowings		621,530	–
Finance lease repayments		(6,635)	–
Capital raising costs		(200,088)	(9,486)
Net cash flows provided by financing activities		3,414,807	1,990,514
Net increase / (decrease) in cash and cash equivalents		685,991	1,852,957
Net foreign exchange difference relating to cash		13,657	(62,776)
Cash and cash equivalents at beginning of period		2,504,587	2,684,225
Cash and cash equivalents at end of period	5	3,204,235	4,474,406

The above statement of cash flows should be read in conjunction with the accompanying notes.

1. CORPORATE INFORMATION

The financial report of Mach7 Technologies Limited (the "Company" or the "Parent") for the half year ended 31 December 2018 was authorised for issue in accordance with a resolution of the directors on 22 February 2019.

Mach7 Technologies Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX:M7T).

The nature of the operations and principal activities of Mach7 Technologies Limited and its consolidated entities (the "Group") are described in the Directors' Report.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general-purpose financial report for the interim half-year reporting period ended 31 December 2018, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134 'Interim Financial Reporting' as appropriate for for-profit entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The financial report has been prepared on a historical cost basis and is presented in Australian dollars unless otherwise stated.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001. The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New Accounting Standards and Interpretations Adopted

The Group has adopted all 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.

Specifically, the Group has adopted Accounting Standards AASB 9 *'Financial Instruments*' and AASB 15 *'Revenue from Contracts with Customers'* for the half-year ended 31 December 2018.

AASB 9 *Financial Instruments*

The Group has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

AASB 15 *Revenue from Contracts with Customers*
The Group has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

The impact on the financial performance and position of the Group from the adoption of these Accounting Standards is detailed in note 3.

Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements, the Group incurred a net loss after tax of $4.4 million and net cash outflows from operating activities of $2.0 million for the half-year ended 31 December 2018. Despite this result, the Directors believe that it is reasonably foreseeable that the company and consolidated entity will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following factors:

- as at year-end, the group’s current assets exceeded current liabilities by $1.9 million;
- included in the year-end balance of current liabilities, is an amount of $3.2 million relating to deferred revenue. This amount will not result in a cash outflow; it will be transferred to revenue as it is earned during the next financial year; and
- securing expected new contracts in the next financial year.

Revenue recognition

The Group recognises revenue as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Sale of software

Revenue from the sale of software is recognised at the point in time when the customer obtains control of the software, which is generally at the time of delivery. The provision of the software licence is a distinct performance obligation as the customer can derive substantial benefits from the licence on its own when the licence is delivered and installed. Therefore, revenue from the sale of software is recognised when the software is delivered to the customer.

Rendering of services

Revenue from a contract to provide professional services, such as implementation, training and annual support services, is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

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

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days. Other receivables include accrued revenue where revenue has been recognised, however customers are yet to be invoiced. Invoices will be issued at a future date in accordance with the contract payment terms.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Customer acquisition costs

Customer acquisition costs are capitalised as an asset where such costs are incremental to obtaining a contract with a customer and are expected to be recovered. Customer acquisition costs are amortised over the relevant performance obligations of the contract.

Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained, or which are not otherwise recoverable from a customer are expensed as incurred to profit or loss. Incremental costs of obtaining a contract where the contract term is less than one year is immediately expensed to profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group’s assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses.

The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Contract liabilities

Contract liabilities represent the Group’s obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

3. IMPACT OF ADOPTING AASB 9 'FINANCIAL INSTRUMENTS' AND AASB 15 'REVENUE FROM CONTRACTS WITH CUSTOMERS'

AASB 9 and AASB 15 were adopted using the modified retrospective approach and as such comparatives have not been restated. There has been no material impact on opening accumulated losses as a result of adopting these standards.

Adoption of AASB 9 'Financial Instruments'

There have been no material changes to the carrying values of investments and cash and cash equivalents as a result of adopting AASB 9. There was a change in measurement for investments from amortised cost under AASB 139 to fair value through other comprehensive income under AASB 9.

There was no change in measurement categories for financial liabilities.

The introduction of the expected credit losses model did not result in a material change to trade receivables as at 30 June 2018.

Adoption of AASB 15 'Revenue from Contracts with Customers

The application of AASB 15 did not have any material impact on revenue recognition policy of the Group, and hence, there was no adjustment required in this respect. Information regarding disaggregation of revenues are disclosed in note 4 (segment information). All revenues earned are from customers within the healthcare industry. There was no significant judgment involved when applying this standard.

4. SEGMENT INFORMATION

The Mach7 Group's core business is the commercialisation and sale of medical imaging software, predominantly throughout the United States, Asia-pacific, and the Middle East region. The operational segments of the business are determined with reference to how revenue is generated, that is, from software license fees and the provision of professional services to its customers. Services provided to customers includes customer training, software installation services, and maintenance and support services.

	CONSOLIDATED	
	31 Dec 2018 (6 months)	31 Dec 2017 (6 months)
	$	$
Segment revenues		
Product segment revenues		
Software licenses	543,260	1,686,670
Professional services & maintenance services	2,973,155	2,174,536
	3,516,415	3,861,206
Geographical segment revenues		
United States	2,531,007	3,454,036
Middle East	905,327	262,731
Asia/Pacific	36,705	87,115
Europe and Other	43,376	57,324
	3,516,415	3,861,206
Segment adjusted EBITDA*		
Software licenses	(1,593,750)	(234,050)
Professional services & maintenance services	744,772	337,026
	(848,978)	102,976
Reconciliation to net loss after tax		
Segment adjusted EBITDA	(848,978)	102,976
Administration and corporate expenses^	(1,756,019)	(1,778,521)
Net other income/(other expenses) not allocated to segments	–	39,337
Group adjusted EBITDA	(2,604,997)	(1,636,207)
Share based payments expense	(343,420)	(443,222)
Depreciation and amortisation expense	(1,856,200)	(1,850,920)
Finance & interest costs	(15,170)	(10,832)
Income tax benefit	381,990	545,700
Net loss after tax	(4,437,797)	(3,395,481)

**Segment Adjusted Earnings before Interest, Tax, Depreciation & Amortisation, and non-cash share-based payments expenses (Adjusted EBITDA).*

^Administration and corporate expenses are not allocated to a particular operating segment, but are reviewed by management separately. This category includes expenses related to corporate/head office, ASX and governance, compliance costs (audit, tax etc), certain executive management costs, and occupancy costs.

4. SEGMENT INFORMATION (continued)

	CONSOLIDATED	
	31 Dec 2018	30 Jun 2018
	$	$
Segment assets – by product		
Software licenses	2,907,719	2,782,912
Professional services & maintenance services	1,033,598	1,000,284
	3,941,317	3,783,196
Reconciliation to group assets		
Segment assets	3,941,317	3,783,196
Cash	3,204,235	2,504,587
Other receivables	27,849	6,118
Prepayments and deposits	216,139	201,971
Plant & equipment	171,475	174,226
Intangible assets	12,402,079	14,217,807
Investments	318,016	318,016
	20,281,110	21,205,921
Geographical non-current assets		
United States	258,741	257,806
Asia/Pacific	750,647	7,456
	1,009,388	265,262
Segment liabilities – by product		
Software licenses	948,829	564,601
Professional services & maintenance services	3,467,830	2,910,802
	4,416,659	3,475,403
Reconciliation to group liabilities		
Segment liabilities	4,416,659	3,475,403
Trade payables & accruals not directly attributable to segments	306,701	517,096
Deferred tax liability	2,584,632	2,966,622
	7,307,992	6,959,121

5. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	31 Dec 2018	30 Jun 2018
	$	$
Cash at bank and on hand	288,293	1,172,435
Cash on deposit (< 3-month terms)	2,915,942	1,332,152
	3,204,235	2,504,587

6. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	31 Dec 2018	30 Jun 2018
	$	$
Trade receivables	997,424	1,596,172
Less provision for doubtful debts	(231,283)	(196,185)
Accrued revenue on contracts	2,216,369	2,243,952
Other receivables	91,546	43,155
Interest receivable	3,274	4,140
	3,077,330	3,691,234

7. OTHER CURRENT ASSETS

	CONSOLIDATED	
	31 Dec 2018	30 Jun 2018
	$	$
Security deposits	10,965	10,471
Prepayments	205,174	187,048
Customer acquisition costs	148,233	102,532
	364,372	300,051

8. CUSTOMER PERFORMANCE BOND DEPOSITS (NON-CURRENT)

	CONSOLIDATED	
	31 Dec 2018	30 Jun 2018
	$	$
Performance bond	743,603	-

Terms and conditions relating to the above:

Performance bond paid to Hospital Authority Hong Kong (HAHK) for 5% of contract value won in October 2018. This bond is due back to the Company in January 2024, being three months after the expiry of the Contract.

9. INTEREST-BEARING LIABILITIES

	CONSOLIDATED	
	31 Dec 2018	30 Jun 2018
	$	$
Loans (i)	637,154	-
Interest payable on loan (i)	9,184	-
Finance lease (ii)	7,177	13,538
	653,515	13,538

Terms and conditions relating to the above:

(i) The loan was obtained from private lenders, including Directors, to fund the performance bond in Note 8. The loan is secured over the HAHK contract, is subject to 10% interest payable quarterly in arrears, and matures on 15 November 2019.

(ii) The finance lease is for I.T. server equipment and will be repaid in the current financial year.

10. CONTRACT LIABILITIES

	CONSOLIDATED	
	31 Dec 2018	30 Jun 2018
	$	$
Software maintenance support services (i)	1,366,260	1,125,076
Professional services (ii)	1,836,573	1,590,462
	3,202,833	2,715,538

Terms and conditions relating to the above financial instruments:

(i) Software maintenance support services represents annual maintenance contracts where payment has been received by the customer in advance (typically customers are billed annually in advance) but the support services are yet to be provided.

(ii) Professional services are where payment has been received in advance for installation and training services.

Due to the short-term nature (less than one year) of the above contract liabilities, their carrying value is assumed to approximate their fair value.

11. FAIR VALUE MEASUREMENT

The carrying amounts of trade and other receivables and trade and other payables approximate their fair values at reporting date due to their short-term nature. Investments valued at fair value through other comprehensive income are categorized as level 3 within the fair value hierarchy and are valued using references to the initial investment timeframe and most recent equity issues.

12. RELATED PARTIES

Transactions with related parties are limited to loans received from certain Directors valued at $389,208, and interest payable of $6,011, which form part of the loan and related interest payable disclosed in Note 9.

13. CONTINGENT LIABILITIES

During the financial year ended 30 June 2017, the Company novated a finance lease for an asset to a third party. The Company continues to act as guarantor for this lease through to its expiry on 15 July 2019. The Company's maximum exposure as guarantor (in the event the third-party defaults on all future lease payments since 31 December 2018) is $70,120.

14. SUBSEQUENT EVENTS

The Company is not aware of any subsequent events that have occurred since 31 December 2018 that may materially affect the financial information in this report.

DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Damien Lim
Chairman
22 February 2019
Singapore

RSM Australia Partners

Level 21, 55 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West VIC 8007

T +61 (0) 3 9286 8000
F +61 (0) 3 9286 8199

www.rsm.com.au

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF

MACH7 TECHNOLOGIES LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Mach7 Technologies Limited and its controlled entities ("the consolidated entity") which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the consolidated entity are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Mach7 Technologies Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations act 2001*, which has been given to the directors of Mach7 Technologies Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mach7 Technologies Limited and its controlled entities is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

RSM AUSTRALIA PARTNERS

R B MIANO
Partner

Dated: 22 February 2019
Melbourne, Victoria