2018 annual report

MAINSTREAM GROUP HOLDINGS LIMITED
[FORMERLY MAINSTREAMBPO LIMITED]
AND ITS CONTROLLED ENTITIES
ABN 48 112 252 114

MAINSTREAM

who we are

Mainstream Group Holdings Limited (ASX: MAI) (formerly MainstreamBPO Limited) is a leading global fund administrator that is listed on the ASX.

As at June 2018 the Group provides administration services to 815 funds and more than 100,000 investors with assets under administration in excess of AUD $138 billion.

Formed in 2006, Mainstream now employs 245 people, with operations in Australia, Singapore, Hong Kong, the United States, the Isle of Man, Malta, Ireland and the Cayman Islands.

helping our clients

- Investment managers
- Hedge fund managers
- Private equity and venture capital fund managers
- Family offices
- Dealer groups
- Managed account providers

through our expertise

- Investment administration
- Fund accounting
- Unit registry (transfer agency)
- Middle office
- Corporate services
- Fund formation
- Platform services

in these regions

- Asia-Pacific
- Americas
- Europe

with our business model

- People
- Process
- Technology

chairman's report

"We offer cross-border solutions using consistent technology to enable our clients to operate efficiently in order to focus on growing their revenue and investment performance."

Byram Johnston OAM

On behalf of the Board we are pleased to deliver Mainstream Group Holdings Limited's Annual Report for the year ended 30 June 2018.

Over the last year we continued to make significant progress in our global fund administration business and delivering on our key strategic initiatives. These included building on our market leading position as a full service fund administrator in Australia, continued growth of our global fund administration business across Asia, Europe and the Americas, leveraging technology across the business and continuing to improve our margin.

In the three years since we listed on the ASX, we have grown our revenue by 284% and net profit after tax by 462%. These exceptional growth rates are underpinned by growth in our existing clients' funds under management, new client wins and integration of acquired businesses.

In Australia we are seeing significant ongoing demand for administration services to support managed investment schemes, individually managed accounts and superannuation.

$19 billion

annual inflows into funds under administration (FUA)

245 employees

343 clients

815+ funds administered

Globally, the market for fund administration services is also strong. This year over 25% of our revenue came from outside our traditional Asia-Pacific market, reflecting our growing global enterprise. Our international hedge fund administration businesses continued to experience significant growth and our recent move into private equity administration services in the US has been very successful.

While we are focused primarily on organic growth, we continue to evaluate a number of acquisition opportunities around the world to strengthen our market position.

Over the last year we completed two successful acquisitions which grew our Funds under Administration by 14%.

The acquisition of Trinity Fund Administration, completed on 30 September 2017, has provided the Group with established operations in Ireland and the Cayman Islands.

Our superannuation services business also expanded via the acquisition of IRESS' superannuation administration business. This transaction completed on 8 November 2017, doubling the number of our superannuation clients.

We now have a strong global leadership team in place under our Chief Executive Officer, Martin Smith. We employ 245 people across eight countries. We offer cross-border solutions using consistent technology to enable our clients to operate efficiently in order to focus on growing their revenue and investment performance.

Over the last year we invested heavily in technology resulting in improved automation levels while building out our global operating model and complying with the significant regulatory change taking place in all of the markets in which we operate. I am pleased that the investments we are making in technology are contributing to our continued margin improvement.

Over the last year we have added depth to our Board. During the year JoAnna Fisher was appointed as a Non-Executive Director. JoAnna has significant industry experience and chairs our newly formed Acquisitions Committee.

On 1 October 2018, I plan to step back from Executive Chairman to become Non-Executive Chairman. This will enable me to focus on group strategy. I will remain a significant shareholder in the Company and will Chair the Board of a number of the Group's wholly owned subsidiaries as well as my Group Chairman commitment. With my move to Non-Executive Chairman, the Board will consist of all Non-Executive Directors and the CEO.

The Board continues to see a positive outlook for Mainstream over the next year and beyond. We have the leadership, global services and technology in place to capitalise on opportunities the markets present us with. Our continued delivery of strong shareholder returns are front of mind for the Board and leadership team.

On 12 September 2018 we will pay a 1.0 cent per share, fully franked dividend. This will take our full-year dividend payout to 1.5 cents per share.

I thank my fellow directors, our CEO, our management team and all employees for their contributions during another strong year.

I look forward to meeting with shareholders at our Annual General Meeting.

Byram Johnston OAM
Executive Chairman

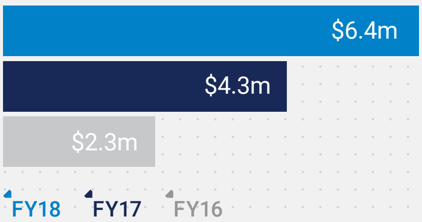
CEO's report

Mainstream Group Holdings Limited has delivered another strong year of financial and operational performance. We continue to make significant progress on the implementation of our growth strategy.

Over the past 12 months we have undertaken two major acquisitions in Ireland and the Cayman Islands and Australia, achieved significant growth and strengthened client relationships.

Our performance this year also reflected our commitment to achieving scale and efficiency, including the $8.2 million invested in technology, automation and processes to enhance our clients' experience.

EBITDA ^



FINANCIAL PERFORMANCE

In FY18 we continued our record of uninterrupted revenue and earnings growth since becoming an ASX listed company. We also achieved our objective of becoming a business with more than $40 million in annual turnover.

Revenue increased by 42% on the prior year to $41.8 million. Pleasingly, 64% of this increase was generated by organic growth.

EBITDA^ rose by 49% to $6.4 million during the period.

Profit before tax increased by 46% to $2.6 million. The Group's statutory net profit after tax grew by 22% to $1.7 million.

CONTINUED GROWTH

Funds under administration grew by $19 billion over the twelve month period to a total of $138 billion globally. The majority of this growth in funds came from inflows into our existing clients as well as new client wins.

Client numbers also grew over the period. The Group now administers 815 funds for 343 clients as at 30 June 2018 (up from 667 funds for 192 clients as at 30 June 2017).

Strategic goals

Mainstream has maintained focus on five drivers of growth:

1. Continued growth in our core business
2. Growth through product expertise
3. Cross-border opportunities
4. Leveraging technology
5. Improving our margin

1. Continued growth in core business

Over the past 12 months, 86% of our growth in Funds under Administration was organic. We continued to build our client base of investment managers, hedge fund managers, dealer groups and financial institutions. Our number of clients grew by 80% over the past year and 74% of annual inflows were from our 10 largest clients.

Some of our key clients launched high profile new products, particularly in the listed fund area, during FY18.

Mainstream provided administration services to the two largest listed investment vehicle transactions on the ASX in 2017 – MCP Master Income Trust (MXT) and Magellan Global Trust (MGG) – and overall our exchange-traded administration business grew by $3.1 billion last year.

These listings, which have collectively raised $2.4 billion to-date, had several structural innovations that made them attractive to investors. Mainstream's listed investment expertise meant the vehicles could be brought to market quickly and our clients could attract significant new assets under management.

2. Growth through product expertise

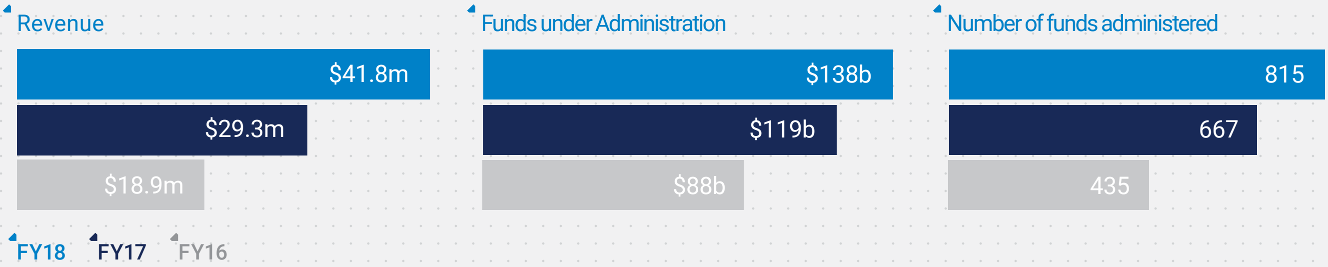
In order to keep pace with our changing industry, Mainstream needs to be agile in providing operational solutions to investment product innovation.

In the second half of the year we invested in building out our offering to private equity, venture capital and real estate funds in the US. As at 30 June 2018, our experienced management team has signed 17 new clients in this market, with a very strong pipeline into FY19. The demand reflects the trend for independence in private equity administration as well as increased regulation and oversight.

During the year Mainstream launched several fund platforms to enable our clients to have easy access to markets in which they may not have prior operational experience:

- Cayman Inception platform provides a 'one-stop' fund formation solution for managers wanting to launch a Cayman regulated fund.
- European fund platform, Mainstream UCITS ICAV, provides Australian and other fund managers a lower cost solution to distribute their funds in Europe.
- Superannuation trustee platform, acquired as part of the IRESS transaction, provides easy market entry for new superannuation funds.
- Looking ahead, we have announced the development of a Separately Managed Account (SMA) platform to supplement our existing tax, corporate action and reconciliation service for managed account service.

^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.



3. Cross-border opportunities

With the acquisition of Trinity Fund Administration in the key fund domiciles of Ireland and Cayman Islands, this was the first year of our truly global operating model. Mainstream now has offices in eight countries, offering global fund services under the one 'Mainstream' brand.

We also started to see benefits from our investment in international expansion in prior years, including the impact of a full year of contribution from those acquired businesses. In response there are promising signs of cross-selling to our existing clients between geographies as well as new client wins. Our Cayman business has seen a 60% increase in funds administered since joining the Group in October 2017.

4. Leveraging technology

Mainstream spent $8.2 million on technology, automation and processes to enhance client experience to drive scale, efficiency and improved client service. This included $5.8 million on IT expenditure, $1.8 million on IT capitalisation and $0.6 million on investment in a major key client project. The resulting improved levels of automation, system integration and process documentation, including an upgraded web portal, are then to be rolled out across our broader Australian client base in FY19.

Overall our level of automation in our Unit Registry business grew from 43% to 56%, alongside implementation of our workflow solution and online application functionality.

We also invested heavily in becoming fully compliant with Attribution Managed Investment Trust (AMIT) legislation, the Notifiable Data Breaches scheme (NDBS) and the General Data Protection Regulation (GDPR) during the year.

5. Improving our margin

During the reporting period we saw a 4.8% increase in EBITDA margin. This was again driven by an increase in offshore revenue, where we tend to see higher margins, and by continued investment in scale and automation.

In the second half of the year, our margin was impacted slightly by investments in the US Private Equity business and execution of several projects in the Australian business including compliance with the new AMIT regime.

OUR PEOPLE

Across our operations, we continue to put our clients first. Understanding and anticipating the needs of our clients is key to building and retaining long-term relationships.

I would like to thank our entire team for their dedication and professionalism in serving our clients during a period of high growth and international expansion across our organisation.

Over the past year our employee numbers grew from 180 people in six countries to 245 people in eight countries. We continued to see good diversity across our business, and I am pleased to see 43% female representation across our workforce. At the same time, the proportion of women in the senior leadership team grew to 44% and the proportion of women on the Board increased to 40%.

We will continue our focus on positive culture, engagement and quality across our organisation into the new financial year.

OUTLOOK

As our industry continues to evolve, we believe Mainstream has an important role to play in supporting and streamlining our clients' operations.

Mainstream is well positioned to continue delivering solid results alongside investment in automation and global service delivery for our clients.

I am pleased to reiterate our strong outlook for Mainstream into next financial year and beyond.

Martin Smith
Chief Executive Officer

our international locations

global presence

Our International Locations

New York
Cayman Islands
Dublin
Isle of Man
Malta
Singapore
Hong Kong
Sydney
Melbourne

Local expertise, global reach

Mainstream is a global business that operates in international finance centres, serving investment managers and alternatives (hedge, private equity, venture capital and real estate), superannuation trustees, dealer groups and family offices.

Directors' Report

The Directors of Mainstream Group Holdings Limited (the "Company" or "Mainstream Group") (formerly MainstreamBPO Limited) present their report, together with the financial report of the Company and its controlled entities (the "Group"), for the year ended 30 June 2018.

Directors

The names and details of the Company's Directors in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Name of Directors	Qualifications, experience and special responsibilities
 **Byram Johnston OAM** Executive Chairman, Mainstream Group	Byram is a founder and Director of Mainstream Group. Prior to establishing Mainstream Group, Byram was the managing partner for international consulting firms and outsourcing organisations including Arthur Andersen, Andersen Consulting, AT Kearney, PA Consulting, The IQ Business Group and FinancialBPO. He has a wealth of experience in business strategy, operating models and business process solutions. This has allowed him in more recent times to focus on the design, implementation and management of business process outsource solutions. Byram has previously been Chairman of a number of ASX listed companies. He was the Chairman of the Audit Committee of ASIC. He holds a Bachelor of Economics and is CA qualified. He was President of the Institute of Chartered Accountants in 1995-96. Byram was awarded an Order of Australia Medal in 2005. Byram is a member of the Audit and Risk Committee, the Remuneration and Nominations Committee and the Acquisitions Committee.
 **Martin Smith** Chief Executive Officer, Mainstream Group	Martin is a founder, CEO and Director of Mainstream Group. Martin is responsible for the Group's global operations. Martin is a responsible manager on the Mainstream Fund Services (formerly FundBPO) licence in Australia. Martin has worked in the fund services sector for over 15 years and brings a wealth of process, technology and client service experience to the company. Prior to Mainstream Group Martin worked for FinancialBPO, The IQ Business Group and Andersen Consulting designing, implementing and managing outsourcing/shared services arrangements across a range of industries including Financial Services, Government, Health, Real Estate, Logistics and Information Technology. Martin holds a Bachelor of Business, Masters of Commerce, is a CPA and is RG 146 compliant. Martin is a member of the Acquisitions Committee.
 **John Plummer** Non-Executive Director	John joined the Mainstream Group Board on 1 July 2015. John's professional experience includes more than 30 years of strategy, outsourcing, investment and business leadership experience. John held executive and non-executive roles with Chandler Macleod Ltd, retiring as Deputy Chairman following the acquisition of the company by overseas interests. He has previously served on the boards of listed investment companies and Industry Super Funds. He sits on the boards of several private companies in recruitment, technology and investment markets. John is a past National President and life member of the Recruitment and Consulting Services Association and a Fellow of the Governance Institute of Australia. He holds a Bachelor of Commerce (Marketing) from the University of New South Wales and a Masters of Business Administration from Macquarie University. John is the Chair of the Remuneration and Nominations Committee and member of the Audit and Risk Committee.
 **Lucienne Layton** Non-Executive Director	Lucienne joined the Mainstream Group Board on 13 July 2015. Lucienne's professional experience includes more than 25 years of experience in financial services covering a range of corporate roles including Chief Risk and Compliance Officer and General Counsel. As an executive she has provided leadership for three major acquisitions and mergers and has led significant change and transformation programs. Lucienne is currently Chief Risk Officer at a wealth advisory organisation and has held roles including Executive General Manager of Corporate Services at Superpartners, Transformation Director, Risk and Control Frameworks at Westpac, Partner of Risk Advisory at PwC and a Senior Executive at ASIC with responsibility for consumer protection. Lucienne is a graduate member of the Australian Institute of Company Directors and has been a Board Member and Member of Board Committees in the Industry Association and Not for Profit spaces over a number of years. Lucienne holds a Bachelor of Commerce and a Bachelor of Laws from the University of New South Wales, a Master of Laws from the University of Sydney, and an MBA (Executive) and a Graduate Diploma in Change Management from the Australian Graduate School of Management. Lucienne is the Chair of the Audit and Risk Committee and member of the Remuneration and Nominations Committee.
 **JoAnna Fisher** Non-Executive Director	JoAnna joined the Mainstream Group Board on 1 May 2018. JoAnna has more than 20 years of senior management experience in funds management, capital markets and wholesale banking both in Australia and overseas. Her commercial experience includes serving as General Manager of Corporate Bank at Commonwealth Bank and Senior Vice President at Bankers Trust in Japan, New York and Sydney. JoAnna is currently Non-Executive Chair and Director of Morphic Ethical Equity Fund. She has been a member of the Australian Catholic Superannuation and Retirement Fund's Investment Committee since 2014, and a member of the Finance and Risk Management Committee at the Australian Chamber Orchestra since 2013. She also served as Non-Executive Director Quantum Funds Management from 2006 to 2018. JoAnna holds a Bachelor of Economics (Accounting) and Bachelor of Arts (Asian Studies) from the Australian National University and is a graduated member of the Australian Institute of Company Directors. JoAnna is the Chair of the Acquisitions Committee.

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).

Board Committees

To assist it in undertaking its duties, the Board has established the following standing committees:

> the Audit and Risk Committee;

> the Remuneration and Nominations Committee; and

> the Acquisitions Committee.

Each committee has its own charter, copies of which are available on the Company website. The charters specify the objectives, responsibilities, duties, composition, reporting obligations, meeting arrangements, authority and resources available to the committees and the provisions for review of the charter. Details of Directors' membership of each committee and those eligible members' attendance at meetings throughout the period from 1 July 2017 to 30 June 2018 are set out below.

Company Secretary

Alicia Gill was appointed Company Secretary on 1 May 2017. Alicia has over 15 years of financial services experience gained from working for both boutiques and large global institutions such as Nomura Securities and Macquarie Bank. Alicia holds a Bachelor of Business from the University of Technology, Sydney, with majors in finance and marketing.

Directors' Meetings

The number of meetings of the Board and Board Committees held during the year ended 30 June 2018 and the number of those meetings attended by each Director is set out below:

	Board		Audit and Risk Committee		Remuneration and Nominations Committee		Acquisitions Committee [1]	
Director	Held while a Director	Attended	Held while a member	Attended	Held while a member	Attended	Held while a member	Attended
Byram Johnston	9	9	4	4	2	2	1	1
Martin Smith	9	9	—	—	—	—	1	1
Michael Houlihan [2]	4	4	—	—	—	—	—	—
John Plummer	9	8	4	4	2	2	—	—
Lucienne Layton	9	9	4	4	2	2	—	—
JoAnna Fisher [3]	2	2	—	—	—	—	1	1

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the Directors in the shares of Mainstream Group Holdings Limited were:

Director	Direct Shares	Indirect Shares [4]	ESP Performance Rights [5]	Total
Byram Johnston	335,960	20,322,956	650,000	21,308,916
Martin Smith	433,510	22,033,244	833,334	23,300,088
Michael Houlihan	136,666	172,600	500,000	809,266
John Plummer	12,197,867	—	—	12,197,867
Lucienne Layton	—	—	—	—
JoAnna Fisher	—	—	—	—
Total	**13,104,003**	**42,528,800**	**1,983,334**	**57,616,137**

1. Committee formed 7 June 2018.
2. Michael Houlihan resigned as Director of the Company effective 30 November 2017.
3. JoAnna Fisher was appointed as a Non-Executive Director effective 1 May 2018.
4. Indirect shares include Director related entities.
5. Represents the total amount of ESP Performance Rights that could be granted for Performance Year 2018. The number of shares that may be expected to vest per the Remuneration Report, could be less than the amounts stated above.

Directors' Report continued

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") which resulted in the issuance of an additional 1,209,141 fully paid ordinary shares.

On 20 February 2018, the Company announced a fully franked interim dividend of 0.50 cents (2017: 0.50 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.

Subsequent to the end of the financial year, the Company announced on 21 August 2018 a fully franked final dividend of 1.0 cent per issued share for the financial year ended 30 June 2018, payable on 12 September 2018. The Board of Directors also resolved to offer all Shareholders the right to participate in the Company's DRP in respect to this dividend, with the DRP to operate at a 5% discount. A copy of the DRP is available on the Company's website.

Principal activities

The Group provides global outsourced fund administration services to a range of wealth management sector participants. Its clients are all manufacturers or distributors of investment products. They include investment managers, superannuation trustees, listed companies, family offices and dealer groups. The Group has operations in the following regions:

> Asia-Pacific (Australia, Hong Kong and Singapore);

> Americas (USA and Cayman Islands); and

> Europe (Ireland, Malta and the Isle of Man).

No significant change in the nature of these activities has taken place during the year other than the expansion of the Group's existing fund services into Ireland and Cayman Islands.

Review of financial results and operations

The total comprehensive income net of tax increased by 55% to $2,146,154 (2017: $1,383,545). The profit for the Group after income tax increased by 22% to $1,739,070 (2017: $1,424,794). Total revenue increased 42% to $41,776,652 (2017: $29,332,391).

The Group is in a strong financial position with a solid balance sheet and at 30 June 2018 reported $4,930,872 of cash and cash equivalents (2017: $6,422,063) and Net Assets of $25,387,080 (2017: $18,751,483).

Refer to the Chairman's Report and the CEO's Report for further information, including details on the Group's strategy and future outlook.

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' (ASX: IRE) superannuation administration business. The transaction was completed on 8 November 2017. Refer to Note 11 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 15 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 and Trinity's founder John McCann was appointed CEO of Europe and Cayman for the Group. Refer to Note 11 for further details. The entities acquired were subsequently re-named Mainstream Fund Services (Ireland) Limited and Mainstream Fund Services (Cayman) Limited respectively.

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

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.

On 1 January 2018, the Group appointed Jay Maker as CEO of Private Equity to manage Mainstream's growing administration practice for closed-end funds invested in private equity, venture capital or real estate.

On 17 January 2018, the Company announced the completion of the refinancing of its existing debt facility via execution of a new $11 million debt facility with Australia and New Zealand Banking Group Limited ("ANZ"). The existing $11 million Senior Secured Convertible Notes arranged by Mason Stevens Asset Management Pty Ltd was repaid. The new facility is estimated to save the Company approximately $775,000 of interest expense per year when fully drawn.

On 10 April 2018, the Group announced the hiring of Andy Harrison as Chief Executive Officer of Mainstream Fund Services, Australia. Andy is expected to join the Group in October 2018. The current CEO of Mainstream Fund Services Australia, Nick Happell, will be promoted to Chief Executive Officer of Asia-Pacific at that time.

On 1 May 2018, the Company appointed JoAnna Fisher to the Board.

Other than the above, there were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

On 21 August 2018 the Board of Directors declared a fully franked final dividend of 1.0 cent per issued share for the financial year ended 30 June 2018, payable on 12 September 2018. The Board of Directors also resolved to offer all Shareholders the right to participate in the Company's DRP in respect to this dividend, with the DRP to operate at a 5% discount. A copy of the DRP is available on the Company's website.

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.

Likely developments and expected results of operations

The Group will continue to pursue its financial objectives including increasing its profitability over time by increasing the performance of its existing business lines and also through its expansion strategy. Additional comments on expected results of operations of the Group are included in this report under the review of operations section above and also in the Chairman's Report and the CEO's Report.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Shares under option

No options over issued shares or interests in the Company were granted during or since the end of the current and prior reporting periods and there were no options outstanding at the date of this report.

Indemnity and insurance of officers

In accordance with its Constitution, and where permitted under relevant legislation or regulation, the Company indemnifies the Directors and officers against all liabilities to another person that may arise from their position as Directors or officers of the Company, except where the liability arises out of conduct involving lack of good faith, wilful misconduct, gross negligence, reckless misbehaviour or fraud.

In accordance with the provisions of the *Corporations Act 2001*, the Company has insured the Directors and officers against liabilities incurred in their role as Directors and officers of the Company. The terms of the insurance policy, including the premium are subject to confidentiality clauses and as such the Company is prohibited from disclosing the nature of the liabilities covered and the premium.

Auditor

Ernst & Young continues in office in accordance with section 327 of the *Corporation Act 2001*.

Non-audit Services

During the year, Ernst & Young, the Group's auditor, has performed other services in addition to its statutory duties. Details of the amounts paid or payable to the auditor are set out in note 26 to the financial report.

The Directors are satisfied that the provision of those non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the Auditor did not compromise the Auditor independence requirements of the *Corporations Act 2001* for the following reasons:

> all non-audit services have been reviewed by the Audit and Risk Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and

> none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

Auditor Indemnification

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit. No payment has been made to indemnify Ernst & Young during or since the financial year.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

2018 Remuneration Report (Audited)

This Remuneration Report outlines the remuneration arrangements of the Group for the year ended 30 June 2018. It details the remuneration arrangements for Key Management Personnel ("KMP") of the Group who are defined as those persons having authority and responsibility for planning, directing and controlling activities of Mainstream Group Holdings Limited.

The KMP for the Group for the year ended 30 June 2018 included the Executive Directors, key Executives and the Non-Executive Directors ("NEDs") as set out below:

Name	Position	Term as KMP
Executive Directors		
Byram Johnston	Executive Chairman	Full Year
Martin Smith	CEO, Mainstream Group Holdings Limited and Asia-Pacific	Full Year
Executives		
Denise DePaola	CEO, Americas	Full Year
John McCann [1]	CEO, Europe and Cayman	Part Year
Michael Houlihan [2]	CEO, Superannuation Services	Full Year
Non-Executive Directors		
John Plummer	Non-Executive Director	Full Year
Lucienne Layton	Non-Executive Director	Full Year
JoAnna Fisher [3]	Non-Executive Director	Part Year

The remuneration report forms part of the Directors' Report and has been prepared and audited against the disclosure requirements of Section 300A of the *Corporations Act 2001*.

1. REMUNERATION PHILOSOPHY

The Group's remuneration philosophy is designed to attract, retain and motivate employees and ensure alignment of shareholder interests and business strategy. Broadly remuneration is structured in the Group with the following components:

> fixed remuneration including superannuation which is reviewed annually against market movements, performance and peer relativity;

> a variable short term incentive ("STI") which is discretionary and generally rewarded through share-based grants for individuals incumbent in key business roles and is based on achievement of performance conditions that are aligned to business outcomes;

> a long term incentive ("LTI") to key executives and senior managers which is discretionary and rewarded through a share-based grant for individuals who are critical to the long term success of the business.

The Company operates its annual performance cycle from 1 October to 30 September, with the twelve month period known as a Performance Year ("PY").

2. EMPLOYEE OWNED COMPANY PHILOSOPHY

The Directors hold a shared view and desire to be an employee owned Company and that all employees have the opportunity to share in the success of the business. The Company does this through its Employee Share Plan ("ESP") that is reviewed and agreed by the Board each year to invite eligible employees to participate in the offer to be shareholders.

3. DIRECTORS' REMUNERATION

The Remuneration and Nominations Committee reviews Directors' remuneration annually against market information and comparable companies and may also utilise the services of external advisers. The Committee's recommendations are submitted for approval by the Board.

The annual aggregate of Directors' fees in relation to their duties as a Director is currently capped at $500,000. The Board will not seek an increase to the aggregate Directors' fee pool limit at the 2018 AGM.

1. John McCann assumed the role of CEO, Europe and Cayman on 30 September 2017.
2. Michael Houlihan resigned as Executive Director of the Company effective 30 November 2017 however continues in his role as Chief Executive Officer of Mainstream Superannuation Services (formerly SuperBPO).
3. JoAnna Fisher appointed as independent Non-Executive Director to the Board effective 1 May 2018.

The table below summarises the Board and Committee fees payable to Directors for the performance year 2018 and planned fees for the performance year 2019:

Role	2018	2019
Chairman	$180,000	$240,000 [1]
Executive Director	$60,000	N/A [2]
Non-Executive Director	$50,000	$50,000
Chair, Remuneration and Nominations Committee	$10,000	$10,000
Chair, Audit and Risk Committee	$20,000	$30,000
Chair, Acquisitions Committee	$10,000	$10,000

4. EXECUTIVE DIRECTOR PERFORMANCE AND REMUNERATION OUTCOMES

4.1. Director Share Offer ("DSO") overview

The Executive Directors of the Company are participants of the Company's DSO which provides Performance Rights ("PR") that entitle the holder to be issued one share for each Performance Right at no cost should the agreed vesting conditions be met. The vesting conditions are designed to align remuneration with creation of shareholders' value over the longer term. Each offer vests over a three year period in three equal tranches.

The Board proposes to discontinue new invitations to participate in the DSO for future performance years.

4.2. DSO outcome for Performance Year ("PY") 2016

The vesting conditions for DSO PY16 are based on the Mainstream Group share price on the ASX, measured by reference to the volume weighted average price ("VWAP") of Mainstream Group's shares on ASX for the 5 trading days immediately prior to the Vesting Measurement Date.

In accordance with the 2016 Annual Report, the vesting conditions are summarised in the table below.

Tranche	Vesting Measurement date	Performance hurdle – MAI share price on ASX at vesting measurement date	% of PRs that vest upon achieving vesting performance hurdle
Tranche 3	1 October 2018	Less than Closing Price of 1 October 2017	Nil%
		Share price equal to Closing Price of 1 October 2017 up to Closing Price plus $0.10	50%
		Share price greater than Closing Price of 1 October 2017 plus $0.10	100%

4.3. DSO outcome for Performance Year ("PY") 2017

The vesting conditions for DSO PY17 are based on Mainstream Group's Earnings Per Share ("EPS") against target and at vesting will be measured by reference to the volume weighted average price ("VWAP") of Mainstream Group's shares on ASX for the 5 trading days immediately prior to the Vesting Measurement Date.

In accordance with the 2016 Annual Report, the vesting conditions are summarised in the table below.

Tranche	Vesting Measurement date	Performance hurdle – MAI Earnings Per Share ("EPS") at vesting measurement date	% of PRs that vest upon achieving vesting performance hurdle
Tranche 2	1 October 2018	Less than EPS as per FY18 EPS target	Nil%
		EPS equal to or greater than FY18 target up to plus 10%	50%
		Greater than FY18 EPS target plus 10%	100%

1. Byram Johnston intends to move from Executive to Non-Executive Chairman on 1 October 2018.
2. Executive Directors no longer to receive director fees to align with industry best practice.

2018 Remuneration Report (Audited) continued

4. EXECUTIVE DIRECTOR PERFORMANCE AND REMUNERATION OUTCOMES continued

4.4. DSO plan for Performance Year ("PY") 2018

The vesting conditions for DSO PY18 are based on Mainstream Group's Earnings Per Share ("EPS") against target.

In accordance with the 2017 Annual Report and the measure of Mainstream Group's EPS against target as at 30 June 2018, the vesting conditions are summarisied in the table below.

Tranche	Vesting Measurement date	Performance hurdle – MAI Earnings Per Share ("EPS") at vesting measurement date	% of PRs that vest upon achieving vesting performance hurdle
Tranche 1	1 October 2018	Less than FY18 EPS target	Nil%
		EPS equal to or greater than FY18 target up to plus 10%	50%
		Greater than FY18 EPS target plus 10%	100%

Performance Rights Vesting Schedule for DSO PY16, PY17, PY18

The table below shows potential vesting of Performance Rights.

Director	Performance Year ("PY")	Performance Rights Vesting Schedule for DSO at Vesting Measurement Date: 1 Oct 2018	1 Oct 2019	1 Oct 2020	Total
Byram Johnston	DSO PY16	80,000	–	–	80,000
	DSO PY17	–	80,000	–	80,000
	DSO PY18	–	80,000	80,000	160,000
Martin Smith	DSO PY16	33,334	–	–	33,334
	DSO PY17	–	33,334	–	33,334
	DSO PY18	–	33,333	33,334	66,667
Michael Houlihan	DSO PY16	33,334	–	–	33,334
	DSO PY17	–	33,334	–	33,334

4.5. Senior Management Share Offer ("SMSO") overview

The Executive Directors participate in the SMSO which provides Performance Rights that entitle the holder to be issued one share for each Performance Right at no cost should the agreed performance conditions be met. A combination of financial and non-financial measures are used to measure performance under the SMSO. The agreed performance conditions for PY 2018 for Executive Directors focused on achievement of Company and subsidiary revenue and earnings for FY18, customer satisfaction and retention, implementation of acquisitions and client transitions, prudential compliance and risk management, and employee engagement.

The Board proposes to replace the SMSO for future performance years as part of a streamlining of its Employee Share Plan, subject to shareholder approval.

4.6. SMSO outcomes for Performance Year ("PY") 2018

As the Company operates its annual performance cycle from 1 October to 30 September, the performance outcome for each Executive Director has not been finalised as at the date of this report. However, in the interests of shareholder transparency, the expected performance outcomes for each of the Executive Directors have been outlined in the table below. The Board assessed all available information in order to determine an appropriate performance percentage (%) against agreed performance conditions. Actual payments will be stated in the remuneration report in 2019.

SMSO	Performance Rights to be issued for 2018 Performance Year (PY 2018): Tranche 1 1 Oct 2018	Tranche 2 1 Oct 2019[1]	Tranche 3 1 Oct 2020[1]	Total
Byram Johnston	37,500	37,500	37,500	112,500
Martin Smith	113,333	113,333	113,334	340,000
Michael Houlihan	12,000	12,000	12,000	36,000
Total	**162,833**	**162,833**	**162,834**	**488,500**

1. The Board proposes to rename the SMSO as the Long Term Incentive (LTI) plan for PY19 onwards in order to broaden participation beyond Executive Directors to other senior management.

5. DETAILS OF REMUNERATION

The total amount paid to KMP of the Company for year ended 30 June 2018 is detailed below:

Remuneration expense during the year ended 30 June 2018

	Short term benefits			Long-term benefits	Share-based payments	
	Salary and fees $	Other Benefits [1] $	Super-annuation (or equivalent) $	Long Service Leave $	Incentive [2] $	Total Remuneration $
Non-Executive Directors						
John Plummer	54,795	–	5,205	–	–	60,000
Lucienne Layton	61,644	–	5,856	–	–	67,500
JoAnna Fisher	9,132		868			10,000
Executive Directors						
Byram Johnston	355,149	–	16,725	–	141,250	513,124
Martin Smith	445,206	–	20,049	–	173,266	638,521
Executives						
Denise DePaola	415,861	–	12,181	–	175,949	603,991
John McCann	325,922	–	16,296	–	–	342,218
Michael Houlihan	296,474	–	20,049	–	60,266	376,789
Total KMP	**1,964,183**	**–**	**97,229**	**–**	**550,731**	**2,612,143**

Remuneration expense paid during the year ended 30 June 2017

	Short term benefits			Long-term benefits	Share-based payments	
	Salary and fees $	Other Benefits [1] $	Super-annuation (or equivalent) $	Long Service Leave $	Incentive $	Total Remuneration $
Non-Executive Directors						
John Plummer	52,511	–	4,989	–	–	57,500
Lucienne Layton	52,511	–	4,989	–	–	57,500
Executive Directors						
Byram Johnston	373,093	–	21,906	–	91,250	486,249
Martin Smith	399,543	–	37,957	–	111,933	549,433
Michael Houlihan	323,976	–	26,028	–	38,933	388,937
Total KMP	**1,201,634**	**–**	**95,869**	**–**	**242,116**	**1,539,619**

1. Other benefits may include non-cash items such as motor vehicle and mobile phone allowances.
2. No incentives have been paid as at 30 June 2018. The amounts shown represent the value of shares issued to Byram Johnston, Martin Smith and Michael Houlihan under the DSO and SMSO during FY18. They received 250,000, 306,666 and 106,666 shares respectively.

2018 Remuneration Report (Audited) continued

6. EMPLOYMENT AGREEMENTS

The terms and conditions of employment, including remuneration arrangements, are formalised in employment agreements. The following outlines the details of contracts with senior management:

Employment provisions

Name	Position	Resignation notice period	Termination for cause	Termination without cause	Restraint on soliciting employees and clients	Restraint on non-compete	Termination Payments
Byram Johnston	Executive Chairman	3 months	None	3 months	12 months	12 months	Nil
Martin Smith	CEO, Mainstream Group	3 months	None	3 months	12 months	12 months	Nil
Denise DePaola	CEO, Americas	6 months	None	6 months	12 months	12 months	Nil
John McCann	CEO, Europe and Cayman	3 months	None	3 months	12 months	12 months	Nil
Michael Houlihan	CEO, Superannuation Services	3 months	None	3 months	12 months	12 months	Nil

7. SERVICE AGREEMENTS

The terms and conditions of Non-Executive Director appointments, including remuneration arrangements, are formalised in service agreements. The following outlines the details of service agreements with Non-Executive Directors:

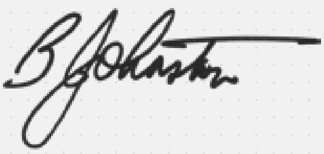
Service agreements

Name	Position	Term of appointment	Termination notice period
John Plummer	Non-Executive Director	3 years	4 weeks
Lucienne Layton	Non-Executive Director	3 years	4 weeks
JoAnna Fisher	Non-Executive Director	3 years	4 weeks

8. DIRECTORS' SHAREHOLDINGS

The number of direct and indirect shares held during the year to 30 June 2018 by each KMP is set out on page 9 of the Directors' Report.

Signed in accordance with a resolution of the Directors:



Byram Johnston OAM
Executive Chairman

Date: 21 August 2018
Sydney

Auditor's Independence Declaration

Building a better working world

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

As lead auditor for the audit of Mainstream Group Holdings Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Rita Da Silva

Rita Da Silva
Partner
21 August 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

	Note	Consolidated 2018 $	Consolidated 2017 $
Revenue			
Fee income		38,528,655	27,619,571
Other operating income		2,386,055	1,640,291
Interest income		861,942	72,529
Total revenue		**41,776,652**	**29,332,391**
Expenses			
Employee benefits expense		23,801,841	16,594,515
Share-based payments expense	5	1,309,747	750,694
Accounting and audit fees		875,027	630,933
Amortisation and depreciation expense		1,472,932	998,443
Bank fees and charges		217,899	109,941
Insurance		481,246	260,218
Interest expense		934,825	695,979
IT support and expenses		5,760,263	4,338,076
Legal fees		122,763	89,371
Occupancy		2,783,628	2,063,631
Acquisition costs		206,843	253,893
General and other expenses		1,173,054	735,021
Total expenses		**39,140,068**	**27,520,715**
Profit before income tax expense		**2,636,584**	**1,811,676**
Income tax expense	6	897,514	386,882
Profit after income tax expense for the year		**1,739,070**	**1,424,794**
Other comprehensive income			
Exchange differences on translation of foreign subsidiaries		407,084	(41,249)
Other comprehensive income for the year, net of tax		**407,084**	**(41,249)**
Total comprehensive income for the year		**2,146,154**	**1,383,545**
Earnings per share ("EPS")			
Basic earnings per share	4	$0.0163	$0.0159
Diluted earnings per share	4	$0.0156	$0.0157

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 30 June 2018

	Note	2018 $	2017 $
Assets			
Current Assets			
Cash and cash equivalents	7	4,930,872	6,422,063
Trade and other receivables	8	6,105,158	4,899,442
Other current assets	9	1,996,348	1,354,128
Total Current Assets		**13,032,378**	**12,675,633**
Non-Current Assets			
Property, plant and equipment	10	4,395,799	2,317,337
Intangible assets	11	26,501,809	18,122,482
Total Non-Current Assets		**30,897,608**	**20,439,819**
Total Assets		**43,929,986**	**33,115,452**
Liabilities			
Trade creditors and accrued expenses	12	2,865,010	2,385,787
Provision for employee benefits	13	921,317	736,174
Provision for income tax		457,130	523,340
Deferred consideration	14	743,006	387,990
Interest-bearing liabilities	15	2,000,000	—
Other current liabilities	16	2,406,397	912,292
Total Current Liabilities		**9,392,860**	**4,945,583**
Non-Current Liabilities			
Interest-bearing liabilities	15	6,721,499	8,747,793
Provision for employee benefits	13	81,751	138,915
Net deferred tax liabilities	6	1,178,122	531,678
Deferred consideration	14	1,168,674	—
Total Non-Current Liabilities		**9,150,046**	**9,418,386**
Total Liabilities		**18,542,906**	**14,363,969**
Net Assets		**25,387,080**	**18,751,483**
Equity			
Contributed capital	18	21,362,244	16,260,043
Reserves	19	1,979,755	827,117
Retained earnings		2,045,081	1,664,323
Total Equity		**25,387,080**	**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 year ended 30 June 2018

Consolidated	Contributed Capital $	Reserves $	Retained Earnings $	Total Equity $
Balance at 1 July 2016	**8,902,554**	**359,788**	**1,583,292**	**10,845,634**
Profit after income tax expense	–	–	1,424,794	1,424,794
Other comprehensive income, net of tax	–	(41,249)	–	(41,249)
Total comprehensive income, net of tax	**–**	**(41,249)**	**1,424,794**	**1,383,545**
Transactions with owners in their capacity as owners:				
Dividends paid	–	–	(1,343,763)	(1,343,763)
Dividends reinvested	768,254	–	–	768,254
Shares issued for acquisitions	6,347,119	–	–	6,347,119
Shares issued under Employee Share Plans	242,116	(242,116)	–	–
Share-based payments	–	750,694	–	750,694
Balance at 30 June 2017	**16,260,043**	**827,117**	**1,664,323**	**18,751,483**
Balance at 1 July 2017	**16,260,043**	**827,117**	**1,664,323**	**18,751,483**
Profit after income tax expense	–	–	1,739,070	1,739,070
Other comprehensive income, net of tax	–	407,084	–	407,084
Total comprehensive income, net of tax	**–**	**407,084**	**1,739,070**	**2,146,154**
Transactions with owners in their capacity as owners:				
Dividends paid	–	–	(1,358,312)	(1,358,312)
Dividends reinvested	565,268	–	–	565,268
Shares issued under Entitlement Offer	4,116,829	–	–	4,116,829
Transaction costs, net of tax	(144,089)	–	–	(144,089)
Shares issued under Employee Share Plans	564,193	(564,193)	–	–
Share-based payments	–	1,309,747	–	1,309,747
Balance at 30 June 2018	**21,362,244**	**1,979,755**	**2,045,081**	**25,387,080**

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2018

	Note	Consolidated 2018 $	Consolidated 2017 $
Cash flows from operating activities			
Income received		39,708,993	26,979,032
Operating expenses paid		(35,054,013)	(24,108,632)
Interest received		861,942	72,529
Interest paid		(927,382)	(455,096)
Income tax paid		(783,329)	(308,305)
Net cash inflow from operating activities	**7(b)**	**3,806,211**	**2,179,528**
Cash flows from investing activities			
Purchase of capitalised software & equipment	10	(2,894,170)	(1,982,681)
Payments for acquisitions, net of cash received	11	(1,606,328)	(6,186,836)
Purchase of intangible assets		(3,708,868)	(289,748)
Net cash outflow from investing activities		**(8,209,366)**	**(8,459,265)**
Cash flows from financing activities			
Shares issued		4,116,829	3,327,346
Transaction costs paid		(205,841)	(166,367)
Proceeds from interest bearing liabilities, net of fees		12,608,337	8,747,793
Repayment of interest bearing liabilities		(12,814,318)	—
Dividends paid		(793,043)	(575,508)
Net cash inflow from financing activities		**2,911,964**	**11,333,264**
Net (decrease)/increase in cash and cash equivalents during the year		(1,491,191)	5,053,527
Cash at the beginning of the year		6,422,063	1,368,536
Cash at the end of the year	**7(a)**	**4,930,872**	**6,422,063**

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

The consolidated financial statements of Mainstream Group Holdings Limited (formerly MainstreamBPO Limited) and its subsidiaries (collectively, "the Group") for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 21 August 2018.

Mainstream Group Holdings Limited ("Mainstream", "the Company" or "the Parent") is a for-profit company limited by shares incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange ("ASX"). The Group's principal place of business is Level 1, 51-57 Pitt Street, Sydney NSW 2000.

Further information on the nature of the operations and principal activities of the Group is provided in the Directors' Report.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards including other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The financial report has been prepared on a historical cost basis unless stated otherwise and is presented in Australian dollars.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The accounting policies adopted are consistent with those of the previous financial reporting period, except where otherwise stated.

b) New, revised or amending accounting standards and interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the AASB that are mandatory for the current reporting period. None of the standards and amendments which became mandatory for the first time in the current reporting period resulted in any adjustments to the amounts recognised in the financial statements or disclosures.

c) Accounting standards and interpretations issued but not yet effective

The Australian and International Accounting Standards issued but not yet mandatory for the 30 June 2018 reporting period are disclosed below. The Group intends to adopt these standards, as applicable, when they become effective.

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 detailed analysis and does not anticipate the application of this standard to be material.

AASB 9 Financial Instruments

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and liabilities, introduces 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. AASB 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group has performed its assessment and does not expect any 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. The standard includes two recognition exemptions for lessees – leases of low-value assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). 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 will continue to assess the potential effect of AASB 16 on its consolidated financial statements.

d) Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 27.

e) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Mainstream Group as at 30 June 2018 and the results of all subsidiaries for the year then ended. Mainstream Group and its subsidiaries together are referred to in these financial statements as the 'Group'.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

> Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)

> Exposure, or rights, to variable returns from its involvement with the investee

> The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

> The contractual arrangement(s) with the other vote holders of the investee

> Rights arising from other contractual arrangements

> The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the shareholders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

f) Foreign currency translation

The financial report is presented in Australian dollars, which is Mainstream's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

On consolidation, the assets and liabilities of foreign entities whose functional currency differs from the presentation currency are translated into Australian dollars at the rate of exchange at the balance sheet date. Differences arising on the translation are recognised to foreign currency translation reserve.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency translation reserve in equity.

The foreign currency translation reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

g) Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Fee income

Fee income arises from providing fund administration services, which are typically based on funds under management, the number of transactions processed and number of investors or members. Fee income is recognised when it is received or when the right to receive payment is established.

Interest

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

Other revenue

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

h) Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

> When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or

> When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Mainstream Group and its wholly-owned Australian controlled entities have formed an income tax consolidated group under the tax consolidation regime. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding arrangements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

The unused tax losses and unused tax credits arising from the overseas companies have not been recognised as a current tax asset.

i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

j) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

k) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Office Equipment – 2 to 5 years

Computer Equipment – 2 to 5 years

Software – 2 to 10 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 2-10 years.

l) Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. Loans and receivables are the main category of financial assets. Such assets are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

m) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

n) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

o) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. The assessment of the indefinite life is conducted in accordance with the criteria set forth in AASB 138 *Intangible Assets*. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period. The useful lives of intangible assets are assessed as either finite or indefinite.

p) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Level 3 – valuation techniques is used where the fair value measurement is unobservable. Contingent consideration rely on certain performance targets are met. The Group adopts an approach that develops the potential scenarios for future performance and determines the fair value of contingent consideration.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit ("CGU") and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Customer Contracts and Relationships

Customer contracts and relationships acquired as part of a business combination are recognised separately from goodwill. Customer contracts and relationships with an indefinite useful life are carried at their fair value at the date of acquisition less any accumulated impairment loss. Customer contracts and relationships with a finite useful life (15 years) are measured at cost less amortisation and any impairment.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

q) Trade creditors and accrued expenses

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

r) Financial liabilities

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Refer to note 15 for further details on the interest-bearing loan.

s) Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

t) Employee benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave are recognised in current liabilities in respect of employee's services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

u) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

v) Dividends

Dividends are recognised when declared during the financial year.

w) Earnings per share

Basic earnings per share is calculated as net profit/(loss) after income tax expense for the year divided by the weighted average number of ordinary shares on issue. Diluted earnings per share is calculated by adjusting the basic earnings per share to take into account the effect of any costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. Refer to note 4 for further details.

x) Share-based payments

Share based compensation benefits (equity-settled) may be provided to employees. The fair value of the shares granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period in which employees become unconditionally entitled to the shares.

The fair value of the shares at grant date is determined using an acceptable model that takes into account the share price at grant date, the expected dividend yield, the risk-free interest rate for the term and any restrictions on the shares. The fair value of the shares granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. At each reporting date, the Company revises its estimate of the number of shares that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statement of profit or loss and other comprehensive income with a corresponding adjustment to equity.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction.

y) Goods and services tax ("GST") and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

z) 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 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.

Assessment of impairment of receivables

The impairment of receivables assessment requires a degree of estimation and judgement and takes into account the recent experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors financial position.

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.

Non-market vesting conditions

Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest for Senior Management and Director share-based payment awards. At each reporting date, the Group revises its estimate of the number of shares that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate.

NOTE 3. SEGMENT REPORTING

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

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

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

2018	APAC $	Americas [1] $	Europe [1] $	Elimination $	Consolidated $
Revenue					
External customers	31,428,677	5,509,245	4,838,730	–	41,776,652
Inter-segment	(136,919)	–	136,919	–	–
Total revenue	**31,291,758**	**5,509,245**	**4,975,649**	**–**	**41,776,652**
Expenses					
Operating expenses	9,684,395	1,622,207	1,067,574	–	12,374,176
Employee benefits expenses	17,841,551	3,940,238	3,329,799	–	25,111,588
Impairment of trade receivables	212,380	–	(31,008)	–	181,372
Depreciation and amortisation	1,377,104	5,253	90,575	–	1,472,932
Profit / (Loss) before tax	**2,176,328**	**(58,453)**	**518,709**	**–**	**2,636,584**
Total assets	**40,199,274**	**2,386,564**	**3,838,641**	**(2,494,493)**	**43,929,986**
Total liabilities	**15,846,436**	**1,333,940**	**1,362,530**	**–**	**18,542,906**

2017	APAC $	Americas [2] $	Europe [2] $	Elimination $	Consolidated $
Revenue					
External customers	25,249,901	2,920,360	1,162,130	–	29,332,391
Inter-segment	–	–	–	–	–
Total revenue	**25,249,901**	**2,920,360**	**1,162,130**	**–**	**29,332,391**
Expenses					
Operating expenses	8,095,327	671,585	365,147	–	9,132,059
Employee benefits expenses	14,887,655	1,818,673	638,881	–	17,345,209
Impairment of trade receivables	26,380	–	18,624	–	45,004
Depreciation and amortisation	990,598	–	7,845	–	998,443
Profit / (Loss) before tax	**1,249,941**	**430,102**	**131,633**	**–**	**1,811,676**
Total assets	**32,106,312**	**728,355**	**1,027,314**	**(746,529)**	**33,115,452**
Total liabilities	**13,838,635**	**390,632**	**134,702**	**–**	**14,363,969**

1. The Group had operations in Ireland (Europe) and the Cayman Islands (Americas) for nine months during the year ended 30 June 2018. Americas' result includes investment for growth in the Private Equity business.
2. The Group had operations in the Americas for nine months and Europe for seven months during the year ended 30 June 2017.

NOTE 4. EARNINGS PER SHARE ("EPS")

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

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

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

	2018 $	2017 $
Profit attributable to ordinary equity holders of the parent:	**1,739,070**	**1,424,794**
Weighted average number of ordinary shares for basic EPS	106,648,080	89,597,084
Effects of dilution from:		
> Employee Share Plans	3,449,157	1,144,999
> Trinity Share Deferred Consideration	1,681,310	—
Weighted average number of ordinary shares adjusted for the effects of dilution	**111,778,547**	**90,742,083**

As at 30 June 2018, there were 109,409,957 ordinary shares outstanding (2017: 98,803,874).

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.

NOTE 5. SHARE BASED PAYMENTS

The Company has in place an Employee Shares 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 years ended 30 June 2018 and 30 June 2017 are:

	Consolidated	
	2018 $	2017 $
Share—based payments		
Employee Share Offer	152,846	104,974
Management Share Offer	825,644	266,247
Senior Management Share Offer	245,812	254,813
Director Share Offer [1]	85,445	124,660
Total share—based payments expense	**1,309,747**	**750,694**

There were no cancellations to the awards in the year ended 30 June 2018.

Director Share Offer ("DSO")

The Executive Directors participants in the DSO which provides Performance Rights that entitle the holder to be issued one share for each Performance Right at no cost should the agreed vesting conditions be met. The vesting conditions are designed to align remuneration with creation of shareholders' value over the longer term.

Senior Management Share Offer ("SMSO")

The Executive Directors participate in the SMSO which provides Performance Rights that entitle the holder to be issued one share for each Performance Right at no cost should the agreed performance conditions be met. A combination of financial and non-financial measures are used to measure performance under the SMSO.

Management Share Offer ("MSO")

The Offer comprises the issue of Performance Rights to the broader management team as a bonus incentive in recognition for key performance indicator ("KPI") achievement and performance.

Employee Share Offer ("ESO")

Provides for Eligible Employees who are not invited to participate in the other Offers above to be granted $2,000 worth of Shares for nil consideration in order to participate in the Company's growth and success.

The number of shares granted during the year and weighted average share prices ("WASP") are shown below.

	2018 Number $	2018 WASP $	2017 Number $	2017 WASP $
Shares granted during the year	2,432,853	0.583	844,948	0.727

1. The Director Share Offer (DSO) relates to performance awards granted to Executive Directors only. Michael Houlihan resigned as Director of the Company effective 30 November 2017, however at the Board's discretion he is still entitled to Performance Rights earned in prior performance years.

NOTE 6. 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 years ended 30 June 2018 and 30 June 2017 are:

	Consolidated 2018 $	Consolidated 2017 $
a) Current income tax		
Current income tax	740,804	539,343
Current tax adjustment for prior periods	68,329	(8,367)
Deferred tax expense/(benefit)	88,381	(144,094)
Income tax expense	**897,514**	**386,882**
Deferred tax included in income tax expense comprises:		
Movement in deferred tax assets	(73,044)	(62,322)
Movement in deferred tax liabilities	161,425	(81,772)
Deferred tax expense/(benefit)	**88,381**	**(144,094)**
Reconciliation of income tax expense and accounting profit		
Profit before income tax expense	2,636,584	1,811,676
Tax at the statutory rate of 30%	790,975	543,503
Add:		
Share based payments	392,924	225,208
Tax rate differential in other jurisdictions	(362,534)	(329,657)
Adjustments to prior periods	68,329	(8,367)
Other	7,820	(43,805)
Income tax expense	**897,514**	**386,882**
Effective tax rate	34.0%	21.4%
b) Analysis of deferred tax		
Deferred tax asset relates to:		
Provisions	314,255	221,741
Accruals	162,359	63,655
Foreign tax loss carried forward	34,178	111,179
Equity raising costs	230,632	271,805
	741,424	**668,380**
Deferred tax liability relates to:		
Property, plant and equipment	175,183	19,746
Finite life intangible assets	1,744,363	1,180,312
	1,919,546	**1,200,058**
Net deferred tax liability	**(1,178,122)**	**(531,678)**
c) Income tax benefit charged directly to equity		
Transaction costs associated with share issue	144,089	116,457

NOTE 7. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

a) Cash and cash equivalents

	Consolidated 2018 $	Consolidated 2017 $
Cash at bank	**4,930,872**	**6,422,063**

b) Reconciliation of Cash Flow from Operating Activities

	Consolidated 2018 $	Consolidated 2017 $
Profit after tax	1,739,070	1,424,794
Adjustments for:		
Amortisation and depreciation expense	1,472,932	998,443
Share-based payments	1,309,747	750,694
Changes in operating assets and liabilities		
Increase in receivables	(1,205,716)	(2,280,830)
Increase in trade creditors and accrued expenses	479,223	565,729
(Increase) / decrease in other assets	(642,220)	182,791
Increase in other liabilities	653,175	537,907
Cash inflows from operating activities	**3,806,211**	**2,179,528**

c) Non-cash financing activities

	Consolidated 2018 $	Consolidated 2017 $
Issue of shares under the dividend reinvestment plan (“DRP”)	**565,268**	**768,254**

NOTE 8. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated 2018 $	Consolidated 2017 $
Trade debtors	**6,105,158**	**4,899,442**

As at 30 June 2018, the ageing analysis of trade debtors is as follows:

	Neither past due nor impaired	30-60 days	61-90 days	90 + days	Total
2018	5,077,028	233,992	213,151	580,987	**6,105,158**
2017	4,482,154	95,798	95,594	225,896	**4,899,442**

As at 30 Jun 2018, the provision for doubtful debts is $160,000 (2017: $26,380). See below for the movements:

	Beginning balance	Charge for the year	Utilised	Unused	Closing balance
2018	26,380	160,000	—	(26,380)	**160,000**
2017	—	26,380	—	—	**26,380**

NOTE 9. CURRENT ASSETS – OTHER

	Consolidated 2018 $	Consolidated 2017 $
Deposit bonds	1,161,443	1,016,343
Prepayments	707,669	334,321
Other	127,236	3,464
	1,996,348	**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.

NOTE 10. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2018 $	Consolidated 2017 $
Office Equipment – at cost	534,889	371,342
Less: Accumulated depreciation	(364,228)	(312,483)
	170,661	58,859
Computer Equipment – at cost	900,292	612,808
Less: Accumulated depreciation	(605,752)	(438,233)
	294,540	174,575
Capitalised software – at cost	6,161,694	3,697,222
Less: Accumulated amortisation	(2,231,096)	(1,613,319)
	3,930,598	2,083,903
Total property, plant and equipment	**4,395,799**	**2,317,337**

The gross carrying amount of fully depreciation property and equipment that is still in use as at 30 June 2018 was $1,116,400 (2017: $1,218,582).

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Office Equipment $	Computer Equipment $	Capitalised Software $	Total $
Balance at 1 July 2016	**4,048**	**136,703**	**877,144**	**1,017,895**
Foreign exchange	(141)	(1,044)	(5,361)	(6,546)
Additions	70,203	130,614	1,781,864	1,982,681
Depreciation expense	(15,251)	(91,698)	(569,744)	(676,693)
Balance at 30 June 2017 and 1 July 2017	**58,859**	**174,575**	**2,083,903**	**2,317,337**
Foreign exchange	225	1,334	9,113	10,672
Additions	162,859	284,470	2,446,841	2,894,170
Depreciation expense	(51,282)	(165,839)	(609,259)	(826,380)
Balance at 30 June 2018	**170,661**	**294,540**	**3,930,598**	**4,395,799**

NOTE 11. NON-CURRENT ASSETS – INTANGIBLES

	Consolidated 2018 $	Consolidated 2017 $
Business combinations – goodwill	13,162,701	10,056,188
Other intangible assets	13,339,108	8,066,294
	26,501,809	**18,122,482**

A reconciliation of the opening and closing balances is 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 Group	3,106,513	2,204,805	**5,311,318**
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	—	(646,552)	**(646,552)**
Exchange difference	—	5,693	**5,693**
Closing balance at 30 June 2018	**13,162,701**	**13,339,108**	**26,501,809**

Business Combinations – Goodwill

During the 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 (collectively referred to as "Trinity Group").

The 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	1,865,916
Deferred tax liabilities	661,442
Total Liabilities	**2,527,358**
Net assets acquired at fair value	**3,276,867**
Goodwill arising on acquisition	3,106,513
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**

At the date of acquisition, the total fair value of trade and other receivables was $512,991. At 30 June 2018, none of the trade and other receivables related to the acquisition had been impaired.

From the date of acquisition, Trinity Group has contributed $3.9 million of revenue to the Group. If the acquisition had taken place at the beginning of the period, then Trinity Group would have contributed $5.2 million of revenue to the Group for the year ended 30 June 2018.

NOTE 11. NON-CURRENT ASSETS – INTANGIBLES continued

With respect to the Trinity Group acquisition, at 30 June 2018, $0.64 million (US$0.50 million) of the purchase price is recorded as Deferred Cash Consideration which is to be paid in September 2018 and September 2019; and $1.27 million (US$1 million) of the purchase price is recorded as Deferred Equity Consideration which is to be issued in September 2018, September 2019 and September 2020 subject to certain financial Key Performance Indicators being achieved.

The goodwill of $3,106,513 comprises the value of expected synergies arising from the acquisition. The Company does not anticipate the goodwill to be deductible for income tax purposes.

Other Intangible Assets

The other intangible assets include the purchase of customer relationships and contracts from IRESS in November 2017, HFO Limited and Alter Domus, and the projects maintaining loyalty with existing customers.

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. The recoverable amount of intangible assets has been determined based on a value in use method using a discounted cash flow model, based on revenue projection over a 5 year period, together with a terminal value. The Group considered the long term revenue and market share growth rate against an internally developed range of benchmarks and assumptions of growth rate and terminal rate which are consistent with current business performance and longer term strategy. The growth rate of 5% and terminal growth rate of 3% were applied to the model. The discount rate of 12.0% pre-tax reflects management's estimate of the time value of money and Group's weighted average cost of capital. Stress testing of the Model was conducted and no impairment would be required under various scenarios at 30 June 2018 or 2017. The Group did not identify any indicators of impairment during the year ended 30 June 2018.

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 12. CURRENT LIABILITIES – TRADE CREDITORS AND ACCRUED EXPENSES

	Consolidated	
	2018 $	2017 $
Trade creditors	1,342,230	1,251,416
Accrued expenses	1,522,780	1,134,371
	2,865,010	**2,385,787**

NOTE 13. PROVISIONS FOR EMPLOYEE BENEFITS

	Consolidated	
	2018 $	2017 $
Annual leave liability - current	749,889	655,219
Long services leave liability		
• current	171,428	80,955
• non-current	81,751	138,915

NOTE 14. DEFERRED CONSIDERATION

	Consolidated	
	2018 $	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 30 June 2018, $1.91 million (US$1.50 million) of the purchase price is recorded as Deferred Consideration which is to be paid in September 2018, September 2019 and September 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.

NOTE 15. INTEREST BEARING LIABILITIES

	Consolidated 2018 $	Consolidated 2017 $
Interest bearing liabilities		
• current	2,000,000	–
• non-current	6,721,499	8,747,793
Total	**8,721,499**	**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.

The Notes were secured by a fixed and floating charge over the assets of the Company's Australian domiciled subsidiaries. At the end of the three year term, the Company has the election to either repay the Notes or to have the Notes convert into fully paid ordinary shares issued by the Company. In the event that the Company were to elected to have the Notes convert into fully paid ordinary shares issued by the Company at the expiration of the term, then the Conversion Price would be calculated on a 10% discount to the Volume Weighted Average Price ("VWAP") of the Company's shares during the 90 days immediately prior to the expiration of the term, that being 30 September 2019. The Notes were only convertible at the election of the holder in an event of default in the second or third year of the term. In this regard, repayment of the Notes was guaranteed by a related party.

On 12 January 2018, the Company entered into an agreement with Australia and New Zealand Banking Group Limited ("ANZ") to replace its $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. The Group was in compliance with the debt covenants at 30 June 2018.

As at 30 June 2018, the carrying amount of interest bearing liabilities approximates their fair value.

NOTE 16. OTHER CURRENT LIABILITIES

	Consolidated 2018 $	Consolidated 2017 $
GST Liability	392,573	395,752
PAYG withholding payable	123,319	39,028
Superannuation payable	281,108	209,484
Due to previous shareholders of acquired entities [1]	1,558,503	258,627
Other	50,894	9,401
Total	**2,406,397**	**912,292**

1. With respect to the Trinity Group acquisition, $1.44 million has been recognised as a liability due to the seller relating to historical retained earnings, 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 $0.12 million as at 30 June 2018.

NOTE 17. OPERATING LEASES

At the end of the reporting year the total of future minimum lease payment commitments under non-cancellable operating leases for office premises were as follows:

	Consolidated 2018 $	Consolidated 2017 $
Not later than one year	1,588,341	710,568
Later than one year and not later than five years	2,166,436	512,541
Greater than five years	61,777	–
Total	**3,816,554**	**1,223,109**

The Group opened offices in Ireland and Cayman Island during the year ended 30 June 2018.

NOTE 18. EQUITY – CONTRIBUTED CAPITAL

	Consolidated			
	2018 Shares	2017 Shares	2018 $	2017 $
Ordinary shares – fully paid	109,409,957	98,803,874	21,362,244	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. The movement 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 30 June 2018	**109,409,957**

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 declared 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 19. RESERVES

	Consolidated	
	2018 $	2017 $
Revaluation reserve	416,703	416,703
Foreign currency translation reserve	302,741	(104,343)
Share-based payment reserve	1,260,311	514,757
Total	**1,979,755**	**827,117**

The changes of each type of reserve in equity is shown below:

	Revaluation reserve $	Foreign currency translation reserve $	Share-based payment reserve $
Opening balance at 1 July 2016	**416,703**	**(63,094)**	**6,179**
Foreign exchange translation	–	(41,249)	–
Share issued under Employee Share Plan	–	–	(242,116)
Share-based payments	–	–	750,694
Closing balance at 30 June 2017 and 1 July 2017	**416,703**	**(104,343)**	**514,757**
Foreign exchange translation	–	407,084	–
Share issued under Employee Share Plan	–	–	(564,193)
Share-based payments	–	–	1,309,747
Closing balance at 30 June 2018	**416,703**	**302,741**	**1,260,311**

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 year ended 30 June 2018 (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.

NOTE 20. EQUITY – DIVIDENDS

On 29 August 2017, the Company declared 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.

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, payment of the dividend was completed on 26 March 2018.

NOTE 21. CAPITAL MANAGEMENT

For the purpose of the company's capital management, capital includes contributed equity, interest bearing liabilities and all other equity reserves attributable to the shareholders of the parent. the primary objective of the company's capital management is to maximise shareholder value. The company manages its capital structure and makes adjustments in light of changes in market and economic conditions.

NOTE 22. FINANCIAL RISK MANAGEMENT

The Group's financial assets include cash and cash equivalents, trade and other receivables and deposit bonds. The Group's financial liabilities comprise trade creditors, deferred consideration and accrued expenses and interest bearing liabilities. The main purpose of these financial liabilities is to finance the Group's operations.

The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's Board of Directors monitor these risks on an on-going basis.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Company's interest bearing liabilities. The Group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

2018	Note	Weighted average interest rate %	Floating interest rate $	Fixed Interest Rate $	Non-interest bearing $	Total $
Financial assets						
Cash and cash equivalents	7	0.85	4,930,872	–	–	4,930,872
Trade and other receivables	8	–	–	–	6,105,158	6,105,158
Deposit bonds	9	–	–	–	1,161,443	1,161,443
		–	**4,930 ,872**	**–**	**7,266,601**	**12,197,473**
Financial liabilities						
Trade creditors and accrued expenses	12	–	–	–	2,865,010	2,865,010
Deferred consideration	14	–	–	–	1,911,680	1,911,680
Interest-bearing liabilities	15	3.63	8,721,499	–	–	8,721,499
		–	**8,721,499**	**–**	**4,776,690**	**13,498,189**

2017	Note	Weighted average interest rate %	Floating interest rate $	Fixed Interest Rate $	Non-interest bearing $	Total $
Financial assets						
Cash and cash equivalents	7	2.5	6,422,063	–	–	6,422,063
Trade and other receivables	8	–	–	–	4,899,442	4,899,442
Deposit bonds	9	–	–	–	1,016,343	1,016,343
		–	**6,422,063**	**–**	**5,915,785**	**12,337,848**
Financial liabilities						
Trade creditors and accrued expenses	12	–	–	–	2,385,787	2,385,787
Deferred consideration	14	–	–	–	387,990	387,990
Interest-bearing liabilities	15	10.5	–	8,747,793	–	8,747,793
		–	**–**	**8,747,793**	**2,773,777**	**11,521,570**

The Group's profit before tax is affected through the sensitivity to a reasonably possible change in interest rates on that portion of interest bearing liabilities affected.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

NOTE 22. FINANCIAL RISK MANAGEMENT continued

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to credit risk from its operating activities, primarily trade receivables and deposits with banks. Cash and deposits are all maintained by banks with high credit ratings. The maximum exposure to credit risk at the reporting date is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group regularly monitors its outstanding customer receivables subject to its established policy and procedures.

Liquidity risk

Liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable. The Group manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

The following table sets forth the contractual maturities of the respective financial liabilities for the year ended 30 June 2018:

2018		On demand $	Less than 3 months $	3 to 12 months $	1 to 5 years $	Greater than 5 years $	Total $
Trade creditors and accrued expenses	12	676,478	2,029,627	158,905	–	–	2,865,010
Deferred consideration	14	–	–	1,911,680	–	–	1,911,680
Interest bearing liabilities	15	–	1,000,000	1,000,000	7,000,000	–	9,000,000
		676,478	**3,029,627**	**3,070,585**	**7,000,000**	**–**	**13,776,690**

2017		On demand $	Less than 3 months $	3 to 12 months $	1 to 5 years $	Greater than 5 years $	Total $
Trade creditors and accrued expenses	12	–	2,385,787	–	–	–	2,385,787
Deferred consideration	14	–	–	387,990	–	–	387,990
Interest bearing liabilities	15	–	–	–	11,000,000	–	11,000,000
		–	**2,385,787**	**387,990**	**11,000,000**	**–**	**13,773,777**

Fair Value Measurement of Financial Instruments

The Group assessed that the fair values of cash and cash equivalents, deposit bonds, receivables, payables, deferred consideration and interest bearing liabilities approximate their carrying amount largely due to the nature and maturity of these instruments.

The following table summarises the sensitivity of the Group to interest rate risk and foreign exchange risk.

		2018 Impact on Profit before tax $	2017 Impact on Profit before tax $
Interest rate risk			
Impact of a 100 basis point ("bp") change in interest rate	–100 bp	37,906	(64,221)
	+100 bp	(37,906)	64,221
Foreign currency risk			
Impact of a 10% movement of exchange rate against Australian dollar	–10% depreciation of AUD	519,191	373,499
	+10% appreciation of AUD	(519,191)	(373,499)

The assumed movement in basis points for the interest rate and foreign exchange sensitivity analysis are based on the currently observable market environment.

The Group has exposure to foreign currency risk upon consolidation of its foreign currency denominated entities. The currency impacted are primarily in United States dollar, Singapore dollar, Hong Kong dollar, Euro and Great British Pound. The impact on the Group's total comprehensive income is due to changes in the fair value of monetary assets and liabilities. Movements in foreign currency exchange rates will result in gain or loss in total comprehensive income as a result of the revaluation of monetary balances. The Group's exposure of foreign currency changes for all other currencies is not material.

NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES

Compensation

The aggregate compensation received by the key management personnel, including Directors of the Group as listed on page 15 of this report, is set out below:

	Consolidated 2018 $	Consolidated 2017 $
Short-term employee benefits	1,964,183	1,201,634
Post-employment benefits (superannuation or equivalent)	97,229	95,869
Other long-term benefits	—	—
Termination benefits	—	—
Share-based payments	550,731	242,116
	2,612,143	**1,539,619**

NOTE 24. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Group did not have any contingent assets as at 30 June 2018 (2017: $nil) nor contingent liabilities as at 30 June 2018 (2017: $36,806).

NOTE 25. RELATED PARTY TRANSACTIONS

Subsidiaries

Interests in subsidiaries are set out in note 28.

Transactions with related parties

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.

At 30 June 2018, there is $1.44 million (EUR 0.65 million and US$ 0.30 million) due to the previous shareholder of Trinity Group which was acquired by the Group during the year. 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 $0.12 million as at 30 June 2018. This relates to a liability due to the previous shareholder of Mainstream Fund Services, Inc for their historical retained earnings as agreed to between the respective parties in the Sale Agreement.

During the year, funds are advanced from its subsidiaries Mainstream Fund Services Ireland and Cayman of USD 475,000 and USD 410,000 respectively, which are unsecure, repayable on demand with 30 days notice and on an interest free basis.

Transactions with related parties

All intercompany transactions were made on normal commercial terms and conditions no more favourable than those available to other parties, except interest on some loans between the parties that are interest free.

NOTE 26. AUDITOR'S REMUNERATION

The auditor of the Company is Ernst & Young Australia. Amounts received or due and receivable by Ernst & Young are as follows:

	Consolidated	
	2018 $	2017 $
Audit services provided to the Company and any other entity in the Group		
Audit or review of the financial reports	316,478	265,900
Other audit services:		
Assurance related (regulatory required audits)	16,000	14,000
Assurance related (controls reporting)	144,000	140,000
Assurance related (other)	18,000	54,667
Total audit services	**494,478**	**474,567**
Other non-audit services provided to the Company and any other entity in the Group		
Other	46,791	17,429
Total non-audit services	**46,791**	**17,429**
Total audit and other services provided by Ernst & Young	**541,269**	**491,996**

NOTE 27. PARENT ENTITY INFORMATION

Set out below is the supplementary information about the parent entity.

	Parent	
	2018 $	2017 $
Statement of financial position		
Total current assets	1,637,860	1,819,753
Total assets	20,092,910	18,996,526
Total current liabilities	(3,056,313)	(2,223,947)
Total liabilities	(12,194,042)	(9,606,398)
Equity		
Issued capital	21,362,244	15,268,947
Reserves	1,318,973	514,757
Retained profits	(14,782,349)	(6,393,576)
Total equity	**7,898,868**	**9,390,128**
Loss of the parent entity	(5,962,383)	(3,053,628)
Total comprehensive loss of the parent entity	(5,962,383)	(3,053,628)

The group consolidated profit after income tax for the year ended 30 June 2018 was $1,739,070 (2017: $1,424,794).
Refer to the consolidated statement of profit or loss and other comprehensive income for further details.

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

The parent entity had no material capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

> Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

> Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

NOTE 28. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in note 2:

		Equity holding	
Name of entity	Country of incorporation	2018 %	2017 %
Mainstream Fund Services Pty Ltd (formerly FundBPO Pty Ltd)	Australia	100	100
Mainstream Superannuation Services Pty Ltd (formerly SuperBPO Pty Ltd)	Australia	100	100
ShareBPO Pty Ltd	Australia	100	100
PropertyBPO Pty Ltd [1]	Australia	–	100
MainstreamITO Pty Ltd	Australia	100	100
MortgageBPO Pty Ltd [1]	Australia	–	100
LegacyBPO Pty Ltd [1]	Australia	–	100
AdminBPO Pty Ltd [1]	Australia	–	100
Mainstream Fund Services Pte Ltd (formerly FundBPO Pte Ltd)	Singapore	100	100
Mainstream Fund Services (HK) Limited (formerly FundBPO (HK) Limited)	Hong Kong	100	100
Mainstream Fund Services, Inc. (formerly Fundadministration, Inc.)	U.S.A.	100	100
FundBPO USA LLC	U.S.A.	100	100
Mainstream Fund Services (Malta) Limited (formerly FundBPO (Malta) Limited)	Malta	100	100
FundBPO Cayman Limited [1]	Cayman Islands	–	100
Galileo Fund Services Limited	Isle of Man	100	100
JAL Investments Limited	Cypress	100	–
Mainstream Fund Services (Ireland) Limited (formerly Trinity Fund Administration Limited)	Ireland	100	–
Mainstream Fund Services (Cayman) Limited (formerly Trinity Fund Administration (Cayman) Ltd)	Cayman Islands	100	–
MAI Finance SPV Pty Ltd	Australia	100	100

NOTE 29. EVENTS AFTER THE REPORTING PERIOD

On 21 August 2018 the Board of Directors declared a fully franked final dividend of 1.0 cent per issued share for the financial year ended 30 June 2018, payable on 12 September 2018. The Board of Directors also resolved to offer all Shareholders the right to participate in the Company's DRP in respect to this dividend, with the DRP to operate at a 5% discount. A copy of the DRP is available on the Company's website.

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.

1. These entities have been deregistered.

Directors Declaration

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

1. In the opinion of the Directors:
   a. the financial statements and notes of Mainstream Group Holdings Limited for the financial year ended 30 June 2018 are in accordance with the *Corporations Act 2001*, including:
      i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
      ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
   b. the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and
   c. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2018.

On behalf of the Board

Byram Johnston OAM
Director

Date: 21 August 2018
Sydney

Independent Auditor's Report

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

Report on the Audit of the Financial Report

Opinion

We have audited the 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 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is 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 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report continued

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Recoverable value of goodwill and other intangible assets

Why significant	How our audit addressed the key audit matter
At 30 June 2018, the Group's goodwill and other intangible assets balance was $26.5m which represented 60% of total assets. The Directors' assessment of the recoverable value of goodwill and other intangible assets was a key audit matter as the assessment process is complex and judgemental and is based on assumptions relating to future market or economic conditions. In performing the recoverability assessment, the Group has applied various assumptions with respect to revenue and cash flow growth rates based on expectations and estimates of future results of the individual cash generating units. The Group has disclosed in Note 11 of the financial report the assessment method, including the key underlying assumptions, the results of the assessments and the impact of applying sensitivities.	In performing our audit procedures we assessed and tested the assumptions and methodologies used in the Group's goodwill and other intangible assets value-in-use impairment model, upon which the Directors' assessment was based. This included assessing the forecast cash flows, working capital levels and the discount rates used. We assessed the level at which goodwill is monitored and evaluated the identification of cash generating units. Furthermore, we assessed the historical accuracy of the Group's forecasts, considered the relationship between the market capitalisation of the Group and the value of net assets and analysed sensitivities for key assumptions which could give rise to an impairment. We involved our valuation specialists to assist with comparing the Group's discount rates and long term growth rates assumptions to external data and benchmarking the implied earnings multiples to comparable companies. We assessed the adequacy of the Group's disclosures in Note 11 concerning the key assumptions and sensitivities.

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2. Revenue recognition

Why significant	How our audit addressed the key audit matter
The Group provides outsourced fund administration services to a range of wealth management sector participants. During the current year, the Group expanded its operations into multiple countries with total fee income increasing by 39% from prior year to $38.5m. Complexity arises as the fee calculation process is largely manual and the majority of customer contracts are bespoke with fixed and/or variable components. Revenue recognition was a key audit matter due to the nature and extent of estimates made and the wide variety of unique contract conditions, which leads to contract revenue recognition being complex (Note 2g).	Our audit procedures included considering the appropriateness of the Group's revenue recognition accounting policies and evaluating and testing the Group's processes for recognising contract revenues. Our procedures over fee income included selecting a sample of transactions and agreeing to supporting documentation such as contracts and cash received from customers. We selected transactions recorded close to and subsequent to year end to determine whether the associated revenue was recognised in the correct period. We analysed revenue trends and movements and obtained evidence to support any variations from our expectations.

3. Acquisition accounting

Why significant	How our audit addressed the key audit matter
On 30 September 2017, the Group acquired 100% of the shares of Trinity Fund Administration (Cayman) Limited and of JAL Investments Ltd (holding company of Trinity Fund Administration Limited) for purchase consideration of $6.4m. On 8 November 2017, the Group, acquired client contracts from IRESS Wealth Management Pty Ltd for purchase consideration of $3.3m. The accounting for the above acquisitions was a key audit matter as the acquisitions are significant to the Group and accounting for the acquisitions required significant judgement, including the identification and determination of the fair value of assets acquired and liabilities assumed. The Company engaged external valuation experts to determine the fair value of the identifiable intangible assets acquired. Note 11 of the financial report discloses the final fair values of assets and liabilities acquired.	In performing our audit procedures we considered the purchase agreements, consideration paid and the allocation of the purchase consideration to the fair value of assets acquired and liabilities assumed. We assessed the identification and valuation of the assets and liabilities acquired, and the deferred consideration recognised. We assessed the competence, qualifications and objectivity of the external valuation expert engaged by the Group to identify and value the intangible assets. We involved our valuation specialists to assess the methodologies and assumptions used to determine fair values. We also involved our taxation specialists to assess the resulting deferred tax liabilities. We considered the adequacy of the related disclosures made in the financial report.

Independent Auditor's Report continued

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor’s Report continued

Building a better
working world

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Mainstream Group Holdings Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
Sydney
21 August 2018

Shareholder Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 8 August 2018.

a) Distribution of equity securities

Range	Shareholders	Holdings	Percentage
1 – 1000	52	36,155	0.0%
1001 – 5000	471	1,363,483	1.2%
5001 – 10,000	260	1,888,778	1.7%
10,001 – 100,000	248	8,680,372	7.9%
100,001 and above	52	97,441,169	89.2%
Total	**1,083**	**109,409,957**	**100%**
Holding less than a marketable parcel	20		

b) Substantial shareholders

Position	Investor	Date of last notice	Holdings	Percentage
1	SODOR HOLDINGS PTY LTD <SODOR INVESTMENT A/C>	23 April 2018	21,723,351	19.9%
2	JOHNSTON BROS PTY LTD <MAINSTREAM INVESTMENT A/C>	23 April 2018	20,315,339	18.6%
3	JOHN PLUMMER	6 November 2017	12,197,867	11.1%
4	FORAGER FUNDS MANAGEMENT PTY LTD	1 October 2015	7,750,000	9.2%
5	REGAL FUNDS MANAGEMENT PTY LIMITED	17 October 2017	5,689,080	5.3%

c) Twenty largest holders of quoted equity securities

Position	Investor	Holdings	Percentage
1	SODOR HOLDINGS PTY LTD <SODOR INVESTMENT A/C>	21,723,351	19.9%
2	JOHNSTON BROS PTY LTD <MAINSTREAM INVESTMENT A/C>	20,315,339	18.6%
3	J P MORGAN NOMINEES AUSTRALIA LIMITED	15,196,418	13.9%
4	JOHN PLUMMER	12,197,867	11.1%
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,268,512	5.7%
6	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	5,495,691	5.0%
7	DENISE DEPAOLA	4,335,245	4.0%
8	BOND STREET CUSTODIANS LIMITED <FORAGER WHOLESALE VALUE FD >	1,498,263	1.4%
9	NATIONAL NOMINEES LIMITED	1,247,778	1.1%
10	KALAN SEVEN PTY LTD	1,000,968	0.9%
11	CITICORP NOMINEES PTY LIMITED	638,347	0.6%
12	MR VICTOR JOHN PLUMMER	625,000	0.6%
13	MR MARTIN CHARLES SMITH	433,510	0.4%
14	RADELL PTY LTD <MACKAY FAMILY S/F A/C>	400,000	0.4%
15	RICHARDS SUPERANNUATION FUND PTY LTD <RICHARDS SUPER FUND A/C>	360,000	0.3%
16	MR BYRAM THOMAS JOHNSTON	335,960	0.3%
17	MR MARTIN CHARLES SMITH & MRS SHARON LEE SMITH <SMITH FAMILY S/F NO2 A/C>	309,893	0.3%
18	CITICORP NOMINEES PTY LIMITED <DPSL A/C>	250,717	0.2%
19	STRATH DEE PTY LTD	250,000	0.2%
20	MARTINI SUPER PTY LTD <MARTINI SUPERFUND A/C>	250,000	0.2%
Total		**93,132,859**	**85.1%**

d) Voluntary escrow

As at the date of this report, there were no issued securities in Mainstream Group Holdings Limited with escrow restrictions.

corporate information

DIRECTORS

Byram Johnston OAM
Executive Chairman

Martin Smith
Chief Executive Officer

John Plummer
Non-Executive Director

Lucienne Layton
Non-Executive Director

JoAnna Fisher
Non-Executive Director

COMPANY SECRETARY

Alicia Gill

REGISTERED OFFICE

Level 1, 51-57 Pitt Street
Sydney NSW 2000

SOLICITORS

Sekel Grinberg Judd

Level 8, Currency House
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