

31 DECEMBER 2018



**INTERIM
FINANCIAL
REPORT**

A decorative graphic consisting of several diagonal stripes in shades of blue and white, overlaid on a background of blurred city lights and data patterns, extending from the bottom left towards the top right.

**MAINSTREAM GROUP HOLDINGS LIMITED
AND ITS CONTROLLED ENTITIES
ABN 48 112 252 114**

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The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, the report is to be read in conjunction with the annual report for the year ended 30 June 2018 (Annual Report) and any public announcements made by Mainstream Group Holdings Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CORPORATE HIGHLIGHTS

\$24.9m

- › Revenue
↑ 32% on HY18

\$3.6m

- › EBITDA¹
↑ 20% on HY18

\$147bn

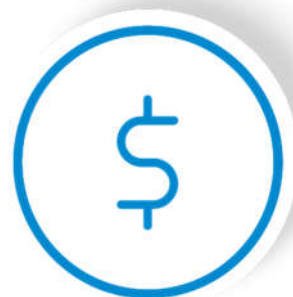
- › Funds under Administration
↑ 10% on HY18



- › Continued growth in challenging markets



- › Investing in new growth opportunities and digital operations



- › Interim dividend of 0.75 cents per share fully franked at a corporate tax rate of 27.5%



- › Recognised as one of Australia's fastest growing companies

¹ EBITDA is a non-IFRS financial measure used to highlight the operating performance of the Group. EBITDA is calculated as earnings before interest financing expense, tax, depreciation, amortisation and share based payments.

DIRECTORS' REPORT

The Directors of Mainstream Group Holdings Limited (the “Company” or “Mainstream”) present their financial report for the Company and its controlled entities which together form the consolidated entity (the “Group”), in respect of the half year ended 31 December 2018.

DIRECTORS

The following persons were Directors of the Company during the half year and up to the date of this report:

Name	Directorship
Byram Johnston OAM	Non-Executive Chairman
Martin Smith	Chief Executive Officer
John Plummer	Non-Executive Director
Lucienne Layton	Non-Executive Director
JoAnna Fisher	Non-Executive Director

REVIEW OF RESULTS AND OPERATIONS

For the half year ended 31 December 2018, the Group’s revenue was \$24.9 million, an increase of 32% over the six months to 31 December 2017. Net profit after tax decreased by 76% to \$0.2 million (compared to \$1.0 million for the six months to 31 December 2017) due to an acceleration of amortisation and an increase in share based payment expenses.

The Group currently has fund administration operations in 8 countries. Asia-Pacific (APAC), which includes Australia, Singapore, Hong Kong, contributed 73% of the Group’s revenue, down from 79% for the six months to 31 December 2017 due to growth in the Group’s US business and a full period of recognised revenue for the Dublin operations acquired in September 2017. The Americas (USA and Cayman Islands) accounted for 17% and Europe (Ireland, the Isle of Man and Malta) for 10% of the Group’s revenue, up from 12% and 9% for the same period last year.

In challenging financial markets, funds under administration grew by \$8.3 billion to \$147 billion during the six month period to 31 December 2018. This represented an increase of 6% for the half year and 10% for the full year. Broad market declines were offset by 106 net additional funds and growth in funds under administration in the global hedge and private equity businesses.

Client numbers also grew over the period, driven by the onboarding of 40 new private equity funds in the US and 29 new funds under custody in Australia. Mainstream now administers 921 funds for 368 clients as at 31 December 2018 (up from 815 funds for 343 clients as at 30 June 2018).

During the period we continued to invest in our people. Global headcount grew to 256 people (compared to 245 people as at 30 June 2018).

In October 2018 Mainstream welcomed Andy Harrison as CEO of its Australian Fund Services business. Andy has more than 16 years of experience in outsourcing, custody, fund accounting, registry, investment operations and middle and back office solutions for fund managers. With Andy's appointment, Nick Happell assumed the role of CEO, Asia-Pacific, allowing Martin Smith to focus on his group CEO responsibilities and providing support for Mainstream's key clients.

Also in October 2018, Byram Johnston OAM transitioned from Executive to Non-Executive Chairman of the Group as planned.

Mainstream spent \$4.1 million on technology during the period, including \$3.4 million on IT expenditure, \$0.4 million on IT capitalisation and \$0.3 million on automation and client reporting projects. This reflects Mainstream's ongoing investment in automation, regulatory compliance and client experience.

COMPLETED CAPITAL RAISE

During September and October 2018, Mainstream raised \$10.3 million via a placement to professional and sophisticated investors and a Share Purchase Plan.

Use of funds

The Capital Raise proceeds are now funding the following initiatives:

- › Custody regulatory capital – Following attainment of the regulatory capital required to operate as a master custodian, Mainstream has upgraded its 'incidental' custody service to offer Australian fund managers a competitive alternative to traditional custodians. Mainstream's assets under custody increased by 24% in the six month period to 31 December 2018 to \$4.6 billion across 66 clients with a positive outlook for 2019.
- › Mainstream Digital – Capital raise proceeds are funding two years of development in a proprietary wealth management platform, "Mainstream Digital". The development includes in-house development of online transacting with web-based security authentication, account maintenance and investor on-boarding as well as investment in an end-to-end digital funds and analytics web portal for Mainstream's fund accounting, custody and unit registry services. During the period Mainstream secured a foundation client for its Separately Managed Account (SMA) and launched an online application that enables investors to complete their initial managed fund application online, as the first steps in building out its digital service offering to investment managers.
- › US expansion – Mainstream expanded its US operations during the period via the hiring of additional business development staff and opening a processing centre in Indiana. The new team is focused on administering funds in the US's \$4.7 trillion private equity, venture capital and real estate fund market, complementing Mainstream's existing hedge fund administration business in the US. In the six months to 31 December 2018 the team under the leadership of Jay Maher, CEO, Private Equity, Venture Capital and Real Estate, onboarded 40 new funds, growing Mainstream's funds under administration in the sector to \$3.9 billion with a strong pipeline into 2019.
- › Working capital – The capital raise strengthened Mainstream's balance sheet and contributed to a reduction in the Company's debt position.

REMUNERATION UPDATE

This section provides an update on key remuneration changes since the Company's Annual Report for the year ended 30 June 2018 was released on 21 August 2018 ("Annual Report").

Employee Share Plan

The Company has in place an Employee Share Plan ("ESP") which has operated since listing on ASX.

Under the ESP, Directors, senior management and eligible employees may be allocated Awards in the form of Performance Rights, Options or Restricted Shares as a means of retaining their service and aligning their interests with shareholders.

At the Company's Annual General Meeting ("AGM") on 26 September 2018 shareholders approved a resolution for the Company to continue issuing securities under the ESP for a further 3 year period under ASX Listing Rule 7.2 Exception 9(b).

The ESP approved by shareholders streamlines the number of offers available to 3 plans:

› **Long Term Incentive (LTI) plan** (formerly known as the Senior Management Share Offer or SMSO) — comprising of Performance Rights granted to Executive Directors and various members of Mainstream's senior management, subject to various performance measures tied to the Company's future profitability and key performance indicators (KPIs). At the AGM shareholders approved the granting of up to 500,000 Performance Rights to Martin Smith, CEO, under the LTI plan.

› **Short Term Incentive (STI) plan** (formerly known as the Management Share Offer or MSO) — comprising the grant of Performance Rights to the broader management team as a bonus incentive in recognition for KPI achievement and performance.

› **Employee Share Offer (ESO) plan** — provides for Eligible Employees who are not invited to participate in the other Offers above to be granted \$2,000 worth of Shares for nil consideration in order to participate in the Company's success (no change from former ESP).

Accordingly, the Company is phasing out its former Directors' Share Offer (DSO)² and Senior Management Share Offer (SMSO), as these have been replaced by LTI plan, apart from the two unvested tranches from previous performance years which are due to vest on or around 1 October 2019 and 1 October 2020, as disclosed in the 2018 AGM Notice of Meeting.

Director remuneration

During the period the Board approved the payment of director fees to Group directors who also sit on the Board of wholly owned subsidiaries that hold a regulator issued licence to conduct fund or corporate services, effective from 1 October 2018. The Group directors perform these additional director duties to provide Group oversight and risk management to the subsidiary boards.

² Under the Company's DSO, Executive Directors were eligible to receive Performance Rights which vested over three years subject to share price or Earnings Per Share (EPS) hurdles.

Accordingly, the annualised remuneration for Byram Johnston OAM, Non-Executive Chairman, and Martin Smith, CEO, is expected to increase by approximately \$50,000 and \$60,000 respectively on the estimated director fees disclosed in the Annual Report in relation to their duties as directors of Group subsidiaries that hold a regulator issued fund administration licence in Australia, the Cayman Islands, Ireland, the Isle of Man and Malta. The Non-Executive Chairman's remuneration increase sits within the current aggregate fee pool limit of \$500,000 for Non-Executive Directors.

DIVIDENDS

On 21 August 2018, the Company announced a final dividend of 1.0 cent per issued share for the financial year ended 30 June 2018. Shareholders were advised that the dividend was fully franked at a company tax rate of 30%. Payment of the dividend was completed on 12 September 2018. Under Treasury Law Amendments enacted over the last two years, Mainstream now meets the criteria to be considered a "base rate entity" for determining the Corporate Tax Rate for Imputation Purposes for the 2017-2018 income year. This reduces the company's tax rate for imputation purposes in the 2017-2018 income year from 30% to 27.5%. Any impact on shareholders will be communicated.

Approximately 30% of total shares outstanding on 30 August 2018 elected to participate in the Dividend Reinvestment Plan (DRP). Per Appendix 3A.1 as filed with the ASX on 7 September 2018, the DRP price was calculated based on a 5% discount to the Volume Weighted Average Price (VWAP) of Mainstream shares during the pricing period of 30 August 2018 to 6 September 2018. The DRP resulted in the issuance of an additional 455,343 fully paid ordinary shares in Mainstream Group Holdings Limited.

On 19 February 2019, the Company announced an interim dividend of 0.75 cents (2018: 0.5 cents) per issued share for the half year ended 31 December 2018, payable on 18 April 2019 with a Record Date of 28 February 2019. The dividend will be fully franked at a corporate tax rate for imputation purposes of 27.5%. Eligible shareholders have the right to participate in the Company's DRP in respect to this dividend, with the DRP to operate at a 5% discount to the VWAP of Mainstream shares during the pricing period of 1 to 11 March 2019.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 14 August 2018, the Company announced its entry into the Separately Managed Account (SMA) market and appointed Perpetual Corporate Trust as the Responsible Entity of its forthcoming SMA.

On 19 September 2018, the Company advised it had received a termination notice from the Combined Super Fund due to a merger. The notice outlined the Fund's intention to merge its administration with the incumbent service provider of the Prime Super Fund. The fund merger was completed on 31 December 2018. Mainstream expects administration fees to cease effective 18 March 2019. The Group has accelerated its amortisation of intangible assets in relation to the Combined Super Fund contract. When the termination notice was received, the value of the contract revenue was less than 5% of the Group's revenue.

On 20 September 2018, the Company issued 13,571,429 new ordinary shares at an issue price of \$0.70 per share, raising approximately \$9.5 million under a placement to professional and sophisticated investors. On 23 October 2018, the Company issued a further 1,134,297 new shares under a Share Purchase Plan offer, raising

approximately \$0.8 million. In total Mainstream raised \$10.3 million to fund regulatory capital for expansion of its custody business, technology platform upgrades, expansion of US sales operations and strengthening its balance sheet including the repayment of \$1 million to ANZ. This repayment reduced Mainstream's debt facility balance to \$8 million.

On 31 October 2018, Mainstream was recognised in the Financial Review 'Fast 100' list, featuring the fastest growing companies in Australia.

Other than the above, there were no significant changes in the state of affairs of the Group during the half year ended 31 December 2018.

EVENTS SUBSEQUENT TO THE END OF THE REPORTING DATE

On 19 February 2019, the Company announced an interim dividend of 0.75 cents per issued share, fully franked at a corporate tax rate of 27.5%, for the half year ended 31 December 2018 and payable on 18 April 2019 with a Record Date of 28 February 2019. The Board of Directors also resolved to offer all Shareholders the right to participate in the Company's DRP in respect to this dividend, with the DRP to operate at a 5% discount.

On 1 February 2019 the Company announced a further repayment of \$1 million to ANZ. This reduced Mainstream's debt facility balance to \$7 million. The final repayment instalment is due in January 2020 with the three year loan to mature in January 2021.

On 8 February 2019, Mainstream announced the resignation of Non-Executive Director Lucienne Layton, effective 15 March 2019, to focus on her other executive work commitments. A search has commenced for a new Non-Executive Director and Chair of the Group's Audit and Risk Committee.

Under Treasury Law Amendments enacted over the last two years, Mainstream now meets the criteria to be considered a "base rate entity" for determining the Corporate Tax Rate for Imputation Purposes for the 2017-2018 income year. This reduces the company's tax rate for imputation purposes in the 2017-2018 income year from 30% to 27.5%. Any impact on shareholders will be communicated.

Other than the above, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future years.

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.

Signed in accordance with a resolution of the Directors:

A handwritten signature in black ink, appearing to read 'Byram Johnston', written in a cursive style.

Byram Johnston OAM
Non-Executive Director
Sydney
Date: 19 February 2019

Auditor's Independence Declaration to the Directors of Mainstream Group Holdings Limited

As lead auditor for the review of Mainstream Group Holdings Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Mainstream Group Holdings Limited and the entities it controlled during the financial period.



Ernst & Young



Rita Da Silva
Partner
19 February 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Note	Consolidated 2018 \$	2017 \$
Revenue			
Fee income from contracts with customers		22,785,001	17,351,626
Other operating income		1,219,522	1,199,035
Interest income		897,627	374,086
Total revenue	6	24,902,150	18,924,747
Expenses			
Employee benefits expense		14,281,301	10,359,022
Share-based payments expense	7	1,227,135	532,428
Accounting and audit fees		510,509	341,161
Depreciation expense		592,646	345,114
Amortisation		1,253,985	323,575
Bank fees and charges		109,542	81,554
Insurance		308,568	195,279
Interest expense		230,161	646,865
IT support and expenses		3,417,626	2,874,122
Legal and consulting fees		213,718	119,093
Occupancy		1,643,445	1,233,354
Acquisition costs		33,758	206,843
General and other expenses		792,625	511,622
Total expenses		24,615,019	17,770,032
Profit before income tax expense		287,131	1,154,715
Income tax expense	5	58,306	200,526
Profit after income tax expense for the half year		228,825	954,189
Other comprehensive income			
Exchange differences on translation of foreign subsidiaries		348,545	36,147
Other comprehensive income for the half year, net of tax		348,545	36,147
Total comprehensive income for the half year		577,370	990,336
Earnings per share (EPS):			
Basic earnings per share	4	\$0.0019	\$0.0092
Diluted earnings per share	4	\$0.0018	\$0.0087

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	31 December 2018 \$	30 June 2018 \$
Assets			
Current Assets			
Cash and cash equivalents	8	12,370,040	4,930,872
Trade and other receivables		4,445,090	4,509,397
Contract assets		2,767,687	1,595,761
Other current assets	9	2,214,430	1,996,348
Total Current Assets		21,797,247	13,032,378
Non-Current Assets			
Property, plant and equipment		5,262,366	4,395,799
Intangible assets	10	25,248,079	26,501,809
Total Non-Current Assets		30,510,445	30,897,608
Total Assets		52,307,692	43,929,986
Liabilities			
Current Liabilities			
Trade creditors and accrued expenses		3,698,359	2,865,010
Provision for employee benefits		1,059,072	921,317
Provision for income tax		125,499	457,130
Interest-bearing liabilities	11	1,000,000	2,000,000
Deferred consideration	12	743,006	743,006
Other current liabilities	13	1,002,599	2,406,397
Total Current Liabilities		7,628,535	9,392,860
Non-Current Liabilities			
Interest-bearing liabilities	11	6,791,046	6,721,499
Deferred consideration	12	425,668	1,168,674
Provision for employee benefits		47,158	81,751
Net deferred tax liabilities		619,636	1,178,122
Total Non-Current Liabilities		7,883,508	9,150,046
Total Liabilities		15,512,043	18,542,906
Net Assets		36,795,649	25,387,080
Equity			
Contributed capital	14	34,162,839	21,362,244
Reserves	15	1,452,760	1,979,755
Retained earnings		1,180,050	2,045,081
Total Equity		36,795,649	25,387,080

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Contributed Capital	Reserves	Retained Earnings	Total Equity
	\$	\$	\$	\$
CONSOLIDATED				
Balance at 1 July 2017	16,260,043	827,117	1,664,323	18,751,483
Profit after income tax	-	-	954,189	954,189
Other comprehensive income, net of tax	-	36,147	-	36,147
Total comprehensive income, net of tax	-	36,147	954,189	990,336
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(811,262)	(811,262)
Dividends reinvested	565,268	-	-	565,268
Shares issued under Entitlement Offer	4,116,829	-	-	4,116,829
Transaction costs	(205,841)	-	-	(205,841)
Shares issued under Employee Share Plans	564,193	(564,193)	-	-
Share-based payments	-	532,428	-	532,428
Balance at 31 December 2017	21,300,492	831,499	1,807,250	23,939,241
Balance at 1 July 2018	21,362,244	1,979,755	2,045,081	25,387,080
Profit after income tax	-	-	228,825	228,825
Other comprehensive income, net of tax	-	348,545	-	348,545
Total comprehensive income, net of tax	-	348,545	228,825	577,370
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(1,093,856)	(1,093,856)
Dividends reinvested	330,550	-	-	330,550
Shares issued under Entitlement Offer	10,294,008	-	-	10,294,008
Transaction costs	(351,031)	-	-	(351,031)
Shares issued under Deferred Consideration	424,393	-	-	424,393
Shares issued under Employee Share Plans	2,102,675	(2,102,675)	-	-
Share-based payments	-	1,227,135	-	1,227,135
Balance at 31 December 2018	34,162,839	1,452,760	1,180,050	36,795,649

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Note	Consolidated	
		2018	2017
		\$	\$
Cash flows from operating activities			
Income received		22,896,904	17,862,463
Operating expenses paid		(22,690,027)	(16,257,434)
Interest received		897,627	374,086
Interest paid		(187,451)	(523,562)
Income tax paid		(394,215)	(380,682)
Net cash inflow from operating activities		522,838	1,074,871
Cash flows from investing activities			
Purchase of capitalised software & equipment		(1,419,859)	(887,130)
Payments for acquisitions, net of cash received		-	(1,606,328)
Purchase of intangible assets		-	(3,708,868)
Net cash outflow from investing activities		(1,419,859)	(6,202,326)
Cash flows from financing activities			
Shares issued		10,294,008	4,116,829
Transaction costs paid		(351,031)	(205,841)
Proceeds from interest bearing liabilities, net of fees		-	1,949,409
Repayment of interest bearing liabilities		(1,000,000)	-
Dividends paid		(763,306)	(245,994)
Net cash inflow from financing activities		8,179,671	5,614,403
Net increase in cash and cash equivalents during the half year		7,282,650	486,948
Effects of exchange rate changes on cash and cash equivalents		156,518	6,596
Cash at the beginning of the half year		4,930,872	6,422,063
Cash at the end of the half year	8	12,370,040	6,915,607

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. CORPORATE INFORMATION

This interim financial report is for Mainstream Group Holdings Limited (the “Company”) and its controlled entities (the “Group”) for the half year ended 31 December 2018. The Company is a for profit entity limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The interim financial report for the half year ended 31 December 2018 is a general purpose financial report and has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. It is presented in Australian dollars (\$) and was approved by the Board of Directors on 19 February 2019. The Directors have the power to amend and reissue the financial report.

This interim financial report does not include all the information and disclosures normally included in the annual financial report. Accordingly, this report should be read in conjunction with the 30 June 2018 Annual Report and any public announcements made in respect of the Group during the half year ended 31 December 2018 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Where necessary, comparative figures have been reclassified to conform to any changes in presentation made in the interim financial report.

IMPAIRMENT OF NON-FINANCIAL ASSETS

All non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where an indicator or objective evidence of impairment exists, an estimate of the asset's recoverable amount is made. An impairment loss is recognised in the profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

IMPAIRMENT OF FINANCIAL ASSETS

The Group measures loss allowances at an amount equal to lifetime ‘expected credit loss’ (ECL). The Group considers a financial asset is in default when contractual payments are 90 day past due or when information indicates that the Group is unlikely to receive the outstanding amount in full. However, when internal or external information indicates an outstanding amount is likely to be received, the Group may not consider a financial asset to be in default. In addition, under AASB 9 *Financial Instruments*, expected credit losses on financial assets are recorded either on a 12-month or lifetime basis. The Group applies the simplified approach and records lifetime expected losses on all eligible financial assets. The revised methodology for calculating impairment did not have a material impact on the financial statements.

Notes to the Financial Statements continued

NEW, REVISED OR AMENDING ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The Group applied AASB 15 *Revenue from Contracts with Customers*, AASB 9 *Financial Instruments*, other amendments and interpretation for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

AASB 15 *Revenue from Contracts with Customers* supersedes AASB 118 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted AASB 15 using full retrospective method of adoption. Before adoption of AASB 15, the Group recognised trade and other receivables, even if the receipt of the total consideration was conditional on billing the clients. Under AASB 15, any earned consideration that is conditional should be recognised as a contract asset. Therefore, the Group restated the comparatives and reclassified \$1,595,761 from trade and other receivables to contract assets as at 30 June 2018.

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* of annual periods beginning on or after 1 January 2018, bring together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied AASB 9 with an initial application date of 1 July 2018 and elected not to restate prior periods.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations, or amendments that have been issued but are not yet effective.

ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The Australian and International Accounting Standards issued but not yet mandatory for the 31 December 2018 interim reporting period have not been adopted by the Group in the preparation of this interim financial report. An assessment of the impact of the new standards and interpretations which may have a material impact on the Group is set out below:

AASB 16 Leases

AASB 16 provides a single model for accounting for leases by lessees. Leases other than low value and short-term leases must be recognised on the statement of financial position of lessees. The lessee will recognise an asset, reflecting its right to use the underlying asset, and a liability, in respect of its obligation to make lease payments. Expenses in respect of leases will include amortisation of the right-of-use asset and interest expense in respect of the lease liability. Lessors will continue to account for leases as either operating or finance leases. For operating leases, the underlying asset remains on the lessor's balance sheet. For finance leases, the underlying asset is derecognised and a lease receivable is recognised.

Notes to the Financial Statements continued

The new standard will be effective for the Group from 1 July 2019. The Group will continue to assess the potential effect of AASB 16 on its consolidated financial statements.

CRITICAL ESTIMATES, JUDGEMENTS AND ERRORS

During the period ended 31 December 2018, the Group reviewed the intercompany services agreement and discovered that the revenue and expense were overstated between two subsidiaries. The error has been corrected by restating the prior periods as follows:

	2017 \$	Profit Increase / (Decrease) \$	2017 Restated \$
Statement of profit or loss (extract)			
Fee income from contracts with customers	17,464,722	(113,096)	17,351,626
Employee benefits expense	10,472,118	113,096	10,359,022
Profit before income tax expense	1,154,715	-	1,154,715

There is no change to total comprehensive income nor earnings per share.

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units (CGU) have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations, loss of customers or some other event. The amortisation period for intangible assets with a finite life are reviewed at least annually and typically range from 5-15 years.

Notes to the Financial Statements continued

NOTE 3. SEGMENT REPORTING

The chief operating decision makers (being the Board of Directors) currently consider and report on the business units' operating results and financial position as one reportable operating segment – fund administration.

Based on the internal management structure, the Group is organised into business units based on geographic locations and has the following reportable segments:

- Asia-Pacific (“APAC”), which includes Australia, Singapore and Hong Kong;
- the Americas, which includes the USA and the Cayman Islands; and
- Europe, which includes Ireland, the Isle of Man and Malta.

2018	APAC	Americas	Europe	Elimination [^]	Consolidated
	\$	\$	\$	\$	\$
Revenue					
External customers	18,193,228	4,150,070	2,558,852	-	24,902,150
Inter-segment	(208,702)	-	675,810	(467,108)	-
Total revenue	17,984,526	4,150,070	3,234,662	(467,108)	24,902,150
Expenses					
Operating expenses	5,723,701	818,183	701,152	-	7,243,036
Employee benefits expenses	10,715,548	3,051,011	2,208,985	(467,108)	15,508,436
Impairment of trade receivables	17,225	-	(309)	-	16,916
Depreciation and amortisation	1,793,468	8,917	44,246	-	1,846,631
Total expenses	18,249,942	3,878,111	2,954,074	(467,108)	24,615,019
(Loss) / Profit before tax	(265,416)	271,959	280,588	-	287,131
Total assets	47,316,914	3,605,374	3,879,897	(2,494,493)	52,307,692
Total liabilities	11,966,812	2,434,423	1,110,808	-	15,512,043

[^] These are consolidation entries to remove transactions between companies in the group and combine the subsidiary companies' financial results into the parent company.

Notes to the Financial Statements continued

NOTE 3. SEGMENT REPORTING CONTINUED

2017	APAC \$	Americas* \$	Europe* \$	Elimination^ \$	Consolidated \$
Revenue					
External customers	14,942,362	2,267,570	1,714,815	-	18,924,747
Inter-segment	(49,979)	-	163,075	(113,096)	-
Total revenue	14,892,383	2,267,570	1,877,890	(113,096)	18,924,747
Expenses					
Operating expenses	4,786,363	691,203	649,938	-	6,127,504
Employee benefits expenses	8,399,978	1,332,926	1,271,642	(113,096)	10,891,450
Impairment of trade receivables	113,397	-	(31,008)	-	82,389
Depreciation and amortisation	610,307	2,998	55,384	-	668,689
Total expenses	13,910,145	2,027,127	1,945,959	(113,096)	17,770,032
Profit / (Loss) before tax	982,338	240,443	(268,066)	-	1,154,715
30 June 2018					
Total assets	40,199,274	2,386,564	3,838,641	(2,494,493)	43,929,986
Total liabilities	15,846,436	1,447,036	1,249,435	-	18,542,906

* The Group's Europe and Americas' results only include Ireland and Cayman Islands respectively for three of the six months to 31 December 2017.

^ These are consolidation entries to remove transactions between companies in the group and combine the subsidiary companies' financial results into the parent company.

Notes to the Financial Statements continued

NOTE 4. EARNINGS PER SHARE (“EPS”)

Basic EPS is calculated by dividing the profit after tax for the period attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is calculated by dividing the profit attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the income and share data used in the basic and diluted EPS computations:

	2018 \$	2017 \$
Profit attributable to ordinary equity holders of the parent:	228,825	954,189
Weighted average number of ordinary shares for basic EPS	119,606,302	103,916,427
Effects of dilution from:		
- Employee Share Plans	4,549,819	3,427,707
- Trinity Deferred Consideration	1,841,945	2,761,537
Weighted average number of ordinary shares adjusted for the effects of dilution	125,998,066	110,105,671

As at 31 December 2018, there were 128,547,926 ordinary shares outstanding (2017: 109,409,957).

The calculation of weighted average number of ordinary shares outstanding takes into account the issuance of:

- 455,343 fully paid ordinary shares in connection with the Company's Dividend Reinvestment Plan (DRP) on 12 September 2018;
- 13,571,429 fully paid ordinary shares under the Company's private placement on 20 September 2018;
- 919,592 fully paid ordinary shares in connection with the Company's deferred consideration on 2 October 2018;
- 3,057,308 fully paid ordinary shares under the Company's Employee Share Plan on 2 October 2018; and
- 1,134,297 fully paid ordinary shares under the Company's Share Purchase Plan on 23 October 2018.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

Notes to the Financial Statements continued

NOTE 5. INCOME TAX

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the consolidated statement of profit or loss for the half years ended 31 December 2018 and 2017 are:

	Consolidated	
	2018	2017
	\$	\$
Current income tax	595,060	416,958
Current tax adjustment for prior periods	(128,946)	(11,000)
Deferred tax benefit	(407,808)	(205,432)
Income tax expense	58,306	200,526

NOTE 6. REVENUE

	Consolidated	
	2018	2017
	\$	\$
Fee income from contracts with external customers	22,785,001	17,351,626
Other operating income	1,219,522	1,199,035
Interest income	897,627	374,086
Total revenue	24,902,150	18,924,747

Disaggregation of revenue

<i>Geographical</i>	APAC	America	Europe	Total
	\$	\$	\$	\$
2018				
Fee income from contracts with customers	16,080,584	4,148,281	2,556,136	22,785,001
Other operating income	1,214,569	1,899	3,054	1,219,522
Interest income	898,075	(110)	(338)	897,627
Total revenue	18,193,228	4,150,070	2,558,852	24,902,150
2017				
Fee income from contracts with customers	13,376,126	2,267,200	1,708,300	17,351,626
Other operating income	1,192,939	357	5,739	1,199,035
Interest income	373,297	13	776	374,086
Total revenue	14,942,362	2,267,570	1,714,815	18,924,747

Notes to the Financial Statements continued

NOTE 7. SHARE BASED PAYMENTS

The Company has in place an Employee Share Plan (“ESP”). The ESP is a plan under which Executive Directors, senior management and eligible employees may be allocated Awards as a means of retaining their service and aligning their interests with shareholders. Awards can be issued in the form of Performance Rights, Options or Restricted Shares. From September 2018, the Director Share Offer (DSO) and Senior Management Share Offer (SMSO) were replaced by a Long Term Incentive (LTI) plan. The Performance Rights granted are subject to various performance measures and key performance indicators (“KPI”). The Short Term Incentive, previously known as the Management Share Offer, rewards the broader management team in recognition of KPI achievement and performance. The Employee Share Offer participants are eligible employees who are not invited to participate in the other Offers to share in the Company’s success. The total expense recognised for share-based payments during the half year ended 31 December 2018 is:

	Consolidated	
	2018	2017
	\$	\$
Employee Share Offer	103,773	91,736
Long Term Incentive*	169,436	194,959
Short Term Incentive	953,926	245,733
Total share-based payments expense	1,227,135	532,428

*The LTI plan includes vested tranches of Awards issued under the DSO and SMSO from prior performance years. In the current and future performance years these plans are replaced by the LTI plan.

There were no cancellations to the awards in the half year ended 31 December 2018.

NOTE 8. CASH AND CASH EQUIVALENTS

	Consolidated	
	31 December	30 June
	2018	2018
	\$	\$
Cash at bank	12,370,040	4,930,872

NOTE 9. OTHER CURRENT ASSETS

	Consolidated	
	31 December	30 June
	2018	2018
	\$	\$
Deposit bonds	1,224,584	1,161,443
Prepayments	894,779	707,669
Other	95,067	127,236
	2,214,430	1,996,348

Deposit bonds relate to rental bonds held for office premises as well as a \$500,000 Settlement Bond to ASX Settlement Pty Ltd for use of the ASX mFunds platform.

Notes to the Financial Statements continued

NOTE 10. INTANGIBLE ASSETS

	Consolidated	
	31 December 2018	30 June 2018
	\$	\$
Business combinations – goodwill	13,162,701	13,162,701
Other intangible assets	12,085,378	13,339,108
	25,248,079	26,501,809

A reconciliation of the opening and closing balances is set out below:

	Goodwill	Other Intangible Assets	Total
	\$	\$	\$
Opening balance at 1 July 2018	13,162,701	13,339,108	26,501,809
Amortisation expense	-	(1,253,985)	(1,253,985)
Exchange difference	-	255	255
Closing balance at 31 December 2018	13,162,701	12,085,378	25,248,079

Goodwill and Other Intangible Assets

The Group performs its annual impairment test for goodwill and other intangible assets with indefinite useful lives as at 30 June of each respective financial year and through the year if there is an indication there may be impairment. The Group's impairment test for goodwill and intangible assets with indefinite lives is based on value-in-use calculations. The key assumptions used to determine the recoverable amount for the different CGUs were disclosed in the annual consolidated financial statements for the year ended 30 June 2018. In September 2018, after the Company received a termination notice from Combined Super Fund, a review of the useful lives of intangible assets within the CGU was undertaken. Management assessment determined the Combined Super Fund Customer Contracts had a finite useful life and amortised \$860k of intangible assets over 3 months to 31 December 2018. All assumptions remained consistent with those disclosed in the annual consolidated financial statements for the year ended 30 June 2018.

Other than the above, the Group did not identify any indicators of impairment during the half year ended 31 December 2018.

Notes to the Financial Statements continued

NOTE 11. INTEREST-BEARING LIABILITIES

	Consolidated	
	31 December 2018	30 June 2018
	\$	\$
Interest bearing liabilities		
- Current	1,000,000	2,000,000
- Non-current	6,791,046	6,721,499
Total	7,791,046	8,721,499

The Company has a debt facility with Australia and New Zealand Banking Group Limited ("ANZ"). The interest on the facility is charged at BBSY bid + 1.7% per annum. The Group was in compliance with the debt covenants at 31 December 2018.

As at 31 December 2018, the carrying amount of interest bearing liabilities approximates their fair value.

NOTE 12. DEFERRED CONSIDERATION

	Consolidated	
	31 December 2018	30 June 2018
	\$	\$
- Current	743,006	743,006
- Non-current	425,668	1,168,674
Total deferred consideration	1,168,674	1,911,680

With respect to the Trinity Group acquisition, at 31 December 2018, \$1.17 million (USD 0.917 million) of the purchase price is recorded as Deferred Consideration which is to be paid in September 2019 and September 2020 subject to certain financial Key Performance Indicators being achieved.

Notes to the Financial Statements continued

NOTE 13. OTHER CURRENT LIABILITIES

	Consolidated	
	31 December 2018	30 June 2018
	\$	\$
GST Liability	404,132	392,573
PAYG withholding payable	109,201	123,319
Superannuation payable	312,837	281,108
Due to previous shareholders of acquired entities	34,175	1,558,503
Other	142,254	50,894
	1,002,599	2,406,397

NOTE 14. CONTRIBUTED CAPITAL

	Consolidated		Consolidated	
	31 December 2018	30 June 2018	31 December 2018	30 June 2018
	Shares	Shares	\$	\$
Ordinary shares - fully paid	128,547,926	109,409,957	34,162,839	21,362,244

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote. A reconciliation of the number of ordinary shares outstanding is shown in the table below:

	Shares
Ordinary shares outstanding at 30 June 2018	109,409,957
Shares issued under Dividend Reinvestment Plan	455,343
Shares issued under Private Placement	13,571,429
Shares issued for Deferred Consideration	919,592
Shares issued under Employee Share Plan	3,057,308
Shares issued under Share Purchase Plan	1,134,297
Ordinary shares outstanding at 31 December 2018	128,547,926

Notes to the Financial Statements continued

NOTE 14. CONTRIBUTED CAPITAL CONTINUED

On 21 August 2018, the Company announced a final dividend of 1 cent per issued share for the financial year ended 30 June 2018. Shareholders were advised that the dividend was fully franked at a corporate tax rate of 30% (refer to the Dividend section on page 7 for more details). Payment of the dividend was completed on 12 September 2018. Approximately 30% of total shares outstanding elected to participate in the Company's Dividend Reinvestment Plan (DRP). The DRP resulted in the issuance of an additional 455,343 fully paid ordinary shares in Mainstream Group Holdings Limited.

On 20 September 2018, the Company issued 13,571,429 shares under private placement.

On 2 October 2018, the Company issued 919,592 shares in respect of deferred consideration in acquisition of Trinity Group and 3,057,308 shares under the Company's Director Share Offer and Senior Management Share Offer.

On 23 October 2018, the Company issued 1,134,297 shares under the Share Purchase Plan.

NOTE 15. RESERVES

	Consolidated	
	31 December 2018	30 June 2018
	\$	\$
Revaluation reserve	416,703	416,703
Foreign currency translation reserve	651,286	302,741
Share-based payment reserve	384,771	1,260,311
	1,452,760	1,979,755

Revaluation reserve

The reserve is used to recognise increments and decrements in the fair value of software. There were no movements in this reserve during the half year ended 31 December 2018 (June 2018: Nil).

Foreign currency translation reserve

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars.

Share-based payment reserve

The share-based payment reserve represents the cumulative expense recognised in relation to equity settled share-based payments less the cost of shares purchased and transferred to share-based payments recipients upon vesting.

Notes to the Financial Statements continued

NOTE 16. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Group did not have any contingent assets as at 31 December 2018 (30 June 2018: Nil) nor contingent liabilities as at 31 December 2018 (30 June 2018: Nil).

NOTE 17. RELATED PARTY TRANSACTIONS

The following are related party transactions.

The Company's office premises in the Isle of Man is leased from a related party at commercial market rates on an arms-length basis.

The liability due to the previous shareholder of Mainstream Fund Services, Inc was \$34,175 as at 31 December 2018. This relates to a liability due to the previous shareholder of Mainstream Fund Services, Inc for their historical retained earnings as agreed to between the respective parties in the Sale Agreement.

All intercompany transactions were made on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

NOTE 18. EVENTS AFTER THE REPORTING PERIOD

On 19 February 2019, the Company announced an interim dividend of 0.75 cents per issued share for the half year ended 31 December 2018, fully franked at a corporate tax rate of 27.5% and payable on 18 April 2019 with a Record Date of 28 February 2019. The Board of Directors also resolved to offer all Shareholders the right to participate in the Company's DRP in respect to this dividend, with the DRP to operate at a 5% discount.

On 1 February 2019 the Company announced a further repayment of \$1 million to ANZ. This reduced Mainstream's debt facility balance to \$7 million. The final repayment instalment is due in January 2020 with the three year loan to mature in January 2021.

On 8 February 2019, Mainstream announced the resignation of Non-Executive Director Lucienne Layton, effective 15 March 2019, to focus on her other executive work commitments. A search has commenced for a new Non-Executive Director and Chair of the Group's Audit and Risk Committee.

Under Treasury Law Amendments enacted over the last two years, Mainstream now meets the criteria to be considered a "base rate entity" for determining the Corporate Tax Rate for Imputation Purposes for the 2017-2018 income year. This reduces the company's tax rate for imputation purposes in the 2017-2018 income year from 30% to 27.5%. Any impact on shareholders will be communicated.

Other than the above, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future years.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Mainstream Group Holdings Limited, I state that:

In the opinion of the Directors:

1. the financial statements and notes of Mainstream Group Holdings Limited for the half year ended 31 December 2018 are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the Group'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 the *Corporations Regulations 2001*; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Byram Johnston OAM

Non-Executive Director

Date: 19 February 2019

Sydney

Independent Auditor's Review Report to the Members of Mainstream Group Holdings Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Mainstream Group Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company 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, anything has come to our attention that causes us to 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 Group's consolidated financial position as at 31 December 2018 and its consolidated financial 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 the Group, 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*.



Ernst & Young



Rita Da Silva
Partner
Sydney
19 February 2019

CORPORATE INFORMATION

Directors

Byram Johnston OAM – Non-Executive Chairman

Martin Smith – Chief Executive Officer

John Plummer – Non-Executive Director

Lucienne Layton – Non-Executive Director

JoAnna Fisher – Non-Executive Director

Company Secretary

Alicia Gill

Registered Office

Level 1
51-57 Pitt Street
Sydney NSW 2000

Solicitors

Sekel Grinberg Judd
Level 8, Currency House
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Sydney NSW 2000

Auditor

Ernst & Young
200 George Street
Sydney NSW 2000

Share Registry

ShareBPO Pty Limited
GPO Box 4968
Sydney NSW 2001

Securities Exchange Listing

Australian Securities Exchange
ASX code (ordinary shares): MAI

Website

www.mainstreamgroup.com

Shareholder Information

Shareholder Information for MAI can be found in the MAI Shareholder Centre:
www.mainstreamgroup.com/shareholdercentre