

# INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED  
31 DECEMBER 2019

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



MAINSTREAM

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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 2019 (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

**\$26.7m**

› Revenue  
↑ 7% on HY19

**\$3.2m**

› EBITDA<sup>1</sup>  
↓ 12% on HY19

**\$187bn**

› Funds under Administration  
↑ 27% on HY19



› Continued growth in core business



› Investment in automation and digital solutions



› Expansion of high margin custody and private equity services

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<sup>1</sup> 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 2019.

## 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
JoAnna Fisher	Non-Executive Director
Debbie Last	Non-Executive Director

## REVIEW OF RESULTS AND OPERATIONS

Mainstream is a fund services company with operations in eight countries.

In Australia, Mainstream provides a full range of fund administration and custody solutions to the funds management industry. Mainstream was founded in Australia and the continued growth of our Australian business remains an important component of our strategy.

Outside of Australia we offer fund services and corporate services to alternative fund managers in Asia, the US, Europe and the Cayman Islands. These markets provide the Group with diversification and further growth opportunities.

For the half year ended 31 December 2019, the Group’s revenue was \$26.7 million, an increase of 7% over the six months to 31 December 2018. All revenue growth was organic, driven by ongoing demand for our services in our core markets of Australia, Asia and the US.

Revenue from Mainstream Fund Services, including custody, was up 19% on the prior half year and contributed 98% of the Group’s results, with Mainstream Superannuation Services providing the balance.

Asia-Pacific (“APAC”), which includes Australia, Singapore and Hong Kong, contributed 72% of the Group’s

revenue during the six months to 31 December 2019 (HY19: 73%). Our custody growth strategy made good progress with revenue higher than expected due to growth in funds under custody and above forecast cash balances.

The Americas (USA and Cayman Islands) accounted for 19% (HY19: 17%) of revenue. The key driver behind this increase was the two-year-old US private equity business which now administers A\$7 billion in assets. Europe (Ireland, the Isle of Man and Malta) contributed 9% of revenue (HY19: 10%).

Funds under Administration (FuA) grew to a record \$187 billion as at 31 December 2019. This represented an increase of 9% over the half year and 27% on the prior 12 months. Rising global stock markets contributed 63% and net inflows<sup>2</sup> 37% of the \$15 billion increase over the period.

Mainstream now administers 1,011 funds for 348 clients as at 31 December 2019 (30 June 2019: 1,012 funds for 356 clients). Mainstream continues to see strong growth in its clients in key markets, as reflected in the sizeable increase in funds under administration over the same period, while also seeing consolidation of fund managers who lack scale, performance or distribution.

In line with strategy, Mainstream is making a number of investments in our future growth this financial year. The Group expects to see the benefits of these investments in FY21 and beyond. Investment in our people, processes and technology contributed to a net loss after tax of \$0.5 million for the period (compared to a net profit of \$0.2 million for the six months to 31 December 2018).

Global headcount grew to 278 people as at 31 December 2019 (compared to 259 people as at 30 June 2019). This included the recruitment of seven additional unit registry employees to support growth in our Australian operations and four additional US hires as part of our build-out strategy.

Expenses for the half year 31 December 2019 included transaction costs of \$0.5 million relating to the engagement of professional advisers to assess and respond to external parties looking to explore a range of market opportunities. These advisory services have now been completed.

We continue to focus on client demand for digital service delivery and automation. There is also strong interest from prospective clients to meet changing investor demands and alleviate margin pressures through straight-through processes. Consequently, Mainstream invested \$4.8 million on new and existing technology during the period (HY19: \$4.1 million). \$1 million of IT costs were capitalised, with the remainder invested in market leading digital and automation projects including:

- › Operations to support listed and unlisted funds within a single fund (quoted fund)
- › A proprietary web portal for fund manager clients
- › A proprietary investor portal and online application for initial investments
- › Upgrading of our unit registry reporting platform
- › Automated general ledger reporting

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<sup>2</sup> Net inflows refers to applications and new clients less redemptions, cash distributions and lost clients.

These investments, part of our two year IT development strategy announced in September 2018, are expected to be completed by September 2020 and will significantly differentiate our service offering in Australia and are expected to contribute significantly to revenue and profitability from FY21.

The Group's growth prospects are promising, with strong pipelines in our core markets of Australia, Asia and the US. In particular, disruption and consolidation within the Australian fund administration and custody sectors recently is providing quality new business leads.

## **DIVIDENDS**

On 20 September 2019 the Company paid a final dividend for the financial year ended 30 June 2019 of 0.5 cents per issued share, franked at 50%, at a corporate tax rate of 30%. This resulted in 206,873 new fully paid ordinary shares being issued under the Company's Dividend Reinvestment Plan.

Since listing the company has paid fully or partially franked dividends. The Board resolved not to declare an interim dividend for the half year ended 31 December 2019 in order to focus on investing in the future growth of the business. The Board will evaluate its position on dividends at the full year.

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

On 1 October 2019 the Company issued a total of 2,657,085 fully paid ordinary shares:

1,737,493 performance rights issued in prior performance periods converted to fully paid ordinary shares under the following offers within the Company's Employee Share Plan:

- › 364,928 shares vesting under the Company's 2019 Employee Share Offer ("ESO")
- › 948,398 shares vesting under the Company's 2019 Short Term Incentive ("STI")
- › 108,334 shares vesting under the Company's 2019 Long Term Incentive ("LTI")
- › 150,833 shares vesting under the Company's 2018 Senior Management Share Offer ("SMSO")
- › 165,000 shares vesting under the Company's 2017 SMSO

A further 919,592 fully paid ordinary shares were issued to the former owner of Trinity Fund Administration (now Mainstream Fund Services Ireland and the Cayman Islands) for successful achievement of the Year 2 Profit Before Tax financial hurdle as part of a 3 year 'earn-out' in relation to the acquisition of Trinity Fund Administration.

Other than the above, there were no significant changes in the state of affairs of the Group during the half year ended 31 December 2019.

## EVENTS SUBSEQUENT TO THE END OF THE REPORTING DATE

On 31 January 2020 the Company repaid \$1 million of its three year debt facility as per its amortisation schedule. The repayment was funded from operating earnings. Following the repayment Mainstream's bank debt position is \$6 million. There are no more repayments due before the facility matures in January 2021. Mainstream and its subsidiaries maintain a net cash position in excess of their regulatory capital requirements.

In line with US growth opportunities, Jay Maher, currently CEO, Private Equity, assumed responsibility for the Group's whole US operations, including hedge (alternatives) and private equity, effective 1 February 2020. Following this restructure, Denise DePaola will leave the Group at the end of September 2020, having joined Mainstream in 2016 as part of the acquisition of Fundadministration, Inc (now Mainstream Fund Services, Inc) where she commenced as partner in 2005.

## 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:



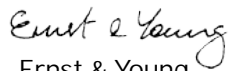
**Byram Johnston OAM**  
Non-Executive Chairman  
Sydney  
Date: 18 February 2020


## 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 2019, 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

  
Jonathan Pye  
Partner  
18 February 2020



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Note	Consolidated 2019 \$	2018 \$
<b>Revenue</b>			
Fee income from contracts with customers		23,880,609	22,785,001
Other operating income		1,410,716	1,219,522
Interest income		1,362,639	897,627
<b>Total revenue</b>	6	<b>26,653,964</b>	<b>24,902,150</b>
<b>Expenses</b>			
Employee benefits expense		16,297,344	14,281,301
Share-based payments expense	7	982,092	1,227,135
Accounting and audit fees		488,297	510,509
Depreciation expense	2	1,809,399	592,646
Amortisation	10	393,683	1,253,985
Bank fees and charges		155,293	109,542
Insurance		405,463	308,568
Interest expense		269,855	230,161
IT support, expenses and data		3,808,164	3,417,626
Legal and consulting fees		348,021	213,718
Occupancy and overheads		678,428	1,643,445
Transaction costs		483,931	33,758
General and other expenses		825,473	792,625
<b>Total expenses</b>		<b>26,945,443</b>	<b>24,615,019</b>
<b>(Loss) / profit before income tax expense</b>		<b>(291,479)</b>	<b>287,131</b>
Income tax expense	5	229,657	58,306
<b>(Loss) / profit after income tax expense for the half year</b>		<b>(521,136)</b>	<b>228,825</b>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign subsidiaries		31,596	348,545
<b>Other comprehensive income for the half year, net of tax</b>		<b>31,596</b>	<b>348,545</b>
<b>Total comprehensive (loss) / income for the half year</b>		<b>(489,540)</b>	<b>577,370</b>
<b>Earnings per share ("EPS"):</b>			
Basic earnings per share	4	(\$0.0040)	\$0.0019
Diluted earnings per share	4	(\$0.0038)	\$0.0018

*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 2019

	Note	31 December 2019	30 June 2019
		\$	\$
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	8	11,334,105	11,676,758
Trade and other receivables		8,869,990	8,275,013
Other current assets	9	2,236,015	2,203,987
<b>Total Current Assets</b>		<b>22,440,110</b>	<b>22,155,758</b>
<b>Non-Current Assets</b>			
Property, plant and equipment		6,049,246	5,555,916
Right of use assets	2	5,220,604	-
Intangible assets	10	21,619,346	22,010,069
Deferred tax assets		103,745	-
<b>Total Non-Current Assets</b>		<b>32,992,941</b>	<b>27,565,985</b>
<b>Total Assets</b>		<b>55,433,051</b>	<b>49,721,743</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade creditors and accrued expenses		3,946,769	3,301,213
Provision for employee benefits		1,034,532	973,456
Current income tax liabilities		653,708	543,863
Deferred consideration	11	425,668	780,619
Other interest-bearing liabilities	12	1,000,000	1,000,000
Lease liabilities	2	2,049,939	-
Other current liabilities	13	979,302	1,068,632
<b>Total Current Liabilities</b>		<b>10,089,918</b>	<b>7,667,783</b>
<b>Non-Current Liabilities</b>			
Provision for employee benefits		88,025	73,536
Deferred consideration	11	-	425,668
Other interest-bearing liabilities	12	5,908,502	5,850,486
Lease liabilities	2	3,634,178	-
Deferred tax liabilities		526,274	605,227
<b>Total Non-Current Liabilities</b>		<b>10,156,979</b>	<b>6,954,917</b>
<b>Total Liabilities</b>		<b>20,246,897</b>	<b>14,622,700</b>
<b>Net Assets</b>		<b>35,186,154</b>	<b>35,099,043</b>
<b>Equity</b>			
Contributed capital	14	35,811,622	34,391,456
Reserves	15	1,618,322	2,144,333
Retained earnings		(2,243,790)	(1,436,746)
<b>Total Equity</b>		<b>35,186,154</b>	<b>35,099,043</b>

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 2019

	Contributed Capital	Reserves	Retained Earnings	Total Equity
	\$	\$	\$	\$
<b>CONSOLIDATED</b>				
<b>Balance at 1 July 2018</b>	<b>21,362,244</b>	<b>1,979,755</b>	<b>2,045,081</b>	<b>25,387,080</b>
Profit after income tax	-	-	228,825	228,825
Other comprehensive income, net of tax	-	348,545	-	348,545
<b>Total comprehensive income, net of tax</b>	<b>-</b>	<b>348,545</b>	<b>228,825</b>	<b>577,370</b>
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
<b>Balance at 31 December 2018</b>	<b>34,162,839</b>	<b>1,452,760</b>	<b>1,180,050</b>	<b>36,795,649</b>
<b>Balance at 1 July 2019 (restated note 2)</b>	<b>34,391,456</b>	<b>2,144,333</b>	<b>(1,722,654)</b>	<b>34,813,135</b>
Loss after income tax	-	-	(521,136)	(521,136)
Other comprehensive income, net of tax	-	31,596	-	31,596
<b>Total comprehensive income, net of tax</b>	<b>-</b>	<b>31,596</b>	<b>(521,136)</b>	<b>(489,540)</b>
Transactions with owners in their capacity as owners:				
Dividends paid	-	(644,890)	-	(644,890)
Dividends reinvested	100,964	-	-	100,964
Shares issued under Deferred Consideration	424,393	-	-	424,393
Shares issued under Employee Share Plans	894,809	(894,809)	-	-
Share-based payments	-	982,092	-	982,092
<b>Balance at 31 December 2019</b>	<b>35,811,622</b>	<b>1,618,322</b>	<b>(2,243,790)</b>	<b>35,186,154</b>

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 2019

	Note	Consolidated	
		2019	2018
		\$	\$
<b>Cash flows from operating activities</b>			
Income received		24,696,348	22,896,904
Operating expenses paid		(22,409,938)	(20,847,789)
Interest received		1,362,639	897,627
Interest paid		(225,542)	(187,451)
Income tax paid		(476,229)	(815,695)
<b>Net cash inflow from operating activities</b>		<b>2,947,278</b>	<b>1,943,596</b>
<b>Cash flows from investing activities</b>			
Purchase of capitalised software & equipment		(1,079,393)	(1,419,859)
Proceeds from sale of equipment		1,364	-
Payments of deferred consideration and amount owing to previous shareholders		(354,951)	(1,387,000)
<b>Net cash outflow from investing activities</b>		<b>(1,432,980)</b>	<b>(2,806,859)</b>
<b>Cash flows from financing activities</b>			
Shares issued		-	10,294,008
Transaction costs paid		(305,130)	(384,789)
Payments of principle lease liabilities		(1,011,011)	-
Repayment of other interest bearing liabilities		-	(1,000,000)
Dividends paid		(543,925)	(763,306)
<b>Net cash (outflow) / inflow from financing activities</b>		<b>(1,860,066)</b>	<b>8,145,913</b>
Net (decrease) / increase in cash and cash equivalents during the half year		(345,768)	7,282,650
Effects of exchange rate changes on cash and cash equivalents		3,115	156,518
Cash at the beginning of the half year		<b>11,676,758</b>	<b>4,930,872</b>
<b>Cash at the end of the half year</b>	8	<b>11,334,105</b>	<b>12,370,040</b>

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 2019. 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 2019 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 18 February 2020. 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 2019 Annual Report and any public announcements made in respect of the Group during the half year ended 31 December 2019 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 days 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.

## Notes to the Financial Statements continued

### NEW, REVISED OR AMENDING ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The Group applied AASB 16 *Leases* 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 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 depreciation of the right-of-use asset and interest expense in respect of the lease liability.

The Company adopted the modified retrospective method. Comparative figures are not restated and the cumulative effect of initially applying the standard is recognised as an adjustment to the opening balance of retained earnings at the date of initial application. The adjustments arising from the new lease accounting standard are recognised in the opening balance sheet on 1 July 2019. The Group also elected to use the recognition exemptions for lease contracts that have a lease term of 12 months or less and lease contracts for which the underlying assets are of low value.

The effect of adoption of AASB 16 is as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 July 2019:

	\$
<b>Assets</b>	
Right-of-use assets	5,548,112
Prepayments	(56,288)
<b>Total assets</b>	5,491,824
<b>Equity</b>	
Retained earnings	(285,908)
<b>Total equity</b>	(285,908)
<b>Liabilities</b>	
Lease liability	5,779,017
<b>Total liabilities</b>	5,779,017

## Notes to the Financial Statements continued

### a) Nature of the effect of adoption of AASB 16

As at 1 July 2019:

- › Right-of-use assets of \$5,548,112 were recognised and presented separately in the statement of financial position.
- › Additional lease liabilities of \$5,779,017 were recognised.
- › Prepayments of \$56,288 related to previous operating leases were derecognised.
- › Upgrading of our unit registry reporting platform
- › The net effect of these adjustments had been adjusted to retained earnings.

For the six months ended 31 December 2019:

- › Depreciation expense increased by \$1,124,824 relating to the depreciation of additional assets recognised.
- › Rent expense decreased by \$1,217,550 relating to previous operating leases.
- › Interest expense increased by \$112,718 relating to additional lease liabilities recognised.

### b) Summary of new accounting policies

#### Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Right-of-use assets are subject to impairment.

#### Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and

## Notes to the Financial Statements continued

reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

### Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below US\$5,000). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

c) Amounts recognised in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets			Lease liabilities
	Office premise	Other equipment	Total	
	\$	\$	\$	
<b>As at 1 July 2019</b>	<b>5,275,226</b>	<b>272,886</b>	<b>5,548,112</b>	<b>5,779,017</b>
Additions	753,622	13,245	766,867	766,867
Depreciation expense	(1,068,154)	(56,670)	(1,124,824)	-
Interest expense	-	-	-	112,718
Payments	-	-	-	(1,011,011)
Exchange differences	30,449	-	30,449	36,526
<b>As at 31 December 2019</b>	<b>4,991,143</b>	<b>229,461</b>	<b>5,220,604</b>	<b>5,684,117</b>

Set out below, are the amounts recognised in profit or loss:

	2019
	\$
Depreciation expense of right-of-use assets	1,124,824
Interest expense on lease liabilities	112,718
Rent expense – variable lease payments	214,310
<b>Total amount recognised in profit or loss</b>	<b>1,451,852</b>

The Australian and International Accounting Standards issued but not yet mandatory for the 31 December 2019 interim reporting period have not been adopted by the Group in the preparation of this interim financial report.



# Notes to the Financial Statements continued

## 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 services.

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.

2019	APAC	Americas	Europe	Elimination <sup>^</sup>	Consolidated
	\$	\$	\$	\$	\$
<b>Revenue</b>					
External customers	19,190,769	5,028,865	2,434,330	-	26,653,964
Inter-segment	(157,800)	-	732,965	(575,165)	-
Intercompany dividends	1,689,949	-	-	(1,689,949)	-
<b>Total revenue</b>	<b>20,722,918</b>	<b>5,028,865</b>	<b>3,167,295</b>	<b>(2,265,114)</b>	<b>26,653,964</b>
<b>Expenses</b>					
Operating expenses	5,777,357	1,021,287	709,067	(57,276)	7,450,435
Employee benefits expenses	11,424,016	3,998,592	2,374,717	(517,889)	17,279,436
Impairment of trade receivables	113	-	12,377	-	12,490
Depreciation and amortisation	1,804,250	195,404	203,428	-	2,203,082
<b>Total expenses</b>	<b>19,005,736</b>	<b>5,215,283</b>	<b>3,299,589</b>	<b>(575,165)</b>	<b>26,945,443</b>
<b>Profit / (loss) before tax</b>	<b>1,717,182</b>	<b>(186,418)</b>	<b>(132,294)</b>	<b>(1,689,949)</b>	<b>(291,479)</b>
<b>Total assets</b>	<b>47,258,944</b>	<b>5,460,313</b>	<b>5,208,287</b>	<b>(2,494,493)</b>	<b>55,433,051</b>
<b>Total liabilities</b>	<b>12,850,660</b>	<b>4,555,463</b>	<b>2,840,774</b>	<b>-</b>	<b>20,246,897</b>

<sup>^</sup> 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

2018	APAC \$	Americas \$	Europe \$	Elimination <sup>^</sup> \$	Consolidated \$
<b>Revenue</b>					
External customers	18,193,228	4,150,070	2,558,852	-	24,902,150
Inter-segment	(208,702)	-	675,810	(467,108)	-
<b>Total revenue</b>	<b>17,984,526</b>	<b>4,150,070</b>	<b>3,234,662</b>	<b>(467,108)</b>	<b>24,902,150</b>
<b>Expenses</b>					
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
<b>Total expenses</b>	<b>18,249,942</b>	<b>3,878,111</b>	<b>2,954,074</b>	<b>(467,108)</b>	<b>24,615,019</b>
<b>(Loss) / Profit before tax</b>	<b>(265,416)</b>	<b>271,959</b>	<b>280,588</b>	<b>-</b>	<b>287,131</b>
<b>Total assets</b>	<b>47,316,914</b>	<b>3,605,374</b>	<b>3,879,897</b>	<b>(2,494,493)</b>	<b>52,307,692</b>
<b>Total liabilities</b>	<b>11,966,812</b>	<b>2,434,423</b>	<b>1,110,808</b>	<b>-</b>	<b>15,512,043</b>

<sup>^</sup> 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:

	2019 \$	2018 \$
<b>(Loss) / profit attributable to ordinary equity holders of the parent:</b>	<b>(521,136)</b>	<b>228,825</b>
Weighted average number of ordinary shares for basic EPS	130,422,300	119,606,302
Effects of dilution from:		
- Employee Share Plans	6,227,593	4,549,819
- Trinity Deferred Consideration	922,353	1,841,945
<b>Weighted average number of ordinary shares adjusted for the effects of dilution</b>	<b>137,572,246</b>	<b>125,998,066</b>

As at 31 December 2019, there were 131,841,912 ordinary shares outstanding (31 December 2018: 128,547,926).

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

- › 206,873 fully paid ordinary shares in connection with the Company’s Dividend Reinvestment Plan (“DRP”) on 20 September 2019;
- › 919,592 fully paid ordinary shares in connection with the Company’s deferred consideration on 1 October 2019;
- › 1,737,493 fully paid ordinary shares under the Company’s Employee Share Plan on 1 October 2019.

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 2019 and 2018 are:

	Consolidated	
	2019	2018
	\$	\$
Current income tax	287,527	595,060
Current tax adjustment for prior periods	140,945	(128,946)
Deferred tax (benefit) / expense	(198,815)	(407,808)
<b>Income tax expense</b>	<b>229,657</b>	<b>58,306</b>

### NOTE 6. REVENUE

	Consolidated	
	2019	2018
	\$	\$
Fee income from contracts with external customers	23,880,609	22,785,001
Other operating income	1,410,716	1,219,522
Interest income	1,362,639	897,627
<b>Total revenue</b>	<b>26,653,964</b>	<b>24,902,150</b>

### Disaggregation of revenue

<i>Geographical</i>	APAC	America	Europe	Total
	\$	\$	\$	\$
<b>2019</b>				
Fee income from contracts with customers	16,411,560	5,037,678	2,431,371	23,880,609
Other operating income	1,415,720	(8,000)	2,996	1,410,716
Interest income	1,363,489	(813)	(37)	1,362,639
<b>Total revenue</b>	<b>19,190,769</b>	<b>5,028,865</b>	<b>2,434,330</b>	<b>26,653,964</b>
<b>2018</b>				
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
<b>Total revenue</b>	<b>18,193,228</b>	<b>4,150,070</b>	<b>2,558,852</b>	<b>24,902,150</b>

## 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.

The Employee Share Offer grants eligible employees who are not invited to participate in the other offers up to \$2,000 of shares for nil consideration as an employee benefit.

The Short Term Incentive (“STI”), previously known as the Management Share Offer, grants Performance Rights to the broader management team in recognition of key performance indicator (“KPI”) achievement and performance. The Company may at its discretion provide other bonuses. Any discretionary bonuses awarded are reported with the STI numbers presented below. The STI expense decreased relative to the prior period due to the Asia-Pacific and Australia CEOs moving from the STI to the LTI pool as well as a lower overall incentive pay out.

The Long Term Incentive (“LTI”), grants Performance Rights to Executive Directors and senior management subject to achievement of various performance measures tied to the Company’s profitability and KPIs. The LTI expense increased relative to the prior period due to the Asia-Pacific and Australia CEOs moving from the STI to the LTI pool.

The total expense recognised for share-based payments during the half years ended 31 December 2019 and 2018 are:

	Consolidated	
	2019	2018
	\$	\$
Employee Share Offer	96,198	103,773
Long Term Incentive	234,024	169,436
Short Term Incentive	651,870	953,926
<b>Total share-based payments expense</b>	<b>982,092</b>	<b>1,227,135</b>

There were no cancellations to the awards in the half year ended 31 December 2019.

### NOTE 8. CASH AND CASH EQUIVALENTS

	Consolidated	
	31 December	30 June
	2019	2019
	\$	\$
Cash at bank	11,334,105	11,676,758

## Notes to the Financial Statements continued

### NOTE 9. OTHER CURRENT ASSETS

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
Deposit bonds	1,244,924	1,299,601
Prepayments	744,710	775,811
Income tax receivable	193,920	-
Other	52,461	128,575
	<b>2,236,015</b>	<b>2,203,987</b>

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.

### NOTE 10. INTANGIBLE ASSETS

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
Business combinations – goodwill	10,315,415	10,315,415
Other intangible assets	11,303,931	11,694,654
	<b>21,619,346</b>	<b>22,010,069</b>

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

	Goodwill	Other Intangible Assets	Total
	\$	\$	\$
<b>Opening balance at 1 July 2019</b>	<b>10,315,415</b>	<b>11,694,654</b>	<b>22,010,069</b>
Amortisation expense	-	(393,683)	<b>(393,683)</b>
Exchange difference	-	2,960	<b>2,960</b>
<b>Closing balance at 31 December 2019</b>	<b>10,315,415</b>	<b>11,303,931</b>	<b>21,619,346</b>

#### 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 2019.

Other than the above, the Group did not identify any indicators of impairment during the half year ended 31 December 2019.

## Notes to the Financial Statements continued

### NOTE 11. DEFERRED CONSIDERATION

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
Deferred consideration		
- Current	425,668	780,619
- Non-current	-	425,668
<b>Total deferred consideration</b>	<b>425,668</b>	<b>1,206,287</b>

With respect to the Trinity Group acquisition in 2018, at 31 December 2019, \$0.426 million of the purchase price is recorded as Deferred Consideration which is to be paid in September 2020 subject to certain financial Key Performance Indicators being achieved.

### NOTE 12. OTHER INTEREST-BEARING LIABILITIES

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
Other interest bearing liabilities		
- Current	1,000,000	1,000,000
- Non-current	5,908,502	5,850,486
<b>Total</b>	<b>6,908,502</b>	<b>6,850,486</b>

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 2019.

As at 31 December 2019, the carrying amount of other interest bearing liabilities approximates their fair value.

### NOTE 13. OTHER CURRENT LIABILITIES

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
GST Liability	343,205	399,663
PAYG withholding payable	105,783	169,546
Superannuation payable	396,416	348,939
Due to previous shareholders of acquired entities	-	26,454
Other	133,898	124,030
	<b>979,302</b>	<b>1,068,632</b>



## Notes to the Financial Statements continued

### NOTE 14. CONTRIBUTED CAPITAL

	Consolidated		Consolidated	
	31 December	30 June	31 December	30 June
	2019	2019	2019	2019
	Shares	Shares	\$	\$
Ordinary shares - fully paid	131,841,912	128,977,954	35,811,622	34,391,456

#### 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 2019	<b>128,977,954</b>
Shares issued under Dividend Reinvestment Plan	206,873
Shares issued for Deferred Consideration	919,592
Shares issued under Employee Share Plan	1,737,493
Ordinary shares outstanding at 31 December 2019	<b>131,841,912</b>

On 20 August 2019, the Company announced a final dividend out of the profit reserve of 0.5 cent per issued share, franked at 50%, at a corporate tax rate of 30%. Payment of the dividend was completed on 20 September 2019. Approximately 16% of total shares outstanding elected to participate in the Company's DRP. The DRP resulted in the issuance of an additional 206,873 fully paid ordinary shares in Mainstream Group Holdings Limited.

On 1 October 2019, the Company issued 919,592 shares to the former owner of Trinity Fund Administration (now Mainstream Fund Services Ireland and Cayman) for successful achievement of the Year 2 Profit Before Tax financial hurdle as part of a 3 year 'earn-out' in relation to the acquisition of Trinity Group

On 1 October 2019, the Company issued 1,737,493 fully paid ordinary shares under the Company's Employee Share Plan.

# Notes to the Financial Statements continued

## NOTE 15. RESERVES

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
Foreign currency translation reserve	621,179	589,583
Profit reserve	55,110	700,000
Share-based payment reserve	942,033	854,750
	<b>1,618,322</b>	<b>2,144,333</b>

### 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.

### Profit reserve

The reserve is used to recognise the profits that have been appropriated for payment of dividends. During the period, \$644,890 was used for dividend payments.

### 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.

## NOTE 16. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Group did not have any contingent assets as at 31 December 2019 (30 June 2019: Nil) nor contingent liabilities as at 31 December 2019 (30 June 2019: Nil).

Litigation risk is the risk that legal action will be taken against the Company which leads to financial liabilities, brand damage and diversion of management time. During the normal course of business the Company may become subject to claims and litigation. The Directors have given consideration to such matters, which are or may be subject to litigation as at 31 December 2019 and subject to specific provisions raised, are of the opinion that no material contingent liability exists.

## 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.

Total receivables from Directors as at 31 December 19 nil (30 June 2019: \$38,341).

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

## Notes to the Financial Statements continued

### NOTE 18. EVENTS AFTER THE REPORTING PERIOD

On 31 January 2020 the Company repaid \$1 million of its three year debt facility as per its amortisation schedule. The repayment was funded from operating earnings. Following the repayment Mainstream's bank debt position is \$6 million. There are no more repayments due before the facility matures in January 2021. Mainstream and its subsidiaries maintain a net cash position in excess of their regulatory capital requirements.

In line with the growth opportunities in the US, Jay Maher, currently CEO, Private Equity, assumed responsibility for the Group's whole US operations, including hedge (alternatives) and private equity operations, effective 1 February 2020. Following this restructure, Denise DePaola will leave the Group at the end of September 2020, having joined Mainstream in 2016 as part of the acquisition of Fundadministration, Inc (now Mainstream Fund Services, Inc) where she commenced as partner in 2005.

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 2019 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 2019 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 Chairman  
Date: 18 February 2020  
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 2019, 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 2019 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 2019 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*  
Ernst & Young

*Jonathan Pye*  
Jonathan Pye  
Partner  
Sydney  
18 February 2020

# CORPORATE INFORMATION

## Directors

**Byram Johnston OAM** – Non-Executive Chairman

**Martin Smith** – Chief Executive Officer

**John Plummer** – Non-Executive Director

**JoAnna Fisher** – Non-Executive Director

**Debbie Last** – 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  
23 Hunter Street  
Sydney NSW 2000

## Auditor

Ernst & Young  
200 George Street  
Sydney NSW 2000

## Share Registry

Mainstream Fund Services Pty Limited  
GPO Box 4968  
Sydney NSW 2001

## Securities Exchange Listing

Australian Securities Exchange  
ASX code (ordinary shares): MAI

## Website

[www.mainstreamgroup.com](http://www.mainstreamgroup.com)

## Shareholder Information

Shareholder Information for MAI can be found in the MAI Shareholder Centre:  
[www.mainstreamgroup.com/shareholdercentre](http://www.mainstreamgroup.com/shareholdercentre)