Appendix 4D

Half Year Report
31 December 2016

Mobile Embrace Limited

ABN: 24 089 805 416

Appendix 4D Half Year Report
For the period 1 July 2016 to 31 December 2016

Appendix 4D

The following information sets out the requirements of the Appendix 4D of Mobile Embrace Limited and its controlled entities.

The Appendix 4D covers the reporting period from the 1 July 2016 to the 31 December 2016. The previous corresponding period is 1 July 2015 to the 31 December 2015.

Results for Announcement to the Market

	31.12.16 $	31.12.15 $	Change $	Change %
Revenue from ordinary activities	**27,079,803**	**27,997,126**	**(917,323)**	**(3.28)**
EBITDA	2,133,434	4,058,577	(1,925,143)	(47.43)
Net profit / (loss) for the half year	**721,043**	**2,790,548**	**(2,069,505)**	**(74.16)**
Exchange difference on translating foreign operations *	(277,042)	-	(277,042)	-
Outside Equity interest**	(50,466)	-	(50,466)	-
Total comprehensive income for the half year	**393,535**	**2,790,548**	**(2,397,013)**	**(85.89)**

Dividends
No dividend has been proposed or declared in respect of the period ended 31 December 2016.

Capital
Total issued and paid up ordinary shares: 442,927,882.

Brief explanation of any of the figures reported above necessary to enable the figures to be understood:
Financial Summary

	31.12.16 $ million	31.12.15 $ million
Sales Revenue	27.1	28.0
EBITDA	2.1	4.1
NPAT	0.7	2.8
Cash at Bank	7.7	5.0

Refer Market Update ASX release 7 February 2017 and Market Update ASX release 17 November 2016, and the Directors Report Review of Operations in the half year financial report for commentary on the results for the period and explanations to understand the Group's revenue and profit / (loss) from ordinary activities.

***Exchange difference on translating foreign operations** – The Company operates wholly owned subsidiaries in the UK, Singapore and Malaysia; on converting these entities financial accounts to Australian dollars an unrealized exchange gain or loss occurs.
****Outside equity interest** – On the 20 October 2016 Chris Thorpe was appointed to the Board of Clipp Pty Limited ACN 162 347 515. Management has elected to equity account in relation to its invested holding of 31% of Clipp Pty Ltd from the 1st November 2016.

Directors' Report

Your directors submit the financial report of the consolidated Group for the half year ended 31 December 2016.

Directors

The names of directors who held office during or since the end of the half year:

Drew Kelton	Non-executive Chairman
Christopher Thorpe	Chief Executive Officer
Gavin Whyte	Non-executive Director
David Andrew Haines	Non-executive Director

The Company

Mobile Embrace Limited (ASX:MBE) is a mobile commerce company. Through our integrated and award winning mobile marketing and carrier billing infrastructure we enable the reach, engagement, transactions with and embracement of consumers via mobiles and tablets. By enabling ourselves and our partners to reach and acquire customers at scale, we can also take full advantage of the strong industry forecasts for global growth in mobile marketing and carrier billing.

For Mobile Embrace, this produces a combination of annuity and campaign based revenue streams in an expanding industry environment. For more information please see www.mobileembrace.com

Review of Operations

Mobile Embrace Limited posted an EBITDA of $2.1 million and a NPAT of $0.72 million for the half year end results.

The principal activities of the consolidated entity are mobile commerce (mobile marketing and carrier billing). As a global mobile marketing and carrier billing m-commerce company the consolidated entity, through its integrated mobile marketing and carrier billing infrastructure enables the reach, engagement, transactions with and embracement of consumers via mobile devices. The activities of the consolidated entity are business-to-business and business-to-consumer. For more information please see www.mobileembrace.com.

The clients and partners of the consolidated entity are businesses that want to acquire high volumes of customers on any mobile device and mobile operators wanting to increase their average revenue per user (ARPU).

There were no other significant changes in the nature of the consolidated group's principal activities during the period.

	31.12.16 $ million	**31.12.15 $ million**
Revenue	27.10	28.00
EBITDA	2.13	4.06
Net Profit / (Loss) After Tax	**0.72**	**2.79**
Exchange difference on translating foreign operations	(0.28)	-
Outside Equity interest	(0.05)	-
Total comprehensive income	**0.39**	**2.79**

Investments

On the 20 October 2016 Chris Thorpe was appointed to the Board of Clipp Pty Limited ACN 162 347 515. Management has elected to equity account in relation to its invested holding of 31% of Clipp Pty Ltd from the 1st November 2016.

Acquisitions

There were 4 acquisitions completed across the financial year 2015 and 2016. Potential earn out payments totaling $3,362,225 may fall across the months of August 2017 to November 2017, and further payments totaling $3,335,738 may fall across the months of August 2018 and November 2018. These payments are contingent on the acquisition entities achieving EBITDA targets set at the time of purchase and derived from the valuations at that time. There are no further contingent acquisition payments after November 2018. All 4 acquisitions are generating strong cash flows.

Subsequent Events

As announced to the ASX 27 February 2017, MBE has now acquired a further 66% of Clipp for $550,000 in cash, taking MBE's stake in Clipp to 97%.

MBE's increased shareholding, to 97%, now allows the Company to exercise control over Clipp and set the strategic direction to develop the business and take it to the next level. This control provides the Company with a stronger platform to realise optimum value from its investment moving forward.

Clipp generated $4.3 million in gross revenue for the half year to 31 December 2016. In the 12 months from January 2016 to January 2017 downloads of the Clipp App grew circa 70% to 218,000 and registered users grew circa 53% to 104,000.

Impairment

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits.

a) Useful lives of depreciable assets

As a result of impairment testing on the useful lives of depreciable assets a provision for impairment of $76,292 has been recognised in respect of software development undertaken in the financial year ending June 2013.

b) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment at the half financial year end and the financial year end and is allocated to the Group's cash-generating units or groups of cash- generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment.

The Company has determined that the carrying amounts of Goodwill are not impaired (Refer note 5: Goodwill Update).

Cash flow

The Company's Cash at Bank was $7.72 million as at 31 December 2016 compared to $5.04 million as at 31 December 2015. During the half year, the Company paid $5.8 million in earn out payments for acquisitions and $6.3 million in marketing and operational expenses for international expansion.

Operational cash flow by segment

Operational Segment	**Operational Segment cash flow $**
Performance Marketing Group	2,315,306
DCB Australia	1,624,544
DCB International	(3,501,096)
Total from Operational Segments	438,754
Un-allocated Corporate costs	(1,568,810)
Income tax	(968,992)
Net Interest	(82,564)
Net Cash provided by / (used in) operating activities	(2,181,612)

Accounts receivable: $13.4M, Accounts payable: $5.0M which equates to approximately $8.4M in working capital.

Cash Management

Strong cash flows continued in the half year for the Performance Marketing Group and DCB Australia.

For the second half of the 2017 financial year and until DCB market conditions improve the Company is taking a prudent approach, reducing the allocation of capital to DCB operations in order to maximize group cash flow and cash accumulation. The Company sees the preservation of cash as a priority considering this a prudent course of action in the current environment and is focused on ensuring the Company is suitably positioned to drive strong growth in FY 2018 (Refer ASX announcement 7 February 2017).

Reduction in Australian DCB marketing spend due to the impact of the events announced in November will continue. Australian return on investment metrics are now more favourable through some marketing channels, though currently not at sufficient volume to increase marketing activity.

The Company estimates cash at bank as at 30 June 2017 will improve to >$12M, (from $8M), sufficiently funding current operations.

Unresolved Litigation

As announced to the ASX 6 October 2015: During the course of the half year ending 31 December 2015 Mobile Embrace was served with a Summons filed in the Supreme Court of NSW from a company called GBD Ventures Pty Ltd (the Claim). The Claim alleges that Mobile Embrace owes GBD an amount in the order of $4 million in respect of a digital video advertising supply agreement involving the two companies. The Claim has subsequently been reduced by GBD to $3.5 million. In response to the Claim MBE has filed and served a defense and a cross claim against the Plaintiff and its two shareholders who were also representatives of GBD. The amount of the cross claim has been quantified between $4M and $11M. In the event of the cross claim being successful, there is no guarantee that any or all of the costs or damages awarded will be recouped. As at the time of this reporting, the pleadings have closed and is in the stage of the parties serving their written evidence which is expected to be completed during the calendar year of 2017.

MBE continues to deny the Claim in its entirety. It is anticipated that if the matter is unresolved it shall proceed to a hearing in the early part of 2017.

Previous announcements to the market in relation to the litigation have been made on 6 October 2015, 19 November 2015, 10 August 2016, in the company's half year accounts lodged 18 February 2016 and full year accounts lodged 9 August 2016, and on 23 November 2016.

Auditor's Independence Declaration

The lead auditor's independence declaration under s 307C of the *Corporations Act 2001* is set out on page 7 for the half year ended 31 December 2016.

This report is signed in accordance with a resolution of the Board of Directors.

Chris Thorpe
CEO Executive Director
28 February 2017

MOBILE EMBRACE LIMITED ABN 24 089 805 416
AND CONTROLLED ENTITIES

AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C
OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF MOBILE EMBRACE LIMITED

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2016 there have been no contraventions of:

a. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

b. any applicable code of professional conduct in relation to the review.

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro
Director

Sydney
Dated this 28th day of February 2017

Consolidated Statement of Profit or Loss and other comprehensive income for the half year ended 31 December 2016

	Notes	Consolidated Group	
		31.12.16	31.12.15
		$	$
Continuing Operations			
Revenue from Continuing Operations rendered		27,079,803	27,997,126
Cost of sales		(6,869,125)	(7,461,792)
		20,210,678	20,535,334
Interest income		11,215	20,003
Service providers and commissions		(2,085,691)	(566,245)
Administration expenses		(340,692)	(297,894)
Advertising and marketing expenses		(5,823,013)	(8,628,571)
Finance costs		(93,779)	(8,108)
Depreciation and amortisation expense		(998,212)	(673,063)
Impairment of intangible assets		(76,292)	-
Employee benefits expense		(7,176,847)	(5,628,838)
Legal expenses		(120,939)	(102,121)
Occupancy expenses		(313,247)	(156,527)
Operational expenses		(1,362,211)	(462,092)
Other expenses from ordinary activities		(854,604)	(654,472)
Profit / (loss) before income tax		976,366	3,377,406
Income tax (expense) / benefit		(255,323)	(586,858)
Net profit / (loss) for the half year		721,043	2,790,548
Other comprehensive income		-	-
Exchange differences on translating foreign operations		(277,042)	-
Income tax relating to other comprehensive income		-	-
		(277,042)	-
Outside Equity Interest		(50,466)	-
Other comprehensive income for the half year net of tax		-	-
Total comprehensive income for the half year		393,535	2,790,548
Basic earnings per share (cents per share)		0.16	0.73
Diluted earnings per share (cents per share)		0.15	0.68

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position as at 31 December 2016

	Notes	Consolidated Group	
		31.12.16	30.06.16
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		7,717,375	17,955,835
Trade and other receivables		13,394,197	13,511,280
Other assets		2,938,680	761,373
TOTAL CURRENT ASSETS		24,050,252	32,228,488
NON-CURRENT ASSETS			
Trade and other receivables		539,187	539,187
Plant and equipment		1,820,538	1,647,719
Intangible assets		14,488,923	11,889,143
Investments	6	4,270,054	3,686,721
Goodwill	5	18,268,250	18,711,483
Other non-current assets		102,119	9,024
TOTAL NON-CURRENT ASSETS		39,489,071	36,483,277
TOTAL ASSETS		63,539,323	68,711,765
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		5,008,357	5,906,883
Deferred consideration		3,362,225	5,666,666
Borrowings	7	278,379	343,264
Deferred tax liabilities		522,669	967,056
Income tax payable		1,252,622	1,521,903
Short-term provisions		1,663,646	1,467,978
TOTAL CURRENT LIABILITIES		12,087,898	15,873,750
NON-CURRENT LIABILITIES			
Deferred consideration		3,335,738	7,066,666
Borrowings	7	6,207,211	5,626,666
Provisions		26,327	171,607
TOTAL NON-CURRENT LIABILITIES		9,569,276	12,864,939
TOTAL LIABILITIES		21,657,174	28,738,689
NET ASSETS		41,882,149	39,973,076
EQUITY			
Issued capital		46,650,365	45,300,648
Reserves		959,305	793,484
Retained earnings / (accumulated losses)		(5,241,527)	(5,962,570)
Parent interest		42,368,143	40,131,562
Foreign currency translation reserve		(435,528)	(158,486)
Outside Equity Interest		(50,466)	-
TOTAL EQUITY		41,882,149	39,973,076

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows for the half year ended 31 December 2016

	Notes	Consolidated Group	
		31.12.16	31.12.15
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		27,470,135	23,380,929
Payments to suppliers and employees		(28,600,191)	(21,221,126)
Interest Received		11,215	20,003
Income tax (Paid) / Refund		(968,992)	(100,529)
Interest Paid		(93,779)	(8,108)
Net cash provided by / (used in) operating activities		(2,181,612)	2,071,169
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in acquisitions		(5,869,178)	(8,897,514)
Investment in Clipp		(583,333)	(1,166,666)
Purchase of property, plant and equipment		(597,346)	(362,826)
Purchase of intangible assets		(2,782,851)	(1,219,543)
Net cash used in investing activities		(9,832,708)	(11,646,549)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		515,660	5,065,394
Proceeds from Issue of capital		1,260,200	15,594
Net cash provided by / (used in) financing activities		1,775,860	5,080,988
Net increase / (decrease) in cash held		(10,238,460)	(4,494,392)
Cash at beginning of half year		17,955,835	9,538,904
Cash at end of half year		7,717,375	5,044,512

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity for the half year ended 31 December 2016

Consolidated Group

	Issued Capital $	Accumulated Losses $	Reserves $	Foreign Currency Reserve $	Minority Interest $	Total Equity $
Balance 30 June 2015	**32,839,166**	**(10,878,686)**	**580,466**	**-**	-	**22,540,946**
Issued Capital	1,040,000	-	-	-	-	1,040,000
Profit for the year	-	2,790,547	-	-	-	2,790,547
Share issued costs	-	-	-	-	-	-
Option reserve: options issued	-	-	141,154	-	-	141,154
Option reserve: options expired	-	-	-	-	-	-
Option reserve: options converting to capital	170,375	-	(154,781)	-	-	15,594
Foreign exchange (loss) / gain from OCI	-	-	-	-	-	-
Outside Equity Interest	-	-	-	-	-	-
Balance 31 Dec 2015	**34,049,541**	**(8,088,139)**	**566,839**	**-**	-	**26,528,241**
Issued Capital	12,000,000	-	-	-	-	12,000,000
Profit for the year	-	2,125,569	-	-	-	2,125,569
Share issued costs	(766,730)	-	-	-	-	(766,730)
Option reserve: options issued	-	-	230,627	-	-	230,627
Option reserve: options expired	-	-	-	-	-	-
Option reserve: options converting to capital	17,837	-	(3,982)	-	-	13,855
Foreign exchange (loss) / gain from OCI	-	-	-	(158,486)	-	(158,486)
Outside Equity Interest	-	-	-	-	-	-
Balance 30 Jun 2016	**45,300,648**	**(5,962,570)**	**793,484**	**(158,486)**	**-**	**39,973,076**
Issued Capital	1,260,200	-	-	-	**-**	1,260,200
Profit for the year	-	721,043	-	-	**-**	721,043
Share issued costs		-	-	-	**-**	-
Option reserve: options issued	-	-	165,821	-	**-**	165,821
Option reserve: options expired	-	-	-	-	**-**	-
Option reserve: options converting to capital	89,517	-	-	-	**-**	89,517
Foreign exchange (loss) / gain from OCI	-	-	-	(277,042)	**-**	(277,042)
Outside Equity Interest	-	-	-	-	(50,466)	(50,466)
Balance 31 Dec 2016	**46,650,365**	**(5,241,527)**	**959,305**	**(435,528)**	**(50,466)**	**41,882,149**

The accompanying notes form part of these financial statements.

Note 1: Summary of Significant Accounting Policies

Basis of Preparation

These general purpose financial statements for the interim half year reporting period ended 31 December 2016 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standards including AASB 134: Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Mobile Embrace Limited and its controlled entities (referred to as the Consolidated Group or the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2016, together with any public announcements made during the following half year.

Going Concern

This 31 December 2016 interim financial report has been prepared on the basis of a going concern. The basis presumes that funds will be available to finance future operations and that realisation of assets and settlement of liabilities will occur in the normal course of business.

Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements except in relation to the matters discussed below.

Principles of Consolidation

The consolidated financial statements incorporated all of the assets, liabilities and results of the parent Mobile Embrace Limited and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of subsidiaries is provided in Note 3: Controlled Entities.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date on which that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between Group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interest in a subsidiary not attributable, directly or indirectly, to the Group is presented as “non-controlling interests”. The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary’s net assets on liquidation at either fair value or at the non-controlling interests’ proportionate share of the subsidiaries net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

Critical Accounting Estimates and Judgments

The critical estimates and judgments are consistent with those applied and disclosed in the June 2016 Annual Report.

Adoption of new and revised Accounting Standards

The Company has adopted all of the new and revised Standards and interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period.

The adoption of all new and revised Standards and Interpretations has not resulted in any changes to the Company’s accounting policies and has had no effect on the amounts reported for the current or prior periods. The new and revised Standards and Interpretations has not had a material impact and not resulted in changes to the Company’s presentation of, or disclosures in, its interim financial statements.

Note 1: Summary of Significant Accounting Policies (continued)

New Accounting Standards and Interpretations issued but not yet applied by the entity

There are no other standards that are not yet effective and that are expected to have impact on the Company in the current or future reporting periods and on foreseeable future transactions.

Note 2. Operating Segments

Segment Information

A. Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- The products sold and / or services provided by segment;
- The type or class of customer for the products or services;
- The distribution method; and
- Any external regulatory requirements.

B. Types of products and services by segment

i. Carrier Billing

The Company enables itself and its partners integrated customer acquisition, management and carrier billing via mobile devices.

It enables the reaching of, engagement and transactions (where the transaction is a billing transaction), with consumers on their mobile devices via its digital media trading desk and carrier billing platforms.

Consumers seamlessly engage with digital product and service offers and utilise carrier billing to conveniently pay for them on their mobile devices.

The clients and partners are businesses that want to acquire high volumes of customers on any mobile device and mobile operators (telcos) wanting to increase their average revenue per user (ARPU).

ii. Performance Marketing

The Company enables itself and its partners integrated performance marketing and customer acquisition via mobile devices.

It enables the reaching of, engagement and transactions (where the transaction is a marketing transaction), with consumers on their mobile devices via its mobile marketing platforms, permission databases, publishing network and award winning creative mechanics.

The clients and partners are businesses that want to acquire high volumes of customers via any mobile device.

Note 2. Operating Segments (continued)

Segment Information (continued)

C. Basis of accounting for purposes of reporting by operating segments

i. Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statement of the Group.

ii. Intersegment transactions

An internally determined transfer price is set for all intersegment sales. This price is reset quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is the representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Intersegment loans payable and receivable are initially recognised at the consideration received / to be received net of transaction costs. If intersegment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

iii. Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives majority economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

iv. Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

v. Unallocated items

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Impairment of assets and other non-recurring items of revenue or expense;
- Income tax expense;
- Deferred tax assets and liabilities;
- Current tax liabilities;
- Other financial liabilities; and
- Intangible assets.

Note 2. Operating Segments (continued)

D. Segment performance

31 December 2016	Carrier Billing $	Performance Marketing $	Total $
REVENUE			
External sales	13,110,926	13,968,877	27,079,803
Interest revenue	-	-	-
Total segment revenue	**13,110,926**	**13,968,877**	**27,079,803**
Segment gross profit	4,872,745	7,099,752	11,972,497
Segment net profit / (loss) before tax	**709,145**	**2,993,099**	**3,702,244**
Reconciliation of segment result to group net profit / loss before tax			
Amounts not included in segment results but reviewed by the Board:			
Depreciation and amortisation and impairment	-	-	(1,074,504)
Net Interest	-	-	(82,564)
Unallocated items:	-	-	-
Corporate charges	-	-	(1,568,810)
Net profit / (loss) before tax	**-**	**-**	**976,366**

31 December 2015	Carrier Billing $	Performance Marketing $	Total $
REVENUE			
External sales	17,383,008	10,614,118	27,997,126
Interest revenue	-	-	-
Total segment revenue	**17,383,008**	**10,614,118**	**27,997,126**
Segment gross profit	6,721,982	4,320,642	11,042,624
Segment net profit / (loss) before tax	**2,012,114**	**2,825,518**	**4,837,632**
Reconciliation of segment result to group net profit/ loss before tax			
Amounts not included in segment results but reviewed by the Board:			
Depreciation and amortisation and impairment	-	-	(673,063)
Net Interest	-	-	11,895
Unallocated items:	-	-	-
Corporate charges:	-	-	(799,058)
Net profit / (loss) before tax	**-**	**-**	**3,377,406**

Note 3. Interest in Subsidiaries

Controlled Entities Consolidated

Name of Entity	Country of Incorporation	Ownership Interest 31.12.16 %	31.12.15 %
Parent Entity:			
Mobile Embrace Limited	Australia		
Subsidiaries of Mobile Embrace Limited:			
Global One Mobile Entertainment Pty Ltd	Australia	**100**	100
Divolution Limited	Australia	**100**	100
1st Screen	Australia	**100**	100
6G Pty Ltd	Australia	**100**	100
Lead Proof Pty Ltd (formerly 7A Pty Ltd)	Australia	**100**	100
8Z Pty Ltd	Australia	**100**	100
Convey Pty Ltd	Australia	**100**	100
Mobipay Pty Ltd	Australia	**100**	100
Convey Global Pte Ltd	Singapore	**100**	100
The Performance Factory Pty Ltd	Australia	**100**	100
Eggmobi Pty Ltd	Australia	**100**	100
Eggmobi UK Limited	UK	**100**	100
Vizmond Pty Ltd	Australia	**100**	100
Vizmond Media Pty Ltd	Australia	**100**	100
Convey Global MY SDN BHD	Malaysia	**100**	100
Marketing Punch Limited	UK	**100**	100
Marketing Punch Pty Ltd	Australia	**100**	100

Note 4. Fair Value Measurement

The Group has a number of financial instruments which are measured at fair value in the statement of financial position. These had the following fair values as at 31 December 2016.

	31.12.2016 Carrying amount	31.12.2016 Fair value
Current receivables		
• Trade and other receivables	13,394,197	13,394,197
	13,394,197	13,394,197
Current liabilities		
• Trade and other payables	5,008,357	5,008,357
	5,008,357	5,008,357

Due to their short-term nature, the carrying amounts of current receivables and current payables are assumed to approximate their fair value.

Note 5. Goodwill Update

	Consolidated Group	
	31.12.16	30.06.16
	$	$
Goodwill		
Goodwill on acquisitions - The Performance Factory	5,223,440	5,223,440
Goodwill on acquisitions - Eggmobi	2,224,549	2,224,549
Goodwill on acquisitions - Vizmond Media	3,168,503	3,168,503
Goodwill on acquisitions - Marketing Punch	7,651,758	8,094,991
Accumulated Impairment	-	-
Carrying Value at balance date	18,268,250	18,711,483

Impairment testing

For the purposes of annual impairment testing goodwill is broken down into the following cash generated units which is consistent with business combination calculations.

	31.12.16
	$
The Performance Factory (TPF)	5,223,440
Eggmobi (EGG)	2,224,549
Vizmond Media (VIZ)	3,168,503
Marketing Punch (MP)	7,651,758
Goodwill allocation at 31 December 2016	18,268,250

The recoverable amounts of the cash generating units were determined based on the value-in-use calculations covering a detailed five-year forecast, followed by an extrapolation of expected cash flows for the units remaining useful lives using the growth rates determined by management. The present value of the expected cash flows of each segment is determined by applying a suitable discount rate.

Management has taken into account the industry growth rates and the relative likely competitive pressures on the sector, and the market growth rates for FY 2017 against FY 2016. The discount rate is based on the WACC for the Company.

Impairment testing

Growth rates and Discount rates:

		FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
TPF	Growth rates	10%	10%	Nil	Nil	Nil
	Discount rates	10.9%	10.9%	10.9%	10.9%	10.9%
EGG	Growth rates	25%	15%	10%	10%	Nil
	Discount rates	10.9%	10.9%	10.9%	10.9%	10.9%
VIZ	Growth rates	10%	10%	10%	Nil	Nil
	Discount rates	10.9%	10.9%	10.9%	10.9%	10.9%
MP	Growth rates	20%	20%	Nil	Nil	Nil
	Discount rates	10.9%	10.9%	10.9%	10.9%	10.9%

Cash flow assumptions

Management’s key assumptions for the businesses include, stable margin, increased head count through FY 2017 and FY 2018 and strong revenue growth across FY 2017 and FY 2018.

Apart from the considerations described in determining the value-in-use of the cash generating units described above, management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

Note 5. Goodwill Update (continued)

Impairment testing (continued):

Applying discount rate of 10.9%

Cash generating unit	CGU value including goodwill	NPV of cash flow	Surplus / (deficit)
The Performance Factory	5,223,440	7,942,953	2,719,513
Eggmobi	2,224,549	2,785,376	560,827
Vizmond Media	3,168,503	4,895,567	1,727,064
Marketing Punch	7,651,758	10,967,510	3,315,752

Note 6. Investments

Non-controlling stake of 31%

The Company acquired a non-controlling stake of 31% of Clipp Pty Ltd from existing shareholders through the issue of 4,594,665 fully paid ordinary shares at 26 cents and the granting of unlisted options for 2,297,334 ordinary shares exercisable at $0.39 each and expiring 10 June 2017. Clipp is a mobile payments product using the mobile phone to create a bar and restaurant tab at venues. (Refer ASX release 10 June 2015).

On the 20 October 2016 Chris Thorpe was appointed to the Board of Clipp Pty Limited ACN 162 347 515. Management has assessed its involvement in Clipp in accordance with AASB 128 investments in associates & joint ventures, and has elected to equity account in relation to its invested holding of 31% of Clipp Pty Ltd from the 1st November 2016.

	31.12.16	30.06.16
	$	$
Clipp Pty Limited – non-controlling stake of 31% (non-cash)	**1,353,389**	1,353,389
	1,353,389	1,353,389

Drawdown debt facility – convertible note

The Company has granted Clipp Pty Limited a $3.5M convertible note with quarterly drawdown of funds over 18 months. The Company can convert any draw down into equity at any stage. Further drawdowns are at the Company's sole discretion. At balance date 5 drawdowns had occurred.

	31.12.16	30.06.16
	$	$
Clipp Pty Limited – Drawdown debt facility – convertible note (cash)	**2,916,665**	2,333,332
	2,916,665	2,333,332

Note 7. Borrowings

	Notes	**31.12.16**	30.06.16
Current			
Loan	1	278,379	343,264
		278,379	343,264
Non-current			
Loan	1	1,072,098	1,099,526
Facility	2	5,135,113	4,527,140
		6,207,211	5,626,666

Notes

1. Loan: 5-year term, monthly payments expiring March 2021.
2. Drawdown facility (GBP £4 million): interest only payments, 3-year term expiring September 2018, existing undrawn capacity GBP £1 million.

Note 8. After Balance Date Events

As announced to the ASX 27 February 2017, MBE has now acquired a further 66% of Clipp for $550,000 in cash, taking MBE's stake in Clipp to 97%.

MBE's increased shareholding, to 97%, now allows the Company to exercise control over Clipp and set the strategic direction to develop the business and take it to the next level. This control provides the Company with a stronger platform to realise optimum value from its investment moving forward.

Clipp generated $4.3 million in gross revenue for the half year to 31 December 2016. In the 12 months from January 2016 to January 2017 downloads of the Clipp App grew circa 70% to 218,000 and registered users grew circa 53% to 104,000.

Other than the above, there have been no events that have occurred since the reporting date which would materially impact on the financial position of the Company and its controlled entities.

Note 9. Contingent Liabilities

There are no contingent liabilities at balance date.

Unresolved litigation

As announced to the ASX 6 October 2015: During the course of the half year ending 31 December 2015 Mobile Embrace was served with a Summons filed in the Supreme Court of NSW from a company called GBD Ventures Pty Ltd (the Claim). The Claim alleges that Mobile Embrace owes GBD an amount in the order of $4 million in respect of a digital video advertising supply agreement involving the two companies. The Claim has subsequently been reduced by GBD to $3.5 million. In response to the Claim MBE has filed and served a defense and a cross claim against the Plaintiff and its two shareholders who were also representatives of GBD. The amount of the cross claim has been quantified between $4M and $11M. In the event of the cross claim being successful, there is no guarantee that any or all of the costs or damages awarded will be recouped by MBE. As at the time of this reporting, the pleadings have closed and is in the stage of the parties serving their written evidence which is expected to be completed during the calendar year of 2017.

MBE continues to deny the Claim in its entirety. It is anticipated that if the matter is unresolved it shall proceed to a hearing in the early part of 2017.

Previous announcements to the market in relation to the litigation have been made on 6 October 2015, 19 November 2015, 10 August 2016, in the company's half year accounts lodged 18 February 2016 and full year accounts lodged 9 August 2016, and on 23 November 2016.

Directors' Declaration

In accordance with a resolution of the directors of the company, the directors declare that:

1. The financial statements and notes, as set out on the pages 8 to 19, are in accordance with the Corporations Act 2001, including:

    a. Complying with Accounting Standards AASB 134 Interim Financial Reporting; and

    b. Giving a true and fair view of the consolidated entity's financial position as at the 31 December 2016 and of its performance for the half year ended on that date.

2. In the director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Chris Thorpe
CEO Executive Director
28 February 2017

MNSA

MOBILE EMBRACE LIMITED ABN 24 089 805 416
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF
MOBILE EMBRACE LIMITED

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Mobile Embrace Limited, which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Half-year Financial Report

The directors of Mobile Embrace Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Mobile Embrace Limited's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Mobile Embrace Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and 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*.

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

(i) giving a true and fair view of Mobile Embrace Limited's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

(ii) complying with AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001.*

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro
Director

Sydney
Dated this 28th day of February 2017

MNSA Pty Ltd
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