INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2017

MAINSTREAM GROUP HOLDINGS LIMITED
(FORMERLY MAINSTREAMBPO 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 2017 and any public announcements made by Mainstream Group Holdings Limited (formerly MainstreamBPO Limited) during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CORPORATE HIGHLIGHTS

Mainstream Group Holdings Limited (ASX: MAI) experienced strong growth in funds under administration, revenue and profitability during the half year while continuing to invest in global integration and automation. Highlights include:

Revenue
$19.0m
△ 45% on HY17

Funds under administration
$133 bn
△ 25% on HY17

NPAT
$1.0m
△ 43% on HY17

Funds administered
771
△ 28% on HY17

Completed acquisitions:

Trinity Fund Administration

IRESS' superannuation fund administration business

Fully franked interim dividend
0.5 cents
per share

Global operations
8 countries

DIRECTORS' REPORT

The Directors of Mainstream Group Holdings Limited (the "Company" or "Mainstream"), formerly MainstreamBPO Limited, 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 2017.

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	Executive Chairman
Martin Smith	Chief Executive Officer
John Plummer	Non-Executive Director
Lucienne Layton	Non-Executive Director

Michael Houlihan resigned as Director of the Company effective 30 November 2017 however continues in his role as Chief Executive Officer of Mainstream Superannuation Services (formerly SuperBPO).

REVIEW OF RESULTS AND OPERATIONS

For the half year ended 31 December 2017, the Group's net profit after tax increased by 43% to $1.0 million (compared to $0.7 million for the six months to 31 December 2016). Revenue was $19.0 million which increased by 45% over the six months to 31 December 2016. Further information on the Group's operations is provided below.

Funds under administration grew by 25% to $133 billion during the six month period to 31 December 2017. The increase in funds under administration was driven by net inflows from existing clients, new funds going live and completion of two acquisitions.

Client numbers also grew over the period. The Group now administers 771 funds for 284 clients as at 31 December 2017 (up from 667 funds for 192 clients as at 30 June 2017).

During the period we continued to invest in our people. Global headcount grew to 221 people across 8 countries (compared to 180 people as at 30 June 2017). Reflecting the Company's commitment to workplace diversity, women made up 46% of employees as at 31 December 2017.

For the half year ended 31 December 2017, the Group's Fund Services business generated revenue of $16.9 million ($11.4 million for the six months to 31 December 2016) and had expenses of $12.9 million ($8.7 million for the six months to 31 December 2016), which resulted in a profit before tax of $4.0 million ($2.7 million for the six months to 31 December 2016).

Highlights during the half year for the Fund Services business include:

- Continued inflows from key Australian clients
- Administration of a number of newly launched exchange-traded products and new client mandates
- Continued capital expenditure on automation and compliance
- Cross border opportunities that leverage our global platform
- Global rebranding to Mainstream Fund Services

For the half year ended 31 December 2017, the Group's Superannuation Services business, formerly SuperBPO, generated revenue of $2.0 million ($1.6 million for the six months to 31 December 2016) and had expenses of $1.7 million ($1.4 million for the six months to 31 December 2016), which resulted in a profit before tax of $0.3 million ($0.2 million for the six months to 31 December 2016). Superannuation funds under administration reached a record high of $2.4 billion, driven by the addition of 14 new funds from the IRESS acquisition.

DIVIDENDS

On 29 August 2017, the Company announced a fully franked final dividend of 0.75 cents per issued share for the financial year ended 30 June 2017. Payment of the dividend was completed on 1 November 2017.

Approximately 62% of total shares outstanding on 25 October 2017 elected to participate in the Dividend Reinvestment Plan (DRP). Per Appendix 3A.1 as filed with the ASX on 29 August 2017, the DRP price was calculated based on a 5% discount to the 10 day Volume Weighted Average Price (VWAP) of Mainstream (MAI) stock during the period 10 October 2017 to 23 October 2017. The DRP resulted in the issuance of an additional 1,209,141 fully paid ordinary shares in Mainstream Group Holdings Limited. As of the date of this report, there are 109,409,957 fully paid ordinary shares in Mainstream Group Holdings Limited on issue.

On 20 February 2018, the Company announced a fully franked interim dividend of 0.5 cents (2016: 0.5 cents) per issued share for the half year ended 31 December 2017, payable on 26 March 2018 with a Record Date of 9 March 2018. The Board of Directors resolved that the Company's DRP would not be available for this dividend.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 13 July 2017, the Company announced that it had entered into an agreement to acquire a part of IRESS's (ASX: IRE) superannuation administration business. The transaction was completed on 8 November 2017. Refer to Note 10 for further details.

On 2 August 2017, the Company issued an additional $2 million of Senior Secured Convertible Notes to fund strategic acquisitions. Refer to Note 13 for further details.

On 4 September 2017, the Company announced that regulatory approval had been received in relation to its proposed acquisition of Trinity Fund Administration Limited in Ireland and Trinity Fund Administration (Cayman) Limited in the Cayman Islands. The transaction was completed on 30 September 2017. Refer to Note 10 for further details. The entities acquired were subsequently re-named as Mainstream Fund Services (Ireland) Limited and Mainstream Fund Services (Cayman) Limited respectively.

On 29 September 2017, at the Company's Annual General meeting, shareholders approved the company name change from MainstreamBPO Limited to Mainstream Group Holdings Limited.

On 16 October 2017, the Company successfully completed its underwritten 1 for 12 accelerated pro-rata non-renounceable offer (Entitlement Offer), first announced on 19 September 2017.

Other than the above, there were no significant changes in the state of affairs of the Group during the half year ended 31 December 2017.

EVENTS SUBSEQUENT TO THE END OF THE REPORTING DATE

On 12 January 2018, the Company entered into an agreement with Australia and New Zealand Banking Group Limited (ANZ) to replace its existing $11 million Senior Secured Convertible Notes facility with a new three year $11 million debt facility. The interest on the new facility is charged at BBSY bid + 1.7% per annum compared to a fixed rate of 10.5% per annum on the existing facility. The new facility is expected to save the Company approximately $775,000 of interest expense per year. Refer to Note 13 for further details.

On 20 February 2018, the Company announced a fully franked interim dividend of 0.5 cents per issued share for the half year ended 31 December 2017, payable on 26 March 2018 with a Record Date of 9 March 2018. The Board of Directors resolved that the Company's DRP would not be available for this dividend.

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

AUDITOR'S INDEPENDENCE DECLARATION

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

Signed in accordance with a resolution of the Directors:

B Johnston

Byram Johnston OAM
Director
Sydney
Date: 20 February 2018

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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

As lead auditor for the review of Mainstream Group Holdings Limited (formerly MainstreamBPO Limited) for the half-year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Rita Da Silva
Partner
20 February 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	Note	Consolidated 2017 $	2016 $
Revenue			
Fee income		17,464,722	12,379,092
Other operating income		1,199,035	698,712
Interest income		374,086	36,061
Total revenue	6	**19,037,843**	**13,113,865**
Expenses			
Employee benefits expense		10,472,118	7,375,696
Share-based payments expense	7	532,428	290,974
Accounting and audit fees		341,161	246,053
Amortisation and depreciation expense		668,689	378,559
Bank fees and charges		81,554	49,581
Insurance		195,279	105,661
Interest expense		646,865	223,267
IT support and expenses		2,874,122	2,073,932
Legal fees		119,093	21,087
Occupancy		1,233,354	568,482
Acquisition costs		206,843	121,689
General and other expenses		511,622	782,499
Total expenses		**17,883,128**	**12,237,480**
Profit before income tax expense		**1,154,715**	**876,385**
Income tax expense	5	200,526	211,040
Profit after income tax expense for the half year		**954,189**	**665,345**
Other comprehensive income			
Exchange differences on translation of foreign subsidiaries		36,147	(76,415)
Other comprehensive income for the half year, net of tax		**36,147**	**(76,415)**
Total comprehensive income for the half year		**990,336**	**588,930**
Earnings per share (EPS):			
Basic earnings per share	4	$0.0092	$0.0076
Diluted earnings per share	4	$0.0087	$0.0074

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 2017

	Note	31 December 2017 $	30 June 2017 $
Assets			
Current Assets			
Cash and cash equivalents	8	6,915,607	6,422,063
Trade and other receivables		5,700,736	4,899,442
Other current assets	9	2,153,868	1,354,128
Total Current Assets		**14,770,211**	**12,675,633**
Non-Current Assets			
Property, plant and equipment		2,864,388	2,317,337
Intangible assets	10	26,815,273	18,122,482
Total Non-Current Assets		**29,679,661**	**20,439,819**
Total Assets		**44,449,872**	**33,115,452**
Liabilities			
Trade creditors and accrued expenses		3,091,170	2,385,787
Provision for employee benefits		874,886	736,174
Provision for income tax		519,631	523,340
Deferred consideration	12	743,006	387,990
Other current liabilities	11	2,300,620	912,292
Total Current Liabilities		**7,529,313**	**4,945,583**
Non-Current Liabilities			
Interest-bearing liabilities	13	10,810,115	8,747,793
Provision for employee benefits		91,775	138,915
Net deferred tax liabilities		910,754	531,678
Deferred consideration	12	1,168,674	-
Total Non-Current Liabilities		**12,981,318**	**9,418,386**
Total Liabilities		**20,510,631**	**14,363,969**
Net Assets		**23,939,241**	**18,751,483**
Equity			
Contributed capital	14	21,300,492	16,260,043
Reserves	15	831,499	827,117
Retained earnings		1,807,250	1,664,323
Total Equity		**23,939,241**	**18,751,483**

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 2017

	Contributed Capital	Reserves	Retained Earnings	Total Equity
	$	$	$	$
CONSOLIDATED				
Balance at 1 July 2016	**8,902,554**	**359,788**	**1,583,292**	**10,845,634**
Profit after income tax expense	-	-	665,345	**665,345**
Other comprehensive income, net of tax	-	(76,415)	-	**(76,415)**
Total comprehensive income, net of tax	**-**	**(76,415)**	**665,345**	**588,930**
Transactions with owners in their capacity as owners:				
Dividends Paid	-	-	(892,344)	**(892,344)**
Dividends reinvested	672,269	-	-	**672,269**
Shares issued for acquisitions	3,136,230	-	-	**3,136,230**
Shares issued under Employee Share Plans	242,116	(242,116)	-	**-**
Share-based payments	-	290,974	-	**290,974**
Balance at 31 December 2016	**12,953,169**	**332,231**	**1,356,293**	**14,641,693**
Balance at 1 July 2017	**16,260,043**	**827,117**	**1,664,323**	**18,751,483**
Profit after income tax expense	-	-	954,189	**954,189**
Other comprehensive income, net of tax	-	36,147	-	**36,147**
Total comprehensive income, net of tax	**-**	**36,147**	**954,189**	**990,336**
Transactions with owners in their capacity as owners:				
Dividends Paid	-	-	(811,262)	**(811,262)**
Dividends reinvested	565,268	-	-	**565,268**
Shares issued under Entitlement Offer	4,116,829	-	-	**4,116,829**
Transaction costs	(205,841)	-	-	**(205,841)**
Shares issued under Employee Share Plans	564,193	(564,193)	-	**-**
Share-based payments	-	532,428	-	**532,428**
Balance at 31 December 2017	**21,300,492**	**831,499**	**1,807,250**	**23,939,241**

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 2017

	Note	Consolidated 2017 $	Consolidated 2016 $
Cash flows from operating activities			
Income received		17,862,463	11,085,388
Operating expenses paid		(16,250,838)	(10,402,795)
Interest received		374,086	36,061
Interest paid		(523,562)	-
Income tax paid		(380,682)	-
Net cash inflow from operating activities		**1,081,467**	**718,654**
Cash flows from investing activities			
Purchase of capitalised software & equipment		(887,130)	(753,228)
Payments for acquisitions, net of cash received	10	(1,606,328)	(5,410,436)
Purchase of intangible assets		(3,708,868)	-
Net cash outflow from investing activities		**(6,202,326)**	**(6,163,664)**
Cash flows from financing activities			
Shares issued		4,116,829	-
Transaction costs paid		(205,841)	-
Proceeds from interest bearing liabilities, net of fees		1,949,409	6,860,000
Dividends paid		(245,994)	(220,075)
Net cash inflow from financing activities		**5,614,403**	**6,639,925**
Net increase in cash and cash equivalents during the half year		493,544	1,194,915
Cash at the beginning of the half year		6,422,063	1,368,536
Cash at the end of the half year	8	**6,915,607**	**2,563,451**

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"), formerly MainstreamBPO Limited, and its controlled entities (the "Group") for the half year ended 31 December 2017. 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 2017 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 20 February 2018. 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 2017 Annual Report and any public announcements made in respect of the Group during the half year ended 31 December 2017 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.

NEW, REVISED OR AMENDING ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. None of the standards and amendments which became mandatory for the first time in the interim reporting period commencing 1 July 2017 resulted in any adjustments to the amounts recognised in the financial statements or disclosures.

ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The Australian and International Accounting Standards issued but not yet mandatory for the 31 December 2017 interim reporting period have not been adopted by the Group in the preparation of this interim financial report. An assessment of the impact of the new standards and interpretations which may have a material impact on the Group is set out below:

Notes to the Financial Statements continued

AASB 15 Revenue from Contracts with Customers

AASB 15 incorporates the requirements of IFRS 15 *Revenue from Contracts with Customers* issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard will be effective 1 July 2018 for the Group. The Group has performed a preliminary assessment and does not anticipate the application of this standard to be material.

AASB 9 Financial Instruments and applicable amendments

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and liabilities, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. The standard is not applicable until 1 July 2018 for the Group. The current four categories of financial assets, stipulated in AASB 139 *Financial Instruments: Recognition and Measurement*, will be replaced with two measurement categories: fair value and amortised cost. AASB 9 only permits the recognition of fair value gains/(losses) in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains/(losses) on debt investments, for example, will therefore have to be recognised directly in profit or loss. The Group does not expect any significant impact on the financial statements arising from the adoption of the standard.

AASB 16 Leases

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

The new standard will be effective for the Group from 1 July 2019. Early application is permitted, provided the new revenue standard, AASB 15 *Revenue from Contracts with Customers*, has been applied, or is applied at the same date as AASB 16. The Group is still in the process of assessing the impact and does not intend to early adopt.

Notes to the Financial Statements continued

NOTE 3. SEGMENT REPORTING

Due to the nature of the Group's operations and current size of the Group, for management reporting purposes, the chief operating decision makers (being the Board of Directors) currently consider and report on the business units' operating results and financial position as one reportable operating segment – fund administration. Refer to the statement of profit or loss and other comprehensive income for the Group's results.

Mainstream Group Holdings Limited has operations in:

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

The table below shows a break-up of revenue by geography for the half year ended 31 December 2017 and 2016.

	2017 $	2016 $
Revenue		
APAC	14,942,362	12,032,039
Americas*	2,267,570	937,462
Europe*	1,827,911	144,364
	19,037,843	**13,113,865**

	31 December 2017 $	30 June 2017 $
Non-current operating assets		
APAC	28,898,074	20,393,930
Americas	38,544	8,827
Europe	743,043	37,062
	29,679,661	**20,439,819**

* Note that the Group's Europe and Americas' results only include Ireland and Cayman Islands respectively for three of the six months to 31 December 2017 and the Group only had operations in the Americas for three months and Europe for one month during the six months to 31 December 2016.

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:

	2017 $	2016 $
Profit attributable to ordinary equity holders of the parent:	**954,189**	**665,345**
Weighted average number of ordinary shares for basic EPS	103,916,427	87,041,590
Effects of dilution from:		
- Employee Share Plans	3,427,707	2,594,600
- Trinity Share Deferred Consideration	2,761,537	-
Weighted average number of ordinary shares adjusted for the effects of dilution	110,105,671	89,636,190

As at 31 December 2017, there were 109,409,957 ordinary shares outstanding (2016: 90,283,729).

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

- 6,629,660 fully paid ordinary shares under the Company's Institutional Entitlement Offer on 26 September 2017;
- 1,163,284 fully paid ordinary shares under the Company's Employee Share Plan on 3 October 2017;
- 1,603,998 fully paid ordinary shares under the Company's Retail Entitlement Offer 17 October 2017; and
- 1,209,141 fully paid ordinary shares in connection with the Company's Dividend Reinvestment Plan (DRP) on 1 November 2017.

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 2017 and 2016 are:

	Consolidated	
	2017 $	2016 $
Current income tax	416,958	146,293
Current tax adjustment for prior periods	(11,000)	-
Deferred tax expense/(benefit)	(205,432)	64,747
Income tax expense	**200,526**	**211,040**

Franking credits

As at 31 December 2017, the Company had $167,784 (30 June 2017: $135,190) of franking credits. As of the date of this report, the Company had $272,247 of franking credits.

NOTE 6. REVENUE

	Consolidated	
	2017 $	2016 $
Fee income	17,464,722	12,379,092
Other operating income	1,199,035	698,712
Interest income	374,086	36,061
Total revenue	**19,037,843**	**13,113,865**

NOTE 7. SHARE BASED PAYMENTS

The Company has in place an Employee Share Plan (ESP). The ESP is a plan under which 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 total expense recognised for share-based payments during the half year ended 31 December 2017 is:

	Consolidated	
	2017 $	2016 $
Share-based payments		
Employee Share Offer	91,736	39,990
Management Share Offer	245,733	88,749
Senior Management Share Offer	139,332	119,455
Director Share Offer*	55,627	42,780
Total share-based payments expense	**532,428**	**290,974**

*The Director Share Offer (DSO) relates to performance awards granted to Executive Directors only.

There were no cancellations to the awards in the half year ended 31 December 2017.

NOTE 8. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated	
	31 December 2017 $	30 June 2017 $
Cash at bank	**6,915,607**	**6,422,063**

NOTE 9. CURRENT ASSETS – OTHER

	Consolidated	
	31 December 2017 $	30 June 2017 $
Deposit bonds	963,748	1,016,343
Prepayments	663,425	334,321
Due from related party	183,311	-
Government rebate	99,451	-
Other	243,933	3,464
	2,153,868	**1,354,128**

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

Notes to the Financial Statements continued

NOTE 10. NON-CURRENT ASSETS – INTANGIBLES

	Consolidated	
	31 December 2017 $	30 June 2017 $
Business combinations – goodwill	13,158,881	10,056,188
Other intangible assets	13,656,392	8,066,294
	26,815,273	**18,122,482**

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

	Goodwill $	Other Intangible Assets $	Total $
Opening balance at 1 July 2017	10,056,188	8,066,294	**18,122,482**
Acquisition of Trinity	3,102,693	2,204,805	**5,307,498**
Acquisition of IRESS Super Administration Business	-	3,250,000	**3,250,000**
Alter Domus Malta	-	425,152	**425,152**
HFO Limited	-	33,716	**33,716**
Amortisation expense	-	(323,575)	**(323,575)**
Closing balance at 31 December 2017	**13,158,881**	**13,656,392**	**26,815,273**

Business Combinations - Goodwill

During the half year, the Company acquired 100% of the shares of Trinity Fund Administration (Cayman) Limited and JAL Investments Limited which is the holding company of Trinity Fund Administration Limited - a group of companies based in Cayman Islands and Ireland.

Notes to the Financial Statements continued

NOTE 10. NON-CURRENT ASSETS – INTANGIBLES CONTINUED

The provisional fair values of identifiable assets and liabilities as at the date of acquisition for the Trinity group are summarised below:

	Trinity Group $ AUD
Cash and cash equivalents	2,865,372
Trade and other receivables	512,991
Other current assets	221,057
Intangible assets arising on acquisition (Customer Contracts)	2,204,805
Total Assets	**5,804,225**
Trade and other payables	1,862,096
Deferred tax liabilities	661,442
Total Liabilities	**2,523,538**
Net assets acquired at fair value	**3,280,687**
Goodwill arising on acquisition (provisional)*	3,102,693
Purchase consideration transferred	**6,383,380**
Cash paid	4,471,700
Less: Cash acquired within the subsidiary	(2,865,372)
Net Cash Paid	**1,606,328**

*The Company is currently finalising its acquisition accounting to assess the fair value of customer relationships and contracts received as part of the acquisition completed during the half year. The Company does not anticipate the goodwill to be deductible for income tax purposes.

At the date of acquisition, the total fair value of trade and other receivables was $512,991. At 31 December 2017, none of the trade and other receivables related to acquisition had been impaired.

From the date of acquisition, Trinity Group has contributed $1.16 million of revenue to the Group. If the acquisition had taken place at the beginning of the period, then Trinity Group would have contributed $2.32 million of revenue to the Group for the six months ended 31 December 2017.

With respect to the Trinity Group acquisition, at 31 December 2017, $0.64 million (US$ 0.50 million) of the purchase price is recorded as Deferred Cash Consideration which is to be paid in May 2018 and May 2019; and $1.27 million (US$ 1 million) of the purchase price is recorded as Deferred Equity Consideration which is to be issued in May 2018, May 2019 and May 2020 subject to certain financial Key Performance Indicators being achieved.

Notes to the Financial Statements continued

NOTE 10. NON-CURRENT ASSETS – INTANGIBLES CONTINUED

Other Intangible Assets

The other intangible assets include the purchase of customer relationships and contracts from IRESS, HFO Limited and Alter Domus.

The Group performs its annual impairment test for intangible assets with indefinite useful lives and for Goodwill as at 30 June of each respective financial year. No impairment was recorded at 30 June 2017 or 2016. The Group did not identify any indicators of impairment during the half year ended 31 December 2017.

Legal fees incurred in the completion of acquisitions are expensed through the Statement of Profit or Loss in the period in which they are incurred.

NOTE 11. OTHER CURRENT LIABILITIES

	Consolidated	
	31 December 2017	30 June 2017
	$	$
GST Liability	345,594	395,752
PAYG withholding payable	119,522	39,028
Superannuation payable	259,739	209,484
Due to previous shareholders of acquired entities*	1,488,010	258,627
Other	87,755	9,401
Total	**2,300,620**	**912,292**

* With respect to the Trinity Group acquisition, $1.36 million has been recognised as a liability due to the seller relating to historical retained earnings, declared as dividends, as agreed to between the respective parties in the Sale Agreement. The liability due to the previous shareholder of Mainstream Fund Services, Inc (formerly FundAdministration, Inc.) was $0.13 million as at 31 December 2017.

NOTE 12. DEFERRED CONSIDERATION

	Consolidated	
	31 December 2017	30 June 2017
	$	$
Deferred Consideration		
- Current	743,006	387,990
- Non-current	1,168,674	-
Total	**1,911,680**	**387,990**

With respect to the Trinity Group acquisition, at 31 December 2017, $1.91 million (US$ $1.50 million) of the purchase price is recorded as Deferred Consideration which is to be paid in May 2018, May 2019 and May 2020 subject to certain financial Key Performance Indicators being achieved. In October 2017, the Company fully paid the deferred consideration of $387,990 in relation to the Galileo Fund Services Limited acquisition.

Notes to the Financial Statements continued

NOTE 13. INTEREST BEARING LIABILITIES

	Consolidated 31 December 2017 $	 30 June 2017 $
Interest bearing liabilities	**10,810,115**	8,747,793

On 2 August 2017, MAI Finance SPV Pty Ltd, a wholly owned subsidiary of the Company, issued an additional $2 million of Senior Secured Convertible Notes which were arranged by Mason Stevens Asset Management Pty Limited and have a fixed interest rate of 10.5% per annum with maturity on 30 June 2019. Interest is payable quarterly in arrears and the first interest payment was made on 16 October 2017. Total Convertible Notes outstanding as at 31 December 2017 was $10,810,115. The Group was in compliance with the debt covenants at 31 December 2017

On 12 January 2018, the Company entered into an agreement with Australia and New Zealand Banking Group Limited (ANZ) to replace its existing $11 million Senior Secured Convertible Notes facility with a new three year $11 million debt facility. The interest on the new facility is charged at BBSY bid + 1.7% per annum compared to a fixed rate of 10.5% per annum on the existing facility. The Convertible Notes were repaid and cancelled on 16 January 2018.

NOTE 14. EQUITY - CONTRIBUTED CAPITAL

	Consolidated		Consolidated	
	31 December 2017 Shares	30 June 2017 Shares	31 December 2017 $	30 June 2017 $
Ordinary shares - fully paid	109,409,957	98,803,874	21,300,492	16,260,043

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 2017	**98,803,874**
Shares issued under Employee Share Plan	1,163,284
Shares issued under Entitlement Offer (Retail and Institutional)	8,233,658
Shares issued under Dividend Reinvestment Plan	1,209,141
Ordinary shares outstanding at 31 December 2017	**109,409,957**

Notes to the Financial Statements continued

NOTE 14. EQUITY - CONTRIBUTED CAPITAL CONTINUED

On 29 September 2017, at the Company's Annual General Meeting, shareholders approved the issuance of a total of 1,163,284 fully paid ordinary shares under the Company's Director Share Offer and Senior Management Share Offer.

On 26 September 2017 and 17 October 2017, the Company issued 6,629,660 and 1,603,998 respectively under the Institutional and Retail Entitlement Offers.

On 29 August 2017, the Company announced a fully franked final dividend of 0.75 cents per issued share for the financial year ended 30 June 2017. Payment of the dividend was completed on 1 November 2017. Approximately 62% of total shares outstanding elected to participate in the Company's Dividend Reinvestment Plan (DRP). The DRP price was calculated based on a 5% discount to the 10 day VWAP of MAI stock during the period 10 October 2017 to 23 October 2017. The DRP resulted in the issuance of an additional 1,209,141 fully paid ordinary shares in Mainstream Group Holdings Limited.

NOTE 15. RESERVES

	Consolidated	
	31 December 2017	**30 June 2017**
	$	**$**
Revaluation reserve	416,703	416,703
Foreign currency translation reserve	(68,196)	(104,343)
Share-based payment reserve	482,992	514,757
	831,499	**827,117**

Revaluation reserve

The reserve is used to recognise increments and decrements in the fair value of software. There were no movements in this reserve during the half year ended 31 December 2017 (June 2017: Nil).

Foreign currency translation reserve

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

Share-based payment reserve

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

Notes to the Financial Statements continued

NOTE 16. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Group did not have any contingent assets as at 31 December 2017 (30 June 2017: $nil) nor contingent liabilities as at 31 December 2017 (30 June 2017: $36,806).

NOTE 17. RELATED PARTY TRANSACTIONS

The following are related party transactions.

The Senior Secured Convertible Notes, which have subsequently been repaid after the reporting period, were guaranteed by a related party. This guarantee was removed on the repayment date of 16 January 2018.

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 related parties as at 31 December 2017 were $183,311 (30 June 2017: $nil).

At 31 December 2017, there is $1.36 million (EUR 0.66 million and US$ 0.29 million) due to the previous shareholder of Trinity Group. This relates to a liability due to the previous shareholder of Trinity Group for their historical retained earnings declared as dividends, as agreed to between the respective parties in the Sale Agreement.

The liability due to previous shareholder of Mainstream Fund Services, Inc (formerly FundAdministration, Inc.) was $0.13 million as at 31 December 2017. This relates to a liability due to the previous shareholder of Mainstream Fund Services, Inc for their historical retained earnings as agreed to between the respective parties in the Sale Agreement.

ShareBPO Pty Ltd, a wholly owned subsidiary of the Group, provides share registry services to the Company.

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

NOTE 18. EVENTS AFTER THE REPORTING PERIOD

On 12 January 2018, the Company entered into an agreement with Australian and New Zealand Banking Group Limited (ANZ) to replace its existing $11 million Senior Secured Convertible Notes facility with a new three year $11 million debt facility. The interest on the new facility is charged at BBSY bid + 1.7% per annum compared to a fixed rate of 10.5% per annum on the existing facility. The new facility is expected to save the Company approximately $775,000 of interest expense per year.

On 20 February 2018, the Company announced a fully franked interim dividend of 0.5 cents per issued share for the half year ended 31 December 2017, payable on 26 March 2018 with a Record Date of 9 March 2018. The Board of Directors resolved that the Company's DRP would not be available for this dividend.

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 (formerly MainstreamBPO 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 2017 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 2017 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
Director
Date: 20 February 2018
Sydney

Building a better working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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 (formerly MainstreamBPO Limited) (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2017, 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 2017 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 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Rita Da Silva
Partner
Sydney
20 February 2018

CORPORATE INFORMATION

Directors

Byram Johnston OAM – Executive Chairman
Martin Smith – Chief Executive Officer
John Plummer – Non-Executive Director
Lucienne Layton – Non-Executive Director

Company Secretary
Alicia Gill

Registered Office
Level 1
51-57 Pitt Street
Sydney NSW 2000

Solicitors
Sekel Grinberg
Level 8, Currency House
23 Hunter Street
Sydney NSW 2000

Auditor
Ernst & Young
200 George Street
Sydney NSW 2000

Share Registry
ShareBPO Pty Limited
GPO Box 4968
Sydney NSW 2001

Securities Exchange Listing
Australian Securities Exchange
ASX code (ordinary shares): MAI

Website
www.mainstreamgroup.com

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