2020
annual report

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

MAINSTREAM

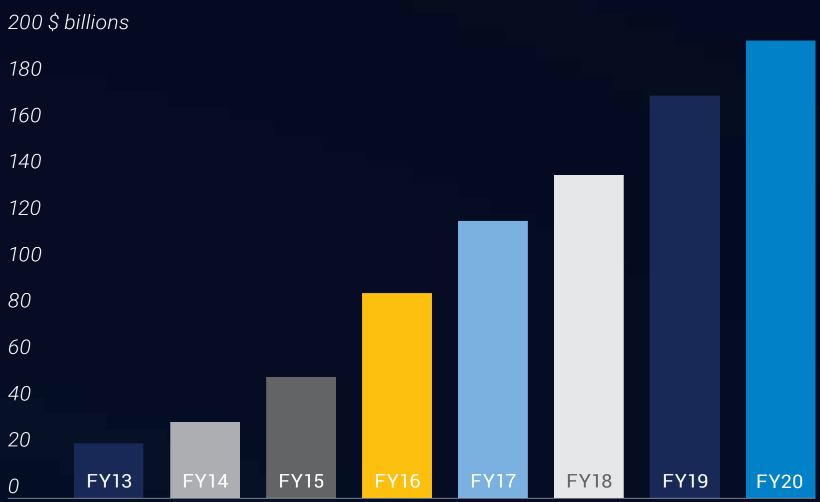
About Mainstream

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

Formed in 2006, Mainstream employs 272 people with operations in Australia, Singapore, Hong Kong, the United States, the Isle of Man, Malta, Ireland and the Cayman Islands.

As at June 2020, the Group provides fund services to 1,078 funds (30 June 2019: 1,012) and more than 93,000 investors with assets under administration of AUD $196.6 billion (30 June 2019: $172.8 billion).

MAINSTREAM'S FUNDS UNDER ADMINISTRATION (FUA) TO 30 JUNE 2020



Why would you recommend Mainstream?

"Improving all the time and systems are being enhanced to become the best provider on the street. Management team and relationship management is excellent."

Engagement survey quote, Net Promoter Score, September 2019

Chairman’s Report

Welcome to the Mainstream Group Holdings Limited’s Annual Report for the year ended 30 June 2020.

I am pleased to report that the Group delivered a solid financial result in competitive and challenging market conditions while executing our strategic initiatives. We continued to build our global platform and capabilities in order to take advantage of the significant growth opportunities in our core markets.

We delivered revenue consistent with our earnings guidance. Martin elaborates further on our financial results in his CEO Report.

While the final months of this financial year have certainly been overshadowed by the COVID-19 pandemic, Mainstream responded swiftly to safeguard the health of our employees while maintaining service levels and business continuity for our clients.

Beyond COVID-19, market conditions were dynamic during the period. Mainstream continues to benefit from ongoing structural shifts, including ongoing consolidation with the Australian fund administration and custody sectors, and the trend towards outsourcing driven by increasingly complex operations and compliance requirements.

In uncertain times like these, I think it is important to reflect on the sustainability of our Company. We have built a business where more than 90% of revenue is recurring via long term contracts with our clients. Fees are diversified, generally based on a combination of minimum fees or basis points plus the number of transactions processed and the number of investors. We now administer over 1,000 funds for our 350 clients who are diversified across traditional asset classes, alternative assets and private equity. This provides variation in our exposure to market movements which is important during volatile markets.

The benefits of this diversity can be seen in the resilience of our revenue and funds under administration during the second half of the year. As expected, lower recurring basis point fees (linked to funds under administration) and custody income (linked to official cash rates) have been cushioned by higher cash balances and increased transaction fees from volatile trading conditions. It is a testament to the quality of our clients that we have not yet witnessed any significant fund closures or client losses. The number of fund closures has, so far, been below our expectations, although further consolidation is likely. New business demand has proved buoyant, with fund launches still proceeding above expectations in our core markets.

We have also experienced significant upsurge from funds wishing to move their fund administration to us due to our combined offering of fund administration, custody, investment administration and unit registry. We are very encouraged with the high level of interest in our market leading integrated listed and unlisted registry solution for Australian fund managers.

This financial year was a busy year for our Board. On 1 July 2020 we welcomed Debbie Last as the second Independent Director on the Board and Chair of the Audit and Risk Committee. We held 20 Board meetings and 17 Committee meetings during the year. The number of meetings reflects a combination of market conditions, company activity, sector consolidation, acquisitions and defence activity. I can confidently say the Board is actively committed to the Company’s continuing success and I would like to thank my fellow Directors for their dedication and time commitment to the Company over the last year.

I also want to thank our CEO, Martin Smith, and the 272 members of the Mainstream team for their extraordinary hard work and agility in response to current uncertain times. The COVID-19 pandemic has influenced where and how our global workforce functions. I have every confidence that our people are using the experience to build further operational excellence for our clients and a more valuable company for our shareholders.

Despite ongoing market uncertainty, the Board has elected to declare a final dividend of 1.0 cent per share for the year ended 30 June 2020, franked at 50%. We are committed to paying regular dividends to shareholders.

In closing, the Company has an interesting year ahead. Your Board has signed off on a budget that shows the Company on track to continue to grow at its historical growth rates. Mainstream’s FY21 business growth plan provides a clear path forward through changing market and regulatory conditions.

BYRAM JOHNSTON OAM
Non-Executive Chairman

Our track record

REVENUE

FY20	$55.4m
FY19	$50.0m
FY18	$41.4m
FY17	$29.3m
FY16	$18.9m

EBITDA [1]

FY20	$9.2m
FY19	$7.4m
FY18	$6.4m
FY17	$4.3m
FY16	$2.3m

FUNDS UNDER ADMINISTRATION

FY20	$197bn
FY19	$173bn
FY18	$138bn
FY17	$119bn
FY16	$88bn

NUMBER OF FUNDS ADMINISTERED

FY20	1,078
FY19	1,012
FY18	815
FY17	667
FY16	435

NUMBER OF CLIENTS

FY20	350
FY19	356
FY18	343
FY17	192
FY16	129

DIVIDENDS PER SHARE DECLARED [2]

FY20	$0.0100
FY19	$0.0125
FY18	$0.0150
FY17	$0.0125
FY16	$0.0100

NUMBER OF EMPLOYEES

FY20	272
FY19	259
FY18	245
FY17	180
FY16	119

1. EBITDA is a non-IFRS financial measure used to highlight the operating performance of the Group. EBITDA is calculated as earnings before interest financing expense, tax, depreciation, amortisation, impairment and share based payments. From 1 July 2019, Mainstream has adopted the modified retrospective method of AASB 16 Leases. Comparative figures have not been restated and the cumulative effect of initially applying the standard is recognised as an adjustment of the opening balance of retained earnings at the date of initial application. Refer to note 2 of the Financial Statements for further information on these adjustments.
2. The FY20 dividend is 50% franked and the FY19 dividend was 50% franked. All prior dividends were fully franked.

CEO's Report

FY20 was a good operating year for Mainstream. We continued to benefit from the trend to outsourcing driven by growing regulation and operational complexity. The market disruption cause by COVID-19 showed the resilience of Mainstream's business model due to the diversity and quality of our clients.

We entered the crisis with strong foundations and have continued to see good momentum in our core markets of Australia, Hong Kong, Singapore and USA during the second half of the year. Mainstream benefited from structural shifts and industry consolidation which create opportunities for Mainstream to replace incumbent service providers.

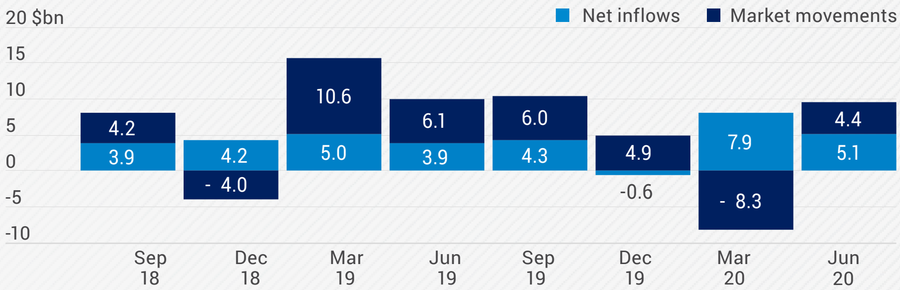
FY20 KEY ACHIEVEMENTS

Highlights for the year included:

- Revenue reached $55.4 million, in line with guidance. Revenue increased by $5.3 million (11%) on FY19. $2.3 million (4%) of revenue was sourced from interest income on custodial accounts and deposits.
- EBITDA[1] grew to $9.2 million, up $1.8 million (24%) on FY19, after application of AASB16[2] , reflecting the costs of operating a full service client service model while investing in operating efficiencies to drive future margin growth.
- Funds under administration reached a record $196.6 billion, up $23.8 billion (14%) on FY19. This increase was comprised of $16.8 billion (71%) of net inflows[3] from clients and $7.0 billion (29%) of market movements. It demonstrates the resilience of our clients during volatile market conditions.
- The Group now administers 1,078 funds for 350 clients as at 30 June 2020 (compared to 1,012 funds for 356 clients as at 30 June 2019). Clients are diversified across alternative fund managers (54% of clients), traditional fund managers (27%), private equity fund managers (17%) and superannuation funds (2%). 64% of clients use two or more Mainstream services.
- Mainstream signed a five plus five year unit registry contract with Pendal Group for $19 billion in funds under administration. Transition of services from Pendal's existing service provider is expected to be completed in FY21.
- Continued growth in our high margin custody and private equity businesses.
- Mainstream was recognised in the 2020 Australian Financial Review 'Fast 100' list as one of Australia's fastest growing companies. To be eligible for the Fast 100, a business must have started trading on or before 1 July, 2015 and have had turnover greater than $500,000 in 2015–2016.
- Ongoing investment in our people, processes and technology to improve our margin.

Our core business, Fund Services, continued to perform strongly despite volatile market conditions. It contributed 98% of the Group's revenue (FY19: 92%), driven by our Australian business. New business demand was higher than expected in the second half of the year, largely from new fund launches in Australia, US and Asia. The Australian operations continue to benefit from a combined custody and fund administration offering which has increased the number of services contracted with clients. We also saw continued demand for outsourced unit registry services. Our Hong Kong and Singapore businesses have now been operating for more than five years and are seeing the benefits of an established brand and market presence on their organic growth.

NET QUARTERLY CHANGES IN FUNDS UNDER ADMINISTRATION



In line with expectations, Mainstream's Superannuation Services business accounted for 2% of the Group's FY20 revenue (FY19: 8%) and is now fully integrated into our Fund Services business.

BUSINESS INITIATIVES

During the year we continued our growth investments and delivered the following outcomes:

- Custody: Funds under custody grew from $5.0 billion to $9.8 billion, up 96% on last year. Custodial services diversify Mainstream's revenue by earning interest income on custodial accounts and deposits. Mainstream has held a full custody licence since October 2018. The majority of custody clients also contract Mainstream to provide their fund administration. Mainstream is well positioned as a lower cost alternative to the consolidating large global custodians.
- Private equity (PE): The funds under administration of the Group's greenfield US PE business grew from A$5.5 billion to $10.3 billion, up 96% on the prior year due to client sign-ons. The business launched in February 2018 and continues to build market share as an alternative to the "large factory" administrators in the US $4.1 trillion market. Four key senior hires were made in the US at the beginning of the period to support organic growth.
- New product development: A significant development during the year was the launch of a key client's unlisted managed fund quoted on the ASX under a new structure, also known as a Quoted Fund, in June 2020. The fund was previously an unquoted fund but investors can now buy or sell units through their broker on the ASX alongside the fund's existing traditional application and redemption process administered by Mainstream. This represents the convergence of listed and unlisted open-ended funds into a single investment vehicle, allowing fund managers to offer investors both unlisted and exchange traded entry methods in a standard fund format. Mainstream invested heavily in this industry first initiative, a single system that handles listed and unlisted funds together, so the data source is one repository. Despite challenging market conditions we are seeing strong interest from other clients.

We also delivered a number of automation and digital service delivery projects, as outlined in 'Process and Technology'.

COVID-19 RESPONSE

Mainstream reacted swiftly to the rapid global crisis caused by COVID-19 by safeguarding our employees' well-being while ensuring ongoing service delivery to our clients.

Our response included:

- Activation of a global business continuity plan, providing all employees with the capacity to work remotely as needed.
- This included upgrades to technology and cybersecurity controls to support the change in operating environment.
- Receipt of $1.1 million COVID-19 related employer stimulus packages in the US, Singapore and Hong Kong to 30 June 2020. Outside of these markets cost control measures, rather than redundancies, were employed to preserve our operating capacity. Temporary Board and executive remuneration reductions of 15% to 30% were applied and non-essential hiring and consultancy work ceased.
- Extension of the maturity of our $6 million debt facility from January 2021 to January 2022.
- Focused effort on debtors and cash collection.

Amidst these unprecedented times, I am proud of our employees for their exceptional commitment and dedication in adapting to the new environment and delivering uninterrupted service to our clients.

PEOPLE

Mainstream now employs 272 people globally, up from 259 employees last year. We operate in eight countries with 195 employees in Asia-Pacific, 39 in Europe and 38 in the Americas.

There are two key management changes relating to former owners of acquired businesses at the expiry of their contracted terms.

In line with US growth opportunities, Jay Maher has replaced Denise DePaola as CEO, Americas. Jay has been the driving force behind Mainstream's US PE business growth and now has responsibilities for the Group's whole US operations. Denise joined Mainstream in 2016 as part of the acquisition of Fundadministration, Inc (now Mainstream Fund Services, Inc) and will leave the Group in September 2020.

John McCann, currently CEO, Europe and Cayman, will also retire from Mainstream at the end of his current term in September 2020. John joined the Group in 2017 following the acquisition of Trinity Fund Administration. In line with the Group's succession plans, internal candidates will assume John's leadership roles in Dublin and the Cayman Islands.

PROCESSES AND TECHNOLOGY

Automation and digital services are more important than ever in volatile market conditions. We successfully implemented a number of key initiatives to support self service and straight-through processing.

Mainstream spent $10.3 million (FY19: $8.3 million) on technology, data and automation to enhance client experience, drive scale, efficiency and improve client service. This included $8.2 million on IT expenditure, $0.9 million on IT capitalisation and $1.2 million on investment in product development for key clients.

Our new proprietary custody portal enables our custody clients to transition away from email instructions, increasing the speed of execution while reducing risk and the cost to serve. PFS-Paxus, our preferred software platform for alternative funds, has now been rolled out to all offshore operations. We also completed a significant upgrade and client migration on our performance reporting system, from Statpro Max to Statpro Revolution. The new platform provides online access, flexibility to build and run reports as well as the ability to access risk reporting. Mainstream also implemented FIS Global's (FIS) XSPrisa (XSP) software, enabling automated workflow for corporate action notification to clients, with instructions to Mainstream conducted online through FIS (eTRAN). Our first client is live and the service will be rolled out across our custody client base in FY21.

Increasing global regulation creates opportunities for the Group to provide cost effective compliance solutions for our clients. Over the last year we assisted our clients with complying with their regulatory requirements, particularly in response to ongoing superannuation reforms in Australia and the incoming Cayman Private Funds Law. Risk and compliance remain a key focus, particularly against cyber and fraud threats.

OUTLOOK

It is difficult to predict how global markets will respond to COVID-19. However, we have a clear strategy with strong execution in place. We expect to continue to grow in our core markets.

We remain confident about the resilience of our highly cash generative business, our financial position and our ability to successfully navigate through these uncertain times. We expect to see a continued trend towards fund managers and banks outsourcing their middle and back office.

We are entering FY21 with annual contracted revenue of $62m. More than 90% of our revenue is recurring and tied to long term contracts for essential fund services.

In this uncertain environment we will continue to focus on risk management and cost control while staying on strategy and delivering services to our clients.

MARTIN SMITH
Chief Executive Officer

1. Refer to page 3 for a definition of EBITDA, a non-IFRS financial measure.
2. Mainstream adopted AASB16 from 1 July 2019. Comparative figures have not been restated. Refer to Note 2 for more information on AASB16.
3. Net inflows refer to applications and new clients less redemptions, cash distributions and any lost clients.

Our Markets

Mainstream operates across three regions:

Mainstream is a global business operating in diverse local markets.
We report on three geographical segments: **Asia-Pacific, Americas and Europe.**

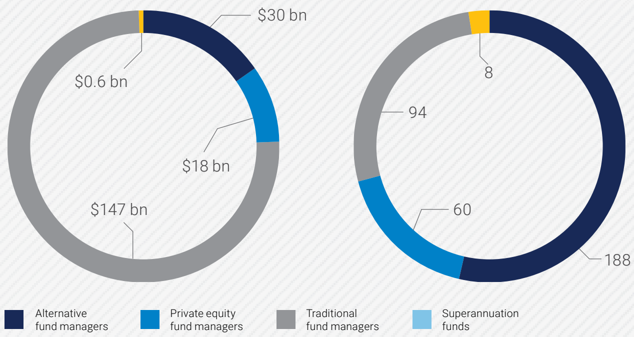
WHERE WE OPERATE

OUR CLIENTS

Mainstream's 350 clients are diversified across different markets and asset classes. This reduces the impact of market disruptions on our business growth.

CLIENTS BY FUNDS UNDER ADMINISTRATION

CLIENTS BY TYPE



OUR SERVICES

Mainstream provides a full suite of global outsourced fund administration and custody services to investment managers and financial services providers to address their middle and back office needs.

Services include investment administration, fund accounting, custody, unit registry (transfer agency), middle office and corporate services.

CLIENT TYPE

- Managed funds
- Alternative funds
- Private equity, venture capital and real estate funds
- Listed funds
- Superannuation funds

SERVICES

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

TRENDS AND GROWTH DRIVERS

Mainstream is well placed to benefit from industry change because we strive to deliver value for our clients beyond just cost reduction.

CHALLENGES FACED BY CLIENTS

1. Increasingly complex regulatory environment
2. Demand for digital services
3. Requirement for efficient and secure data exchange and processing
4. Need for rapid product development
5. Cost and margin pressures
6. Scalable and reliable technology

WHICH CAN BE SOLVED BY MAINSTREAM

- Regulatory reporting
- Leading data and technology platforms
- Proprietary digital services
- Agile product development
- Scalable platform with economies of scale
- Single point of contact for middle and back office needs
- Straight-through processing

Our Timeline

Mainstream opened in Sydney in 2006 with seven employees and an ambition to be a boutique alternative to the large global bank custodians in the Australian funds management industry.

Today Mainstream is a global fund administrator operating in eight markets providing full service investment administration, fund accounting, custody, middle office, unit registry and corporate services.

2006
- Founded in Sydney

2007
- Melbourne acquisition

2012
- Opened Singapore office
- Sydney acquisition

2014
- Hong Kong acquisition

2015
ASX
- Listed on ASX
- Hong Kong acquisition

2016
- New York aquisition
- Isle of Man aquisition
- Malta aquisition
- Surpassed $100 billion in FuA

2017
- Ireland and Cayman Islands acquisition
- Melbourne acquisition

2018
- Launch of full custody service in Australia
- Launch of PE business in USA

2019
- Surpassed $150 billion in FuA

2020
- Recognised as one of Australia's fastest growing companies in the Australian Financial Review 'Fast 100' list.

FINANCIAL REVIEW FAST 100 2020 IN COOPERATION WITH statista

Our Values

Mainstream's values guide how we engage with our clients, service providers and each other. We are committed to these values and live them every day.

CLIENTS COME FIRST

Mainstream's values guide how we engage with our clients, service providers and each other. We are committed to these values and live them every day.

GET IT RIGHT, FIRST TIME

Every day we focus on accuracy and efficiency to provide a service that we are truly proud of. We keep our business safe and protect our clients through quality procedures and controls.

PRIORITISE PEOPLE

We believe in the uniqueness of our people. We value empowered people who are motivated and passionate about what they do, and who can have fun whilst doing it.

SOLUTIONS FOCUSED

We think differently. We are keen to explore the boundaries of our abilities and discover the best solution for our clients.

WORK AS ONE TEAM

We are accountable for our actions and to each other. Together we share, we contribute, we deliver a seamless client experience.

Our People

At Mainstream our people are a key pillar in delivering services to our clients.

Our culture is built on our values, prioritising people to create an empowering work environment. We invest in our teams' career development, well-being and satisfaction in how they work. Despite COVID-19, we added new people to our team throughout the year to enhance our skill base and support our growth.

TEAM ENGAGEMENT

This year Mainstream staff have taken part in events that build our brand, celebrate our heritage, promote team building and give back to our communities, including (clockwise from top left) J.P. Morgan Corporate Challenge in Sydney, Rugby World Cup team building event in Sydney, major sponsorship of Hedge Funds Rock and the 2020 Australian Alternative Investment Awards charity night, celebration of 25 years in Ireland, celebration of 10 years in the Cayman Islands, opening of the new Singapore office.

Understanding what motivates our people is a key tool for helping to create an open and inclusive working environment. We hold an annual Employee Engagement Survey encompassing communication, leadership, development and recognition. The survey results help inform decisions around strengthening our culture and fostering engagement amongst our teams.

INVESTING IN OUR PEOPLE

Our management teams work with Human Resources to roll out in-house training via our Learning Management System (LMS). In FY20, 22 training courses, including 10 new modules, were implemented and our global employees completed 1,415 courses. Employees also participate in external training courses and conferences to meet regulatory requirements, grow our business and improve leadership skills.

Cayman 10 Ireland 25 Anniversary

GENDER DIVERSITY

Our ongoing commitment to gender balance is demonstrated by the level of female representation across our total workforce. Mainstream is a "relevant employer" under the Workplace Gender Equality Act 2012. Our most recent public report is available from the Workplace Gender Equality Agency's website.

In FY21 the Board will set diversity objectives for the Group for the first time. We are proud to have strong female representation across our leadership team, directors and employees.

GENDER DIVERSITY WITHIN MAINSTREAM IN AUSTRALIA [1]

What makes Mainstream a great place to work?

"Working from home has definitely increased my productivity. I had a long commute to work every day and without that I have a better work life balance, without the stress of taking public transport every day. I'm now able to spend my valuable time on working in flexible hours."

Remote Working Survey, May 2020

RESPONDING TO COVID-19

Protecting the health and wellbeing of our people has been at the forefront of our COVID-19 response.

Capacity upgrades to our digital infrastructure assets and implementation of our business continuity plans meant that almost 100% of our global workforce transitioned to work from home arrangements during the period without any major disturbance to client service. This process started in Asia in February and was in place globally by mid-March. Employees in some jurisdictions have started returning to their offices but we expect the situation to remain fluid for some time.

Remote work requires additional communication to ensure teams remain connected. 76% of Australian employees completed a remote working survey in May 2020, with 97% confirming they were satisfied with their work from home arrangements.

Our priority remains taking care of our people. Our global e-newsletter, Mainstream Connect, focused on supporting our teams' well-being during the transition to remote working including safe work practices at home, looking after your mental health when working remotely and at-home ergonomic exercises. 'Bite size' learning modules on communicating and managing remotely were also rolled out. We continue to monitor the impact of this pandemic to ensure the health and safety of employees and the continuity of our services.

1. Taken from Mainstream's 2020 public report submitted to the Workplace Gender Equality Agency.

Directors' Report

The Directors of Mainstream Group Holdings Limited (the "Company", "Mainstream" or the "Group") present their report, together with the financial report of the Company and its controlled entities (the "Group"), for the year ended 30 June 2020.

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
Non-Executive Chairman, Mainstream Group

Byram is a founder and Non-Executive Chairman of Mainstream Group. Byram is a member of the Audit and Risk Committee, the Remuneration and Human Resources Committee and the Acquisitions Committee.

Byram is also a director of a number of Mainstream's wholly owned subsidiaries including Mainstream Fund Services Pty Ltd, Mainstream Fund Services Pte. Ltd. (Singapore), Mainstream Fund Services (HK) Limited, Mainstream Fund Services (Ireland) Limited, Mainstream Fund Services (Malta) Limited, Mainstream Fund Services (Cayman) Limited, Mainstream Fund Services, Inc, Mainstream Superannuation Services Pty Ltd and Mainstream Fund Services (IOM) Limited. Byram transitioned from Executive Chairman to Non-Executive in October 2018.

Byram has more than 45 years of professional experience including 30 years as a management consultant. Prior to establishing Mainstream Group, he 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.

Byram was previously Chairman of ASX listed companies Greencap Ltd and Powerland Ltd and is a former Chairman of ASIC's Audit Committee.

Byram holds a Bachelor of Economics and is a Fellow of the Institute of Chartered Accountants. He was President of the Institute of Chartered Accountants from 1995 to1996. Byram was awarded an Order of Australia Medal in 2004 for service to Australian motor sport, to the community as a fundraiser, and to the accountancy profession.

MARTIN SMITH
Chief Executive Officer, Mainstream Group

Martin is a founder, Group CEO and Director of Mainstream Group. He is also a member of the Acquisitions Committee.

Prior to being appointed as Group CEO in 2018, Martin was head of the Fund Services business since 2006.

Martin is a director of a number of Mainstream's wholly owned subsidiaries including Mainstream Fund Services Pty Ltd, Mainstream Fund Services Pte. Ltd. (Singapore), Mainstream Fund Services (HK) Limited, Mainstream Fund Services (Ireland) Limited, Mainstream Fund Services (Malta) Limited, Mainstream Fund Services (Cayman) Limited, Mainstream Superannuation Services Pty Ltd, Mainstream Fund Services, Inc and Mainstream Fund Services (IOM) Limited.

Martin has over 25 years of accounting, consulting and business leadership experience, more than 18 of which have been in fund administration.

Prior to Mainstream Group, Martin worked for FinancialBPO, The IQ Business Group and Arthur Andersen designing, implementing and managing outsourcing / shared services arrangements across a range of industries.

Martin holds a Bachelor of Business, Masters of Commerce and is a Certified Practising Accountant.

JOHN PLUMMER
Non-Executive Director

John joined the Board on 1 July 2015. He is the Chair of the Remuneration and Human Resources Committee and a member of the Audit and Risk Committee.

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 superannuation 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.

JOANNA FISHER
Non-Executive Director

JoAnna joined the Board on 1 May 2018. She is Chair of the Acquisitions Committee and was appointed as a member of the Remuneration and Human Resources Committee on 17 April 2019.

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.

DEBBIE LAST
Non-Executive Director

Debbie joined the Board on 1 July 2019. At the same time, she was appointed as Chair of the Audit and Risk Committee.

Debbie has over 25 years of experience in the financial services sector. Debbie is currently interim Chief Financial Officer (CFO) and Joint Company Secretary for HUB24 Group (ASX: HUB) and has held senior executive positions including CFO of NAB Asset Management and director of a number of related entities. Debbie was also a Partner of PwC Sydney and KPMG London.

Debbie holds a Bachelor of Commerce from the University of Melbourne and is a Chartered Accountant.

Directors' Report continued

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 Human Resources 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 2019 to 30 June 2020 are set out below.

Company Secretary

Alicia Gill joined Mainstream in 2014 and 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 and a Diploma of Investor Relations from the Australasian Investor Relations Association.

Directors' Meetings

The number of meetings of the Board and Board Committees held during the year ended 30 June 2020 and the number of those meetings attended by each Director is set out below:

	Board		Audit and Risk Committee		Remuneration and Human Resources Committee		Acquisitions Committee	
Director	Held while a Director	Attended	Held while a member	Attended	Held while a member	Attended	Held while a member	Attended
Byram Johnston OAM	20	20	6	6	5	5	6	5
Martin Smith	20	20	—	—	—	—	6	6
John Plummer	20	20	6	6	5	5	—	—
JoAnna Fisher	20	20	—	—	5	5	6	6
Debbie Last	20	19	6	6	—	—	—	—

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 [1]	ESP Performance Rights (subject to vesting)	Total Interests
Byram Johnston OAM	615,460	17,835,339	37,500	18,488,299
Martin Smith	1,161,843	19,353,244	580,000	21,095,087
John Plummer	13,112,757	—	—	13,112,757
JoAnna Fisher	100,004	—	—	100,004
Debbie Last	—	—	—	—
Total	**14,990,064**	**37,188,583**	**617,500**	**52,796,147**

1. Indirect shares include Director related entities.

Dividends

Dividends paid by the Company during the financial year were:

	Cents per share	Total amount	Franking level	Corporate tax rate for imputation purposes	DRP participation rate	Shares issued under DRP	Date of payment
Final 2019	0.50	$1,093,856	50%	30.0%	16%	206,873	20 September 2019

Subsequent to the end of the financial year, the Company declared a final dividend out of the profit reserve account of 1 cent per issued share, franked at 50%, for the financial year ended 30 June 2020, payable on 14 October 2020. The Board of Directors resolved that the Company's Dividend Reinvestment Plan (DRP) would not be available for this dividend.

Principal activities

The Group provides a full suite of services to the wealth management sector to address their middle and back office needs. Services include investment administration, fund accounting, custody, unit registry (transfer agency), middle office and corporate services.

The Group's global operations focus on the following three regions:

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

The majority of revenue is recurring in nature via long term contracts for services essential to running an investment manager's back office. Clients are diversified across different asset classes and the majority are contracted for two or more Mainstream services. Depending on the particular contract, fees are largely fixed; typically, a minimum administration fee, fixed fees per investor and per transaction and a variable fee based on funds under management apply.

There was no significant change in the nature of Mainstream's activities during the year.

Review of financial results and operations

The total comprehensive income net of tax increased by 156% to $476,910 profit (FY19: $853,723 loss). The profit for the Group after income tax increased by 148% to $545,761 profit (FY19: $1,140,565 loss). Total revenue increased 11% to $55,352,614 (FY19: $50,032,073).

The Group is in a strong financial position with a solid balance sheet and at 30 June 2020 reported $14,739,742 of cash and cash equivalents (FY19: $11,676,758) and Net Assets of $36,913,740 (FY19: $35,099,043).

Asia-Pacific ("APAC"), which includes Australia, Singapore and Hong Kong, contributed 72% of the Group's revenue during FY20 (FY19: 72%). Custodial services were a key growth area, with funds under custody growing 96% to $9.7 billion in the year ended 30 June 2020. Middle office services, based in Hong Kong, onboarded a key client and grew its funds under administration.

The Americas (USA and Cayman Islands) accounted for 19% (FY19: 17%) of revenue, driven by the US private equity business which now administers A$10.8 billion in assets, up 96% on the prior year. Europe (Ireland, the Isle of Man and Malta) contributed 9% of revenue (FY19: 11%).

Mainstream's core Fund Services business accounted for 98% of the Group's revenue in FY20 (FY19: 92%). In a market update in May 2020, the Board confirmed that the outlook for the Fund Services business remains positive despite challenging market conditions. In particular, recent disruption and consolidation within the Australian fund administration and custody sectors is providing quality new business leads. The sales pipeline for Hong Kong, Singapore and US operations is also strong.

Mainstream Superannuation Services contributed 2% of Mainstream's FY20 revenue (FY19: 8%). This was in line with expectations due to ongoing consolidation of the superannuation industry. Following a strategic review, Superannuation Services' operations were integrated with the Fund Services business and relocated from Melbourne to Sydney during the year.

Funds under Administration grew to a record $196.6 billion as at 30 June 2020. This represented an increase of 14% on the prior 12 months. Rising global stock markets contributed 36% and net inflows [3] 64% of the $24.3 billion increase over the period.

Mainstream now administers 1,078 funds for 350 clients as at 30 June 2020 (30 June 2019: 1,012 funds for 356 clients). Mainstream continues to onboard new funds in key markets alongside consolidation of fund managers who lack scale, performance or distribution.

In line with strategy, Mainstream made a number of investments in our future growth this financial year. The Group expects to see the benefits of these investments in FY21 and beyond. Investment in our people, processes and technology contributed to a net profit after tax of $0.5 million for the period (compared to a net loss of $1.1 million for the year ended 30 June 2019).

Global headcount grew to 272 people as at 30 June 2020 (compared to 259 people as at 30 June 2019). This included the recruitment of five additional unit registry employees to support growth in our Australian operations and four additional US hires as part of our build-out strategy.

Expenses for the year included transaction costs of $0.8 million relating to the engagement of professional advisers to assess and respond to external parties looking to explore a range of market opportunities.

We continue to focus on client demand for digital service delivery and automation and alleviation of margin pressures through straight-through processing. Consequently, Mainstream invested $10.3 million on data, technology and automation during the period (FY19: $8.3 million). $2.1 million of IT costs were capitalised, with the remainder invested in market leading digital and automation projects including:

- Market first operations to support listed and unlisted funds within a single fund (Quoted Fund)
- A proprietary web portal for fund manager clients
- A proprietary investor portal and online application for initial investments
- A proprietary custody client portal that directly integrates with sub-custodians for SWIFT messaging, trade capture and online reporting
- Automated corporate actions software and workflow
- Upgrading of our unit registry reporting platform
- Automated general ledger reporting

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

Refer to the Chairman and CEO's Reports for further information on the Group's financial and operational results.

Directors' Report continued

Significant changes in the state of affairs

On 31 January 2020 the Company repaid $1 million of its three-year debt facility as per its repayment schedule. The repayment was funded from operating earnings. Following the repayment Mainstream's bank debt position is $6 million. In June 2020, the Company announced the extension of its debt facility maturity date from January 2021 to January 2022, with a change in variable interest rate to BBSY Bid +2.9% per annum. No further repayments are due before the facility matures. Mainstream and its subsidiaries maintain a net cash position in excess of its regulatory capital requirements.

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

On 18 May 2020, Mainstream announced the signing of a five plus five year agreement with Pendal Group to provide outsourced registry services for approximately $19 billion in funds under administration. Completion of the transition from Pendal's existing service provider is expected in FY21.

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

Matters subsequent to the end of the financial year

On 17 August 2020 the Board of Directors declared a final dividend out of the profit reserve account of 1 cent per share, franked at 50%, for the financial year ended 30 June 2020, payable on 14 October 2020. The Board of Directors resolved that the Company's Dividend Reinvestment Plan (DRP) would not be available for this dividend.

Other than the above, the Directors are not aware of any 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 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 in the Chairman and CEO's Reports.

Environmental regulation

The Group is not subject to any significant climate change risks or 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 *Corporations 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 27 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 Group CEO 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 auditor, 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 21.

Remuneration Report

Introduction to the Remuneration Report

On behalf of the Board and its Remuneration and Human Resources Committee, I am pleased to present Mainstream's 2020 Remuneration Report.

Changes for FY20

This year we have included these introductory remarks as well as expanded commentary within the Remuneration Report to assist shareholders in interpreting Mainstream's remuneration philosophy, structure and outcomes.

The Committee has a strong focus on the relationship between business performance, risk management and remuneration, and periodically reviews the Company's remuneration structure to ensure it remains appropriate.

As a result of last year's review, the Board has implemented a number of enhancements to its remuneration policy. A new Incentive and Bonus Policy was introduced during FY20 to guide consistent, performance and risk based remuneration outcomes for employees. The Board also approved a framework to reward stretch performance as a cash bonus for the Group CEO. At the Board's discretion, thresholds can be applied for under or overachievement of financial performance indicators.

Response to COVID-19

As discussed in the Chairman's letter, the final months of this financial year have been impacted by health, social and economic consequences of the COVID-19 pandemic. Mainstream delivered solid financial results, notwithstanding recent headwinds resulting from COVID-19.

Given the uncertain and dynamic business conditions that prevailed in the second half of the year, the Board implemented early cost and environmental control measures to ensure the safety, protection and wellbeing of our clients, our people and our shareholders.

Mainstream applied for, and has begun to receive COVID-19 related employer stimulus packages in the United States, Hong Kong and Singapore. Outside of those markets, the Company focused on discretionary cost control, rather than redundancies, to preserve operating capacity. For the last three months of FY20, the following remuneration related measures were applied, delivering savings of approximately $270,000:

- Board of director fees and CEO salary reduced by 30%
- Various executives reduced salary by 15-30%
- Freeze on non-essential hiring

As the short-term outlook has improved, these measures were lifted from 1 July 2020. We continue to monitor business conditions closely and will enact further measures if required.

FY19 remuneration outcomes

As the Company's Performance Year (PY) finishes three months after the end of the Company's financial year, the Share Based Payments discussed in this Report, and in Note 6 of the Financial Statements, largely relate to payments made in October 2019 for the Performance Year ended 30 September 2019 (PY19).

Performance outcomes for the current Performance Year, PY20, will be measured and paid after 30 September 2020, with the outcomes disclosed in the FY21 Annual Report.

The Board is satisfied that the PY19 remuneration outcomes demonstrated an appropriate link between Key Management Personnel performance and reward.

As the FY19 financial results were slightly below 'stretch target', employees (including the CEO) received awards that were below target for PY19:

- STI awards were, on average, 75% of target.
- LTI, only awarded to the CEO, was 65% of target.
- Employee Share Offer was reduced by 50%, to A$1,000 equivalent per participant.

Key Management Personnel outcomes are more fully described in section 6 of the Remuneration Report.

Outlook

The Board will continue to review the Company's remuneration governance, particularly KMP remuneration matters, as the circumstances of the Company continue to evolve.

We look forward to receiving your views and support of the Remuneration Report at the upcoming 2020 Annual General Meeting.

John Plummer

John Plummer
Chair, Remuneration and Human Resources Committee
Mainstream Group Holdings Limited

Remuneration Report continued

1. INTRODUCTION

This Remuneration Report outlines the remuneration arrangements of the Group for the year ended 30 June 2020. 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 2020 are set out below:

Name	Position	Term as KMP
Executive Directors		
Martin Smith	CEO, Mainstream Group Holdings Limited	Full Year
Executives		
Nicholas Happell	CEO, Asia-Pacific	Full Year
Jay Maher	CEO, Americas	From 1 February 2020
Denise DePaola	CEO, Americas	1 July 2019 until 1 February 2020
John McCann	CEO, Europe and Cayman	Full Year
Non-Executive Directors		
Byram Johnston OAM	Non-Executive Chairman	Full Year
John Plummer	Non-Executive Director	Full Year
Debbie Last	Non-Executive Director	Full Year
JoAnna Fisher	Non-Executive Director	Full 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*.

2. REMUNERATION PHILOSOPHY

The Group's remuneration philosophy is to attract, retain and motivate employees in order to build long term shareholder value.

The Board applies its remuneration philosophy through the following principles:

- Promoting employee behaviour that is in the best interests of clients and shareholders
- Rewarding outperformance while maintaining the Group's reputation and mitigating risk
- Remunerating employees appropriately, relative to local benchmarks, so they are attracted to and stay with Mainstream
- Where feasible, awarding incentives in deferred equity, for strong alignment with shareholders
- Assessing an individual's contribution against overall Group performance, with a higher weighting on performance-related pay for senior executives
- Encouraging employees to think and act like long-term owners of the Group

3. REMUNERATION AND HUMAN RESOURCES COMMITTEE

The Remuneration and Human Resources Committee oversees the Group's remuneration framework and is responsible for making remuneration recommendations to the Board.

The current members of the Remuneration and Human Resources Committee are John Plummer (Chair), Byram Johnston OAM and JoAnna Fisher. Their qualifications and experience are set out in the Director's Report.

The Committee applies their oversight and judgement to make sure remuneration is aligned with individual and company-wide performance as well as outcomes for our shareholders and clients.

In reviewing KMP performance, the Committee conducts their evaluation based on criteria that includes company-wide business performance, individual performance, whether strategic objectives have been achieved and peer benchmarking.

Remuneration Report continued

4. REMUNERATION STRUCTURE

Fixed and performance-based remuneration

Broadly, remuneration is structured with the following components:

Fixed remuneration:	
Fixed remuneration	› Fixed remuneration, including superannuation (where applicable). › Employees without management or technical responsibilities generally have most, or all, of their remuneration fixed. More senior employees generally have a lower proportion of their total remuneration fixed.
Performance-based remuneration:	
Short term incentives (STIs)	› A variable short-term incentive that is discretionary. The Board maintains absolute discretion on the awarding of any STIs. › Generally awarded through share-based grants to provide strong alignment with shareholders. A small number of roles are eligible to receive cash incentives in line with sales targets or local market practices. › Individuals in key business roles are eligible to participate. › Based on achievement of performance conditions that are aligned to business outcomes. › Proportion of total remuneration can range from 5% to 50% commensurate with level of responsibility and performance.
Long term incentives (LTIs)	› A variable long-term incentive that is discretionary. The Board maintains absolute discretion on the awarding of any LTIs. › Only awarded to Executive KMP who are critical to the long-term success of the business. › Rewarded through a share-based grant to provide strong alignment with shareholders. › Based on achievement of performance conditions that are aligned to business outcomes. › Proportion of total remuneration can be up to 50% to reward prudent risk taking and professional conduct.
Other share based programs:	The directors hold a shared view to be an employee owned company. This means giving all employees the opportunity to share in the success of the business. The company does this through its Employee Share Offer.
Employee Share Offer (ESO)	› A variable employee benefit that is discretionary. The Board reviews and approves the ESO each year. › Encourages broad based ownership of shares across the Group. › Open to permanent employees who are not invited to participate in the STI or LTI. › The Offer grants up to $2,000 worth of share rights for nil consideration. › Not considered as part of remuneration or subject to performance criteria.

Remuneration Report continued

5. HOW REMUNERATION OUTCOMES ARE DETERMINED

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

The following table outlines how annual remuneration outcomes are determined. The Board has the discretion to change remuneration arrangements to meet changing market conditions or comply with regulatory and corporate governance developments.

Performance-based remuneration:	
Short term incentives (STIs)	› STIs have a one-year performance period followed by a one year vesting period. › Performance measures are set for each individual, usually a combination of individual, business unit and company-wide indicators for the Performance Year. › Performance measures for the applicable Performance Year are assessed and an appropriate performance percentage is applied. A threshold gate applies to financial measures. › If performance measures are met for the Performance Year, share rights are usually granted on or around 1 October. › Share rights usually convert to fully paid ordinary shares after one year. › Share rights are subject to forfeiture during the vesting period if the employee leaves Mainstream, except in certain circumstances (such as retirement, redundancy, death or change of control). › Malus and clawback provisions apply in the event of a material financial or reputation event.
Long term incentives (LTIs)	› LTIs have a one-year performance period with a three year vesting period. › Performance measures are set for each individual for the Performance Year. Performance measures for FY20 were the achievement of revenue and EBITDA targets, sound compliance and risk management and client / employee outcomes. › Performance measures for the applicable Performance Year are assessed and an appropriate performance percentage is applied. A threshold gate applies to financial measures. › If performance measures are met for the Performance Year, share rights are usually granted on or around 1 November. › Share rights usually convert to fully paid ordinary shares in three equal tranches over three years. The performance measures are not re-tested during the vesting period. › Share rights are subject to forfeiture during the vesting period if the employee leaves Mainstream, except in certain circumstances (such as retirement, redundancy, death or change of control) › Malus and clawback provisions apply in the event of a material financial or reputation event.
Other share based programs:	
Employee Share Offer (ESO)	› Permanent employees as at 1 October are invited to opt in to receive share rights. › Share rights convert to fully paid ordinary shares after one year. › Share rights are subject to forfeiture during the vesting period if the employee leaves Mainstream, except in certain circumstances (such as retirement, redundancy, death or change of control).

6. REMUNERATION OUTCOMES FOR PY19

6.1 Performance-based remuneration outcomes

In PY19, the Group's 'stretch target' for FY19, outlined below, was not achieved and therefore performance-based awards were paid below target.

Financial measure	FY19 target	FY19 actual
Revenue	$51.8 million	$50.0 million
EBITDA [1]	$7.7 million	$7.4 million
Diluted earnings per share	$0.0156	($0.0089)

1. Refer to page 3 for a definition of EBITDA, a non-IFRS financial measure.

The following table further details how PY19 performance-based remuneration outcomes paid during FY20 were determined.

Short term incentives (STIs)

Subject to adjustment for individual performance, STIs awarded for PY19 were generally 75% of target. This outcome reflected individual and business unit targets being met but FY19 financial results below their 'stretch targets'.

Long term incentives (LTIs)

In PY19, the CEO was the only executive eligible for an LTI. His 500,000 performance rights were subject to performance measures which the Board assessed as follows:

CEO PY19 performance indicators	Weighting	Assessment Outcome	Number of performance rights
Achievement of 'stretch target' financials for FY19:	70%	35%	175,000
Delivery of key strategic projects relating to global business, acquisitions and technology	15%	15%	75,000
Compliance, retention and business risk management	15%	15%	75,000
Total	**100%**	**65%**	**325,000**

› 325,000 performance rights convert into fully paid ordinary shares over the following vesting schedule:

Incentive	Vesting Date: 1 Oct 2019 [2]	Vesting Date: 1 Oct 2020	Vesting Date: 1 Oct 2021	Total performance rights
LTI PY19 Tranche 1	108,333 (completed)	–	–	
LTI PY19 Tranche 2	–	108,333	–	
LTI PY19 Tranche 3	–	–	108,334	**325,000**

6.2 Legacy award programs

The following table shows the outcomes of share based offers from prior performance periods that vested during FY20.

Legacy award programs:

Senior Management Share Offer (SMSO)

In prior performance years, Executive Directors participated in the SMSO, now known as the LTI program. SMSO participants were awarded performance rights that entitled the holder to be issued one share for each performance right, should agree financial and non-financial performance conditions be met, over a three-year vesting period. Performance conditions are not re-tested during the vesting period.

The SMSO is now closed for any further invitations but there remain unvested tranches granted to Executive Directors in prior periods.

The following securities were issued under the SMSO during FY20 following approval to issue the securities under ASX Listing Rule 10:14:

Director	Performance Year (PY) and tranche	Vesting date [2]	Shares issued
Byram Johnston OAM [3]	SMSO PY17 (Tranche 3)	1/10/2019	37,500
	SMSO PY18 (Tranche 2)	1/10/2019	37,500
Martin Smith	SMSO PY17 (Tranche 3)	1/10/2019	113,333
	SMSO PY18 (Tranche 2)	1/10/2019	113,333

2. These securities were issued during FY20 following approval to issue the securities under ASX Listing Rule 10:14.
3. Mr Johnston was an Executive Director until 1 October 2018 when he became a Non-Executive Director. He remains eligible to receive unvested tranches relating to his service as an Executive Director in prior performance years, subject to vesting conditions.

Remuneration Report continued

7. NON-EXECUTIVE REMUNERATION DISCLOSURES

The annual aggregate of Directors' fees in relation to their duties as a Director is currently capped at $500,000. The Board does not propose to seek an increase to the aggregate Directors' fee pool limit at the 2020 AGM.

The table below summarises the Board and Committee fees payable to Directors for 2020 and planned fees for 2021. Director Fees were temporarily reduced by 30% during April to June 2020 in response to COVID-19 conditions:

Role	FY20	FY21
Non-Executive Chairman	$240,000	$240,000
Executive Director	N/A	N/A
Non-Executive Director	$50,000	$50,000
Chair, Remuneration and Human Resources Committee	$10,000	$10,000
Chair, Audit and Risk Committee	$30,000	$30,000
Chair, Acquisitions Committee	$10,000	$10,000
Member, licensed subsidiary board [1]	$10,000	$10,000

1. One or more Group Directors are appointed to the boards of each of the Group's main wholly owned subsidiaries to provide Group oversight, governance and risk management. Group Directors receive $10,000 per annum in additional fees/remuneration for each licensed subsidiary of which they are a director. Byram Johnston OAM and Martin Smith are currently directors of the following licensed subsidiaries: Mainstream Fund Services (Cayman) Limited, Mainstream Fund Services (IOM) Limited, Mainstream Fund Services (Malta) Limited, Mainstream Fund Services (Ireland) Limited, Mainstream Fund Services Pty Ltd and Mainstream Superannuation Services Pty Ltd.

The table below outlines the annual remuneration arrangements for all Non-Executive Directors in 2020 and planned fees for 2021. The fees shown include fees paid as members of both Group and subsidiary Boards:

Non-Executive Director	FY20	FY21
Byram Johnston OAM	$300,000	$300,000
John Plummer	$60,000	$60,000
JoAnna Fisher	$60,000	$60,000
Debbie Last	$80,000	$80,000
Total Remuneration – Non-Executive Directors	**$500,000**	**$500,000**

8. ADDITIONAL DISCLOSURES

8.1 Details of remuneration paid to KMP

Remuneration amounts for KMP of the Company for the year ended 30 June 2020 are detailed below:

Remuneration expense during the year ended 30 June 2020

	Short term benefits		Post-Employment	Long-term benefits	Share-based payments	
	Salary & fees $	Other Benefits [2] $	Super-annuation (or equivalent) $	Long Service Leave $	Incentive $	Total Remuneration $
Non-Executive Directors						
Byram Johnston OAM	271,647	–	–	–	(10,628)	261,019
John Plummer	50,685	–	4,815	–	–	55,500
Debbie Last [3]	122,374	–	11,626	–	–	134,000
JoAnna Fisher [3]	107,343	–	8,157	–	–	115,500
Executive Directors						
Martin Smith	543,366	–	21,003	–	156,588	720,957
Executives						
Nicholas Happell	225,559	–	20,598	3,931	79,186	329,274
Jay Maher [4]	224,881	15,316	–	–	475,000	715,197
Denise DePaola [5]	300,377	287,350 [6]	4,356	–	(163,876)	428,207
John McCann	533,170	–	24,844	–	–	558,014
Total KMP	**2,379,402**	**302,666**	**95,399**	**3,931**	**536,270**	**3,317,668**

2. Other benefits may include non-cash items such as motor vehicle and mobile phone allowances.
3. JoAnna Fisher and Debbie Last were each paid additional fees of $40,000 during FY20. In accordance with ASX Listing rule 10.17 and clause 6.5(f) of the Company's Constitution, these directors' fees were separate from and additional to their existing directors' fees for their duties as directors.
4. Jay Maher become a KMP on 1 February 2020.
5. Denise DePaola ceased to be a KMP on 1 February 2020.
6. Includes amounts accrued as share based payments agreed to be settled as a one-off USD $115,000 cash bonus.

8. ADDITIONAL DISCLOSURES continued

Remuneration expense during the year ended 30 June 2019

	Short term benefits		Post-Employment	Long-term benefits	Share-based payments	
	Salary & fees $	Other Benefits [1] $	Super-annuation (or equivalent) $	Long Service Leave $	Incentive $	Total Remuneration $
Non-Executive Directors						
Byram Johnston OAM	296,741	–	3,904	–	35,774	336,419
John Plummer	54,795	–	5,205	–	–	60,000
Lucienne Layton [2]	49,514	–	4,704	–	–	54,218
JoAnna Fisher	54,795		5,205			60,000
Executive Directors						
Martin Smith	535,490	–	20,531	–	228,341	784,362
Executives						
Nicholas Happell	216,356	–	19,854	12,735	57,552	306,497
Denise DePaola	489,365	–	13,283	–	167,995	670,643
John McCann	438,947	–	21,947	–	–	460,894
Total KMP	**2,136,003**	**–**	**94,633**	**12,735**	**489,662**	**2,733,033**

1. Other benefits may include non-cash items such as motor vehicle and mobile phone allowances.
2. Lucienne Layton ceased to be a director on 15 March 2019.

8.2 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	Contract term	End date	Resignation notice period	Termination without cause	Restraint on soliciting employees and clients	Restraint on non-compete	Termination Payments
Martin Smith	CEO, Group	3 years	30 Apr 2023	6 months	6 months	12 months	12 months	Nil
Jay Maher	CEO, Americas	4 years	30 Sep 2022	6 months	6 months	12 months	12 months	Nil
John McCann	CEO, Europe	3 years	30 Sep 2020 [3]	3 months	3 months	12 months	12 months	Nil
Nick Happell	CEO, Asia-Pacific	Ongoing	N/A	3 months	3 months	12 months	12 months	Nil

3. John's employment agreement is not expected to be extended beyond this date.

8.3 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 [4]	Termination notice period
Byram Johnston OAM	Non-Executive Chairman	3 years	3 months
John Plummer	Non-Executive Director	3 years	4 weeks
JoAnna Fisher	Non-Executive Director	3 years	4 weeks
Debbie Last	Non-Executive Director	3 years	4 weeks

4. Term of appointment is maximum term which could be reduced if the Director is not re-elected by shareholders of the Group.

8.4 Directors' Shareholdings

The number of direct and indirect shares held during the year to 30 June 2020 by each Director is set out on page 11 of the Directors' Report.

Signed in accordance with a resolution of the Directors:

Byram Johnston OAM
Non-Executive Chairman

Date: 17 August 2020
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 2020, 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

Jonathan Pye

Jonathan Pye
Partner
17 August 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

	Note	Consolidated 2020 $	Consolidated 2019 $
Revenue			
Fee income from contracts with customers		50,227,684	45,548,485
Other operating income		2,861,106	2,502,736
Interest income		2,263,824	1,980,852
Total revenue	5	**55,352,614**	**50,032,073**
Expenses			
Employee benefits expense		32,371,031	28,928,985
IT support, expenses and data		8,206,112	6,774,445
Accounting and audit fees		1,013,520	789,459
Bank fees and charges		257,257	207,882
Insurance		532,751	352,687
Interest expense		501,961	418,275
Legal fees		711,293	169,129
Consulting fees		154,562	254,713
Occupancy and overheads		977,195	3,504,219
Transaction costs		777,266	36,378
Marketing and Advertising		319,987	275,100
Travel and Accommodation		326,147	371,509
General and other expenses		493,288	930,975
Share-based payments expense	6	1,733,964	1,697,114
Depreciation expense	11,18	3,858,031	1,281,416
Amortisation expense	12	1,537,253	1,646,982
Goodwill Impairment	12	—	2,847,286
Total expenses		**53,771,618**	**50,486,554**
Profit / (Loss) before income tax expense		**1,580,996**	**(454,481)**
Income tax expense	7	1,035,235	686,084
Profit / (Loss) after income tax expense		**545,761**	**(1,140,565)**
Other comprehensive income / (loss)			
Exchange differences on translation of foreign subsidiaries		(68,851)	286,842
Other comprehensive income / (loss) for the year, net of tax		**(68,851)**	**286,842**
Total comprehensive income / (loss) for the year		**476,910**	**(853,723)**
Earnings per share (EPS):			
Basic earnings per share	4	$0.0042	($0.0092)
Diluted earnings per share	4	$0.0040	($0.0089)

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 2020

	Note	2020 $	2019 $
Assets			
Current Assets			
Cash and cash equivalents	8(a)	14,739,742	11,676,758
Trade and other receivables	9	8,378,330	8,275,013
Other current assets	10	2,628,069	2,203,987
Total Current Assets		**25,746,141**	**22,155,758**
Non-Current Assets			
Property, plant and equipment	11	6,446,549	5,555,916
Right of use assets	18	4,927,189	–
Intangible assets	12	20,494,092	22,010,069
Deferred tax assets	7(b)	2,311,177	960,842
Total Non-Current Assets		**34,179,007**	**28,526,827**
Total Assets		**59,925,148**	**50,682,585**
Liabilities			
Current Liabilities			
Trade creditors and accrued expenses	13	3,450,087	3,301,213
Provision for employee benefits	14	1,234,274	973,456
Current income tax liabilities		1,015,892	543,863
Deferred consideration	15	425,668	780,619
Other interest-bearing liabilities	16	351,976	1,000,000
Lease liabilities	18	2,249,965	–
Other current liabilities	17	2,535,808	1,068,632
Total Current Liabilities		**11,263,670**	**7,667,783**
Non-Current Liabilities			
Provision for employee benefits	14	114,186	73,536
Deferred consideration	15	–	425,668
Other interest-bearing liabilities	16	5,937,655	5,850,486
Lease liabilities	18	3,107,603	–
Deferred tax liabilities	7(b)	2,568,294	1,566,069
Total Non-Current Liabilities		**11,727,738**	**7,915,759**
Total Liabilities		**22,991,408**	**15,583,542**
Net Assets		**36,933,740**	**35,099,043**
Equity			
Contributed capital	19	35,811,622	34,391,456
Reserves	20	3,539,747	2,144,333
Retained losses		(2,417,629)	(1,436,746)
Total Equity		**36,933,740**	**35,099,043**

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 2020

Consolidated	Contributed Capital $	Reserves $	Retained Earnings $	Total Equity $
Balance at 1 July 2018	**21,362,244**	**1,979,755**	**2,045,081**	**25,387,080**
Loss after income tax expense	–	–	(1,140,565)	(1,140,565)
Other comprehensive income, net of tax	–	286,842	–	286,842
Total comprehensive income, net of tax	**–**	**286,842**	**(1,140,565)**	**(853,723)**
Transactions with owners in their capacity as owners:				
Dividends paid	–	–	(2,057,965)	(2,057,965)
Dividends reinvested	575,841	–	–	575,841
Shares issued under Private Placement	9,500,000	–	–	9,500,000
Shares issued under Share Purchase Plan	794,008	–	–	794,008
Transaction costs, net of tax	(367,705)	–	–	(367,705)
Shares issued under deferred considerations	424,393	–	–	424,393
Shares issued under Employee Share Plans	2,102,675	(2,102,675)	–	–
Share-based payments	–	1,697,114	–	1,697,114
Transfer to retained earnings	–	(416,703)	416,703	–
Transfer to profit reserve	–	700,000	(700,000)	–
Balance at 30 June 2019	**34,391,456**	**2,144,333**	**(1,436,746)**	**35,099,043**
Effect for Adoption of AASB 16 Leases			**(256,644)**	**(256,644)**
Balance at 1 July 2019 (restated note 2)	34,391,456	2,144,333	(1,693,390)	34,842,399
Profit after income tax expense	–	–	545,761	545,761
Other comprehensive income, net of tax	–	(68,851)	–	(68,851)
Total comprehensive income / (loss), net of tax	**–**	**(68,851)**	**545,761**	**476,910**
Transactions with owners in their capacity as owners:				
Dividends paid (Note 20)	–	(644,890)	–	(644,890)
Dividends reinvested	100,964	–	–	100,964
Shares issued under deferred considerations	424,393	–	–	424,393
Shares issued under Employee Share Plans	894,809	(894,809)	–	–
Share-based payments	–	1,733,964	–	1,733,964
Transfer to profit reserve	–	1,270,000	(1,270,000)	–
Balance at 30 June 2019	**35,811,622**	**3,539,747**	**(2,417,629)**	**36,933,740**

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 2020

	Note	Consolidated 2020 $	Consolidated 2019 $
Cash flows from operating activities			
Income received		52,985,473	45,881,366
Operating expenses paid		(44,021,910)	(42,838,319)
Interest received		2,263,824	1,980,852
Interest paid		(407,188)	(321,846)
Income tax paid		(830,437)	(468,881)
Net cash inflow from operating activities	8(b)	**9,989,762**	**4,233,172**
Cash flows from investing activities			
Purchase of capitalised software & equipment	11	(2,527,662)	(2,397,276)
Proceeds from sale of equipment		1,364	—
Payment of deferred consideration and amounts owing to previous vendors		(397,126)	(1,697,965)
Net cash outflow from investing activities		**(2,923,424)**	**(4,095,241)**
Cash flows from financing activities			
Shares issued		—	10,294,008
Transaction costs paid		(581,006)	(367,705)
Payment of principal lease liabilities		(2,278,974)	—
Proceeds from interest bearing liabilities, net of fees		525,725	—
Repayment of interest bearing liabilities		(1,173,749)	(2,000,000)
Dividends paid		(543,925)	(1,482,124)
Net cash inflow from financing activities		**(4,051,929)**	**6,444,179**
Net increase in cash and cash equivalents during the year		3,014,409	6,582,110
Effects of exchange rate changes on cash and cash equivalents		48,575	163,776
Cash at the beginning of the year		11,676,758	4,930,872
Cash at the end of the year	8(a)	**14,739,742**	**11,676,758**

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 and its subsidiaries (collectively, "the Group") for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 17 August 2020.

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 applied AASB 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

AASB 16 provides a single model for accounting for leases by lessees. Leases other than low value and short-term leases must be recognised on the statement of financial position of lessees. The lessee will recognise an asset, reflecting its right to use the underlying asset, and a liability, in respect of its obligation to make lease payments. Expenses in respect of leases will include depreciation of the right-of-use asset and interest expense in respect of the lease liability.

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

The effect of adoption of AASB 16 is as follows:

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

	$
Assets	
Right-of-use assets	5,549,397
Prepayments	(56,288)
Total assets	**5,493,109**
Equity	
Retained earnings	(285,908)
Total equity	**(285,908)**
Liabilities	
Lease liability	5,779,017
Total liabilities	**5,779,017**

a) Nature of the effect of adoption of AASB 16

As at 1 July 2019:

- Right-of-use assets of $5,549,397 were recognised and presented separately in the statement of financial position.
- Additional lease liabilities of $5,779,017 were recognised.
- Prepayments of $56,288 related to previous operating leases were derecognised.
- The net effect of these adjustments (post tax) resulted in an adjustment of $256,644 to retained earnings.

For the year ended 30 June 2020:

- Depreciation expense increased by $2,209,914 relating to the depreciation of additional assets recognised.
- Rent expense decreased by $2,508,917 relating to previous operating leases.
- Interest expense increased by $223,166 relating to additional lease liabilities recognised.

b) Summary of new accounting policies

Right-of-use assets

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

Lease liabilities (AASB16)

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Notes to the Financial Statements continued

NOTE 2. CONTINUED

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

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

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

	2020 $
Depreciation expense of right-of-use assets	2,209,914
Interest expense on lease liabilities	223,166
Rent expense	331,682
COVID Rent Waiver	(125,297)
Total amount recognised in profit or loss	**2,639,465**

The Australian and International Accounting Standards issued but not yet mandatory for the 30 June 2020 reporting year have not been adopted by the Group in the preparation of this annual financial report.

Several other amendments and interpretations applied for the first time in 2020, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations, or amendments that have been issued but are not yet effective.

c) Accounting standards and interpretations issued but not yet effective

New and amended Australian and International Accounting Standards issued but not yet mandatory for the 30 June 2020 reporting period are disclosed below. The Group intends to adopt these standards, as applicable, when they become effective.

AASB 101 Presentation of financial statements

AASB 101 has been amended to clarify that a liability is classified as non-current if an entity has the right at the end of the period to defer settlement of the liability for at least 12 months after the reporting period. The amendment will be effective for the Group from 1 July 2022 and is not expected to have a material impact.

AASB 3 Business Combinations

AASB 3 has been amended to help determine whether a transaction to acquire a set of activities and assets, results in a business acquisition or assets acquisition. The amendment will be applicable to business combinations with an acquisition date on or after 1 July 2020, the Group will not be affected by these amendments on the date of transition.

Other amendments that are not yet effective are not expected to result in significant changes to the Group's accounting policies.

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 28.

e) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Mainstream Group Holdings Limited ("Mainstream Group") as at 30 June 2020 and the results of all subsidiaries for the year that 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 2020. 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 holding the majority of voting rights results in control. To support this presumption, and when the Group has less than the 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 during the process of 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.

Notes to the Financial Statements continued

NOTE 2. CONTINUED

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 the 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

The Group is in the business of providing fund administration and custodian services. Revenue from contracts with customers is recognised when services are transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. Revenue is measured at the fair value of the consideration received or receivable.

Fee income
Fee income arises from providing fund administration and custodian services, which are typically based on funds under management, the number of transactions processed and number of investors or members. Fee income is recognised in line with the actual service provided to the end of the reporting period. This is determined based on the actual fund value, numbers of transactions and numbers of investors etc.

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 includes out of pocket expense recovery and other income derived from activities unrelated to the main business. It 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.

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).

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.

Tax losses of subsidiaries in foreign jurisdictions are recognised only if it is probable that future taxable amounts will be available to utilise those amounts and as such are assessed on a case by case basis. Where a tax loss arises in a foreign subsidiary and a deferred tax asset is recognised at the respective local tax rate.

Notes to the Financial Statements continued

NOTE 2. CONTINUED

i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and 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 other current liabilities in current liabilities on the statement of financial position.

j) Trade and other receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for 'expected credit loss' ("ECL"). Trade receivables are generally due for settlement within 30 days.

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

The Group applies the simplified approach and records lifetime expected losses on all eligible financial assets. If the general model is applied, expected credit losses on financial assets are recorded either on a 12-month or lifetime basis. The Group considers a financial asset is in default when contractual payments are 90 days past due or when information indicates that the Group is unlikely to receive the outstanding amount in full. However, when internal or external information indicates an outstanding amount is likely to be received, the Group may not consider a financial asset to be in default.

k) Property, plant and equipment

Property, 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.

l) Leases

The group has applied AASB 16 Leases for the first time in the current year, refer to Note 2 (b) New, Revised or amended accounting standards and interpretations adopted for details of the accounting policy applied by the group. For prior year 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.

Mainstream received a 3-month rent waiver in relation to the Pitt Street Sydney premises. The waiver has been accounted for in line with AASB 2020-4 Covid-19-Related Rent Concessions. Mainstream has applied the practical expedient to all rent concessions that meet the conditions for it. A benefit of $125,970 has been recognised in occupancy and overheads in the current year's statement of profit and loss, to reflect changes in lease payments from rent concessions.

m) 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.

Goodwill

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 the assets acquired and all 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.

NOTE 2. CONTINUED

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 (4 or 15 years) are measured at cost less amortisation and any impairment.

Impairment of non-financial assets

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

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.

There is a change in assessment of the remaining useful life of intangible assets for Mainstream Superannuation Services Pty Ltd, Mainstream Fund Services (Malta) Limited and Mainstream Fund Services (IOM) Limited to 4 years. This is in response to structural changes in the superannuation industry, existing contract maturity dates across these entities and provides more flexibility in the execution of the entity's strategy in response to changing market conditions.

n) 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.

o) 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 16 for further details on the interest-bearing loan.

p) 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, considering 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.

q) 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.

Government Grants

As at 30 June 20 the Group has received payments totaling SGD $284,812 under the Singapore Job Support Scheme ('JSS'), notification of approval to settle the first HKD $524,694 payment under the Hong Kong Employment Support Scheme ('ESS') and a loan of USD $630,000 under the USA Paycheck Protection Program ('PPP'). PPP loans are forgivable and convert to a grant upon application, only where financial metrics in relation to usage for payroll or other specified costs are met.

Management have assessed that the PPP terms for loan forgiveness will be satisfied in relation to wages and as such the PPP is accounted for as a grant in the current year financial statements. The Group has applied *AASB 120 Accounting for Government Grants and Disclosure of Government Assistance* and recognised the grants in the statement of profit and loss as a benefit against employee benefits expense in the period that they are intended to support. A total benefit of AUD $1,097,356 has been recognised in the year ended 30 June 2020.

r) 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.

s) Dividends

Dividends are recognised when declared during the financial year.

t) 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 consider 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.

Notes to the Financial Statements continued

NOTE 2. CONTINUED

u) 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 considers 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.

v) 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.

w) Critical accounting judgements, estimates and errors

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.

The COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. The outbreak and response of governments in dealing with the pandemic has impacted the community and economy. The scale and duration of these developments remain uncertain as at the date of this report. It is difficult to estimate the ongoing impact of the pandemic or governments responses on the effectiveness of the internal controls, accounting estimates or forecasts. The methodology for estimates has not changed but the underlying inputs are less certain. Market volatility may impact basis point fees (linked to funds under administration) and custody income (linked to official cash rates). In the second half of the year these have been cushioned by higher cash balances and increased transaction fees from volatile trading conditions and the number of fund closures has, so far, been below our expectations. New business demand has proved buoyant, with fund launches still proceeding above expectations in our core markets. Our estimates have been prepared based upon conditions existing at the date of this report.

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 financial assets

The impairment of financial assets 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.

For trade receivables, the Group applies a simplified approach in calculating ECLs. The Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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. For intangible assets with a finite life the amortisation period is typically 15 years. For intangible assets in Mainstream Superannuation Services Pty Ltd, Mainstream Fund Services (Malta) Limited and Mainstream Fund Services (IOM) Limited the remaining finite life and amortisation period has been reassessed to 4 years. This is reviewed at least annually.

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 considers the most recent estimate.

AASB 15 Revenue from Contracts with Customers

Mainstream Group adopted, from 1 July 2018, the new accounting standard AASB 15 Revenue from Contracts with Customers (which was effective from 1 January 2018). The Group has reviewed and reclassified $3.4 million from contract assets to trade and other receivables as at 30 June 2019, as the services or obligations under the contract have been assessed materially completed.

NOTE 3. SEGMENT REPORTING

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

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

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

2020	APAC $	Americas $	Europe $	Elimination [1] $	Consolidated $
Revenue					
External customers	39,586,638	10,772,895	4,993,081	–	55,352,614
Intercompany revenue	(195,588)	–	1,448,101	(1,252,513)	–
Intercompany dividends	3,503,335	–	–	(3,503,335)	–
Total revenue	**42,894,385**	**10,772,895**	**6,441,182**	**(4,755,848)**	**55,352,614**
Expenses					
Operating expenses	12,283,039	2,949,751	1,242,916	(171,826)	16,303,880
Employee benefits expenses	22,422,247	7,817,944	4,945,491	(1,080,687)	34,104,995
Impairment of trade receivables	44,461	127,213	(692)	–	170,982
Impairment of intangible asset	–	–	–	–	–
Depreciation and amortisation	2,775,702	141,702	274,357	–	3,191,761
Total expenses	**37,525,449**	**11,036,610**	**6,462,072**	**(1,252,513)**	**53,771,618**
Profit/(loss) before tax	**5,368,936**	**(263,715)**	**(20,890)**	**(3,503,335)**	**1,580,996**
Total assets	**50,662,382**	**6,323,373**	**5,433,886**	**(2,494,493)**	**59,925,148**
Total liabilities	**14,407,568**	**5,599,042**	**2,984,798**	**–**	**22,991,408**

2019	APAC $	Americas $	Europe $	Elimination [1] $	Consolidated $
Revenue					
External customers	36,008,692	8,735,574	5,287,807	–	50,032,073
Intercompany revenue	(305,504)	–	1,332,027	(1,026,523)	–
Intercompany dividends	5,469,353	–	–	(5,469,353)	–
Total revenue	**41,172,541**	**8,735,574**	**6,619,834**	**(6,495,876)**	**50,032,073**
Expenses					
Operating expenses	10,588,078	2,001,693	1,496,491	(79,073)	14,007,189
Employee benefits expenses	20,604,583	6,233,655	4,429,485	(947,450)	30,320,273
Impairment of trade receivables	336,583	–	46,825	–	383,408
Impairment of intangible asset	2,847,286	–	–	–	2,847,286
Depreciation and amortisation	2,825,608	13,876	88,914	–	2,928,398
Total expenses	**37,202,138**	**8,249,224**	**6,061,715**	**(1,026,523)**	**50,486,554**
Profit before tax	**3,970,403**	**486,350**	**558,119**	**(5,469,353)**	**(454,481)**
Total assets	**44,921,168**	**3,584,818**	**3,710,250**	**(2,494,493)**	**49,721,743**
Total liabilities	**11,118,524**	**2,407,286**	**1,096,890**	**–**	**14,622,700**

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

Notes to the Financial Statements continued

NOTE 4. EARNINGS PER SHARE ("EPS")

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

Diluted EPS is calculated by dividing the profit attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. Where a Company has an accounting loss, the diluted EPS is equal to the basic EPS due to the contingently issued ordinary shares being excluded from the calculation.

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

	2020 $	2019 $
Profit / (Loss) attributable to ordinary equity holders of the parent:	**545,761**	**(1,140,565)**
	Shares	Shares
Weighted average number of ordinary shares for basic EPS	131,128,227	124,164,733
Effects of dilution from:		
› Employee Share Plans	5,391,253	2,500,473
› Deferred Consideration for Trinity Fund Administration	922,353	1,841,945
Weighted average number of ordinary shares adjusted for the effects of dilution	**137,441,833**	**128,507,151**

As at 30 June 2020, there were 131,841,912 ordinary shares outstanding (2019: 128,977,954).

The calculation of weighted average number of ordinary shares outstanding considers the issuance of:

- 206,873 fully paid ordinary shares regarding the Company's Dividend Reinvestment Plan ("DRP") on 20 September 2019;
- 919,592 fully paid ordinary shares regarding the Company's deferred consideration on 1 October 2019; and
- 1,737,493 fully paid ordinary shares under the Company's Employee Share Plan on 1 October 2019.

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

Notes to the Financial Statements continued

NOTE 5. REVENUE

	Consolidated 2020 $	2019 $
Fee income from contracts with external customers	50,227,684	45,548,485
Other operating income	2,861,106	2,502,736
Interest income	2,263,824	1,980,852
Total revenue	**55,352,614**	**50,032,073**

Disaggregation of revenue (Geographical)	APAC $	America $	Europe $	Total $
2020				
Fee income from contracts with customers	34,459,150	10,780,080	4,988,454	50,227,684
Other operating income	2,862,073	(5,621)	4,653	2,861,105
Interest income	2,265,415	(1,564)	(26)	2,263,825
Total revenue	**39,586,638**	**10,772,895**	**4,993,081**	**55,352,614**
2019				
Fee income from contracts with customers	31,533,418	8,729,962	5,285,105	45,548,485
Other operating income	2,493,632	6,050	3,054	2,502,736
Interest income	1,981,642	(438)	(352)	1,980,852
Total revenue	**36,008,692**	**8,735,574**	**5,287,807**	**50,032,073**

NOTE 6. SHARE BASED PAYMENTS

The Company has in place an Employee Share Plan ("ESP"). The ESP is a plan under which Directors, senior management and eligible employees may be allocated Awards as a means of retaining their service and aligning their interests with shareholders. Awards can be issued in the form of Performance Rights, Options or Restricted Shares.

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

The Short-Term Incentive ("STI") grants Performance Rights to the broader management team in recognition of key performance indicator ("KPI") achievement and performance. The Company may at its discretion provide other bonuses. Any discretionary bonuses awarded are reported with the STI numbers presented below. The STI expense decreased relative to the prior period due to the Asia-Pacific and Australia CEOs moving from the STI to the LTI pool as well as a lower overall incentive pay out. The STI expenses includes $1,140,000 attributable to US sales incentives during 2020.

The Long Term Incentive grants Performance Rights to Executive Directors and senior management subject to achievement of various performance measures tied to the Company's profitability and KPIs. The LTI expense increased relative to the prior period due to the Asia-Pacific and Australia CEOs moving from the STI to the LTI pool. The LTI includes vested tranches of awards issued under the legacy Senior Management Share Offer from prior performance years. This plan was replaced by the LTI in 2018.

The total expense recognised for share-based payments during the years ended 30 June 2020 and 30 June 2019 are:

	Consolidated 2020 $	2019 $
Share-based payments		
Employee Share Offer	91,325	229,023
Short Term Incentive	1,390,767	1,203,976
Long Term Incentive	251,872	264,115
Total share-based payments expense	**1,733,964**	**1,697,114**

Notes to the Financial Statements continued

NOTE 7. INCOME TAX

The Group calculates the period income tax expense using the tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The major components of income tax expense in the consolidated statement of profit or loss for the years ended 30 June 2020 and 2019 are:

	Consolidated	
	2020 $	2019 $
a) Current income tax		
Current income tax	1,285,965	1,199,898
Current tax adjustment for prior periods	92,184	(98,507)
Deferred tax benefit	(342,914)	(415,307)
Income tax expense	**1,035,235**	**686,084**
Deferred tax included in income tax expense comprises:		
Movement in deferred tax assets	(1,318,371)	(26,081)
Movement in deferred tax liabilities	975,457	(389,226)
Deferred tax benefit	**(342,914)**	**(415,307)**
Reconciliation of income tax expense and accounting profit		
Profit/(Loss) before income tax expense	1,580,996	(454,481)
Tax at the statutory rate of 30% (PY: 30%)	474,299	(136,344)
Add:		
Share based payments	520,189	509,134
Tax rate differential in other jurisdictions	(373,900)	(567,761)
Adjustments to prior periods	92,185	(108,258)
Amortisation of intangible assets	290,584	95,042
Impairment of goodwill	–	854,186
Non-assessable grants	(31,076)	–
Other	62,954	40,085
Income tax expense at effective tax rate	**1,035,235**	**686,084**
b) Analysis of deferred tax		
Deferred tax asset relates to:		
Provisions	424,191	350,377
Accruals and Sundry items	341,586	311,178
Foreign tax loss carried forward	36,186	–
Equity raising costs	291,178	252,694
Property, plant and equipment	27,218	33,352
Lease Liabilities (AASB16)	1,184,093	–
Other	6,725	13,241
	2,311,177	**960,842**
Deferred tax liability relates to:		
Property, plant and equipment	179,848	168,440
Right of Use Assets (AASB16)	1,107,002	–
Other	14,279	2,397
Finite life intangible assets	1,267,165	1,395,232
	2,568,294	**1,566,069**
Net deferred tax liability	**257,117**	**605,227**
c) Income tax benefit charged directly to equity		
Transaction costs associated with share issue	–	157,588
Adoption of AASB16	29,264	–

The Group's effective tax rate for the year ended 30 June 2020, excluding impairment of goodwill and share-based payments was, 31.20% (2019: 17%)

Notes to the Financial Statements continued

NOTE 8. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

a) Cash and cash equivalents

	Consolidated	
	2020 $	2019 $
Cash at bank	14,739,742	11,676,758

b) Reconciliation of Cash Flow from Operating Activities

	Consolidated	
	2020 $	2019 $
Profit/(Loss) after tax	545,761	(1,140,565)
Adjustments for:		
Amortisation expense	1,537,253	1,646,982
Depreciation expense	3,858,031	1,281,416
Impairment of goodwill	–	2,847,286
Share-based payments	1,733,964	1,697,114
Changes in operating assets and liabilities		
Increase in receivables	(103,317)	(2,169,855)
Increase in trade creditors and accrued expenses	148,874	436,203
Increase in other assets	(424,082)	(207,639)
increase/(decrease) in other liabilities	2,262,899	(157,770)
Increase in right to use assets	(4,927,189)	–
Increase in lease liabilities (AASB16)	5,357,568	–
Cash inflows from operating activities	**9,989,762**	**4,233,172**

c) Non-cash financing activities

	Consolidated	
	2020 $	2019 $
Issue of shares under the DRP	100,964	575,841

NOTE 9. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated	
	2020 $	2019 $
Trade debtors	8,839,432	8,632,500
Allowance for expected credit loss (Note 23)	(461,102)	(357,487)
	8,378,330	**8,275,013**

NOTE 10. CURRENT ASSETS – OTHER

	Consolidated	
	2020 $	2019 $
Deposit bonds	1,220,589	1,299,601
Prepayments	1,253,082	775,811
Income tax receivable	–	–
Other	154,398	128,575
	2,628,069	**2,203,987**

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

Notes to the Financial Statements continued

NOTE 11. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2020 $	2019 $
Office Equipment – at cost	1,377,791	1,157,825
Less: Accumulated depreciation	(619,357)	(519,376)
	758,434	**638,449**
Computer Equipment – at cost	1,451,025	1,301,981
Less: Accumulated depreciation	(1,201,008)	(934,290)
	250,017	**367,691**
Capitalised software – at cost	9,539,086	7,572,116
Less: Accumulated depreciation	(4,369,449)	(3,213,288)
	5,169,637	**4,358,828**
Work-in-Progress – at cost	268,461	190,948
	268,461	**190,948**
Total property, plant and equipment	**6,446,549**	**5,555,916**

The gross carrying amount of fully depreciated property, plant and equipment that is still in use as at 30 June 2020 was $2,293,144 (2019: $2,123,853).

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 $	Work in Progress $	Total $
Balance at 1 July 2018	**170,661**	**294,540**	**3,930,598**	**–**	**4,395,799**
Foreign exchange	2,768	5,388	36,101		44,257
Additions	590,130	257,026	1,359,172	190,948	2,397,276
Depreciation expense	(125,111)	(189,263)	(967,042)	–	(1,281,416)
Balance at 30 June 2019 and 1 July 2019	**638,448**	**367,691**	**4,358,829**	**190,948**	**5,555,916**
Foreign exchange	4,301	3,312	11,699	82	19,394
Additions [1]	297,891	155,004	1,822,009	252,758	2,527,662
Disposal	(8,306)	–	–	–	(8,306)
Depreciation expense	(173,900)	(275,990)	(1,198,227)	–	(1,648,117)
Transfer	–	–	175,327	(175,327)	–
Balance at 30 June 2020	**758,434**	**250,017**	**5,169,637**	**268,461**	**6,446,549**

1. Additions include IT expenditure on key client projects for future products and technology upgrades to improve processing efficiency and comply with legislative changes. Examples include upgrades to HiTrust and Composer software, workflow enhancements, service level agreement reporting, automated client reporting, investor portal development and development of an online investor application.

NOTE 12. NON-CURRENT ASSETS – INTANGIBLES

	Consolidated 2020 $	Consolidated 2019 $
Business combinations – goodwill	10,315,415	10,315,415
Other intangible assets	10,178,677	11,694,654
	20,494,092	**22,010,069**

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

	Goodwill $	Other Intangible Assets $	Total $
Opening balance at 1 July 2018	**13,162,701**	**13,339,108**	**26,501,809**
Amortisation expense	–	(1,646,982)	(1,646,982)
Exchange difference	–	2,528	2,528
Goodwill impairment	(2,847,286)	–	(2,847,286)
Opening balance at 1 July 2019	**10,315,415**	**11,694,654**	**22,010,069**
Amortisation expense	–	(1,537,253)	(1,537,253)
Exchange difference	–	21,276	21,276
Closing balance at 30 June 2020	**10,315,415**	**10,178,677**	**20,494,092**

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% (2019: 5%) and terminal growth rate of 3% (2019: 3%) were applied to the model. The discount rate of 12.1% (2019: 10.8%) pre-tax reflects management's estimate of the time value of money and Group's weighted average cost of capital.

A review of useful lives has been undertaken. Management assessment determined that the Intangible Assets of Mainstream Superannuation Services Pty Ltd, Mainstream Fund Services (Malta) Limited and Mainstream Fund Services (IOM) Limited have a remaining useful life of 4 years. This assessment is in response to structural changes in the superannuation industry, existing contract maturity dates across these entities and provides more flexibility in the execution of the entity's strategy in response to changing market conditions. As a result, the definite useful lives of Intangible Assets for Mainstream Superannuation Services Pty Ltd, Mainstream Fund Services (Malta) Limited and Mainstream Fund Services (IOM) Limited have been revised from 15 years to 4 years and an additional $0.7 million of amortisation being recognised in the current period.

Other than the above, the Group did not identify any indicators of impairment during the year ended 30 June 2020.

	Consolidated 2020 $	Consolidated 2019 $
Impairment loss		
Goodwill	–	2,847,286

Notes to the Financial Statements continued

NOTE 13. CURRENT LIABILITIES – TRADE CREDITORS AND ACCRUED EXPENSES

	Consolidated	
	2020 $	2019 $
Trade creditors	1,125,825	1,511,785
Accrued expenses	2,324,262	1,789,428
Total	**3,450,087**	**3,301,213**

NOTE 14. PROVISIONS FOR EMPLOYEE BENEFITS

	Consolidated	
	2020 $	2019 $
Annual leave liability – current	1,115,668	833,834
Long services leave liability		
› current	118,606	139,622
› non-current	114,186	73,536
Total	**1,348,460**	**1,046,992**

NOTE 15. DEFERRED CONSIDERATION

	Consolidated	
	2020 $	2019 $
Deferred Consideration		
› current	425,668	780,619
› non-current	—	425,668
Total	**425,668**	**1,206,287**

With respect to the Trinity Group acquisition, deferred consideration of 919,592 shares and USD 250,000 cash was settled in both the current and prior financial year. The final deferred settlement of 922,353 shares, will settle on or around 1 October 2020. This settlement is subject to certain financial Key Performance Indicators being achieved.

NOTE 16. INTEREST BEARING LIABILITIES

	Consolidated	
	2020 $	2019 $
Interest bearing liabilities		
Current	351,976	1,000,000
Non-current	5,937,655	5,850,486
Total	**6,289,631**	**6,850,486**

The Company has a debt facility with Australia and New Zealand Banking Group Limited ("ANZ"). The facility's maturity has been extended by 12 months to 30 Jan 2022, with an updated charge of BBSY bid + 2.9% per annum. During the year, the Company repaid $1 million (2019: $2 million) of the debt facility. The Group is compliant with its debt covenants as at 30 June 2020.

As at 30 June 2020, the carrying amount of interest bearing liabilities approximates their fair value.

NOTE 17. OTHER CURRENT LIABILITIES

	Consolidated	
	2020 $	2019 $
GST Liability	587,142	399,663
PAYG withholding payable	186,026	169,546
Superannuation payable	356,800	348,939
Due to previous vendors of acquired entities*	561,496	26,454
Other Payables	844,344	124,030
Total	**2,535,808**	**1,068,632**

* FY20 relates to amounts payable to a previous shareholder of Fund administration, Inc. As there is no future benefit, this liability has been accrued in the accounts.

NOTE 18. OPERATING LEASES

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

	Right-of-use assets			
	Office premise $	Other equipment $	Total $	Lease liabilities $
As at 1 July 2019	**5,275,226**	**272,886**	**5,548,112**	**5,779,017**
Additions	1,527,986	13,245	1,541,231	1,541,231
Depreciation expense	(2,095,628)	(114,286)	(2,209,914)	–
Interest expense	–	–	–	223,166
Payments	–	–	–	(2,278,974)
Exchange differences	47,760	–	47,760	93,128
As at 30 June 2020	**4,755,344**	**171,845**	**4,927,189**	**5,357,568**

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

	Consolidated	
	2020 $	2019 $
Not later than one year	2,462,305	1,832,523
Later than one year and not later than five years	2,265,182	2,613,017
Greater than five years	911,224	85,516
Total	**5,638,711**	**4,531,056**

NOTE 19. EQUITY – CONTRIBUTED CAPITAL

	Consolidated		Consolidated	
	2020 $	2019 $	2020 $	2019 $
Ordinary shares – fully paid	131,841,912	128,977,954	35,811,622	34,391,456

Ordinary shares

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

	Shares
Ordinary shares outstanding at 30 June 2019	**128,977,954**
Shares issued under Dividend Reinvestment Plan	206,873
Shares issued under Employee Share Plan	1,737,493
Shares issued for Deferred Consideration	919,592
Ordinary shares outstanding at 30 June 2020	**131,841,912**

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

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

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

Notes to the Financial Statements continued

NOTE 20. RESERVES

	Consolidated 2020 $	Consolidated 2019 $
Foreign currency translation reserve	520,732	589,583
Profit reserve	1,325,110	700,000
Share-based payment reserve	1,693,905	854,750
Total	**3,539,747**	**2,144,333**

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

	Revaluation reserve $	Profit reserve $	Foreign currency translation reserve $	Share-based payment reserve $
Opening balance at 1 July 2018	**416,703**	**–**	**302,741**	**1,260,311**
Foreign exchange translation	–	–	286,842	–
Share issued under Employee Share Plan	–	–	–	(2,102,675)
Share-based payments	–	–	–	1,697,114
Transfer (to)/from retained earnings	(416,703)	700,000	–	–
Closing balance at 30 June 2019 and 1 July 2019	**–**	**700,000**	**589,583**	**854,750**
Foreign exchange translation	–	–	(68,851)	–
Share issued under Employee Share Plan	–	–	–	(894,809)
Share-based payments	–	–	–	1,733,964
Dividend paid	–	(644,890)		
Transfer (to)/from retained earnings	–	1,270,000	–	–
Closing balance at 30 June 2020	**–**	**1,325,110**	**520,732**	**1,693,905**

Revaluation reserve

The reserve is used to recognise increments and decrements in the fair value of software. There was nil (2019: $416,703) transferred to retained earnings during the year ended 30 June 2020. This transfer related to software which has now been fully depreciated and is still in use.

Foreign currency translation reserve

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

Profit reserve

The reserve is used to recognise the profits that have been appropriated for payment of dividends. During the year, $1,270,000 (2019: $700,000) was allocated from current profits as at 30 June 2020, which is preserved for a future dividend.

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 21. EQUITY – DIVIDENDS

On 20 August 2019, the Company declared a final dividend out of the profit reserve of 0.5 cents per issued share, franked at 50%, for the financial year ended 30 June 2019. Payment of the dividend was completed on 20 September 2019.

NOTE 22. 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 necessary adjustments in light of changes in market and economic conditions.

NOTE 23. 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:

2020	Note	Weighted average interest rate %	Floating interest rate $	Fixed Interest Rate $	Non-interest bearing $	Total $
Financial assets						
Cash and cash equivalents	8	0.39	14,739,742	–	–	14,739,742
Trade and other receivables	9		–	–	8,839,433	8,839,433
Deposit bonds	10		–	–	1,220,589	1,220,589
			14,739,742	**–**	**10,060,022**	**24,799,764**
Financial liabilities						
Trade creditors and accrued expenses	13		–	–	3,450,087	3,450,087
Deferred consideration	15		–	–	425,668	425,668
Interest-bearing liabilities	16	2.67	5,937,655	351,976	–	6,289,631
Lease liabilities (AASB16)	18	3.79		5,357,567		5,357,567
			5,937,655	**5,709,543**	**3,875,755**	**15,522,953**

2019	Note	Weighted average interest rate %	Floating interest rate $	Fixed Interest Rate $	Non-interest bearing $	Total $
Financial assets						
Cash and cash equivalents	8	0.50	11,676,758	–	–	11,676,758
Trade and other receivables	9		–	–	8,632,499	8,632,499
Deposit bonds	10		–	–	1,299,601	1,299,601
			11,676,758	**–**	**9,932,100**	**21,608,858**
Financial liabilities						
Trade creditors and accrued expenses	13		–	–	3,301,213	3,301,213
Deferred consideration	15		–	–	1,206,287	1,206,287
Interest-bearing liabilities	16	3.60	6,850,486	–	–	6,850,486
			6,850,486	**–**	**4,507,500**	**11,357,986**

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.

Notes to the Financial Statements continued

NOTE 23. 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.

An ECL analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. Due to COVID-19, the gross carrying amount of 90+ days is increased by $1,012,017 in FY20. However, the expected loss rate decreased from 23% to 18% in FY20. Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

2020	Current	30-60 days	61-90 days	90 + days	Total
Expected loss rate	0%	0%	0.3%	18%	
Gross carrying amount	5,896,967	163,087	208,746	2,570,633	8,839,433
Expected credit loss	–	–	642	460,460	461,102

2019	Current	30-60 days	61-90 days	90 + days	Total
Expected loss rate	0%	0%	0%	23%	
Gross carrying amount	6,742,637	197,963	133,284	1,558,616	8,632,500
Expected credit loss	–	–	–	357,487	357,487

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 2020:

2020	Note	On demand $	Less than 3 months $	3 to 12 months $	1 to 5 years $	Greater than 5 years $	Total $
Trade creditors and accrued expenses	13	515,857	2,854,886	79,344	–	–	3,450,087
Deferred consideration	15	–	–	425,668	–	–	425,668
Interest bearing liabilities	16	–	130,598	221,372	6,000,000	–	6,351,970
Lease liabilities	18	–	593,346	1,868,959	2,265,182	911,224	5,638,711
		515,857	**3,578,830**	**2,595,343**	**8,265,182**	**911,224**	**15,866,436**

2019	Note	On demand $	Less than 3 months $	3 to 12 months $	1 to 5 years $	Greater than 5 years $	Total $
Trade creditors and accrued expenses	13	547,602	2,336,875	416,736	–	–	3,301,213
Deferred consideration	15	–	–	780,619	425,668	–	1,206,287
Interest bearing liabilities	16	–	–	1,000,000	6,000,000	–	7,000,000
		547,602	**2,336,875**	**2,197,355**	**6,425,668**	**–**	**11,507,500**

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.

		2020 Profit before tax $	2019 Profit before tax $
Interest rate risk			
Impact of a 100-basis point ("bp")	-100 bp	88,021	48,263
change in interest rate	+100 bp	(88,021)	(48,263)
Foreign currency risk			
Impact of a 10% movement of	-10% depreciation of AUD	800,360	553,021
exchange rate against Australian dollar	+10% appreciation of AUD	(800,360)	(553,021)

NOTE 23. CONTINUED

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.

Litigation risk

Litigation risk is the risk that legal action will be taken against the Company which leads to financial liabilities, brand damage and diversion of management time. During the normal course of business, the Company may become subject to claims and litigation.

The Directors have given due consideration to such matters, which are or may be subject to litigation at year end and, subject to specific provisions raised, are of the opinion that no material contingent liability exists.

NOTE 24. KEY MANAGEMENT PERSONNEL DISCLOSURES

Compensation

The aggregate compensation received by the Key Management Personnel, including Directors of the Group, as listed on page 19 of this report, is set out below:

	Consolidated	
	2020 $	2019 $
Short-term employee benefits	2,682,068	2,136,003
Post-employment benefits (superannuation or equivalent)	95,399	94,633
Other long-term benefits	3,931	12,735
Termination benefits	—	—
Share-based payments	536,270	489,662
	3,317,668	**2,733,033**

NOTE 25. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Group did not have any contingent assets as at 30 June 2020 (2019: $nil) nor contingent liabilities as at 30 June 2020 (2019: $nil).

NOTE 26. RELATED PARTY TRANSACTIONS

Subsidiaries

Interests in subsidiaries are set out in note 29.

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.

The liability due to previous shareholders of acquired entities was $nil (2019: $26,454) as at 30 June 2020. The liability was due to a previous shareholder of Mainstream Fund Services, Inc, in relation to historic retained earnings as agreed in the Sale Agreement.

All intercompany transactions were made on normal commercial terms and conditions no more favourable than those available to other parties, except some intercompany balances which are payable on demand and short term in nature that are interest free.

Notes to the Financial Statements continued

NOTE 27. AUDITOR'S REMUNERATION

The disclosures are set out below:

I. Category 1 – Fees to the group auditor for:
   i) auditing the statutory financial report of the parent covering the group;
   ii) auditing the statutory financial reports of any controlled entities;

II. Category 2 – Fees for assurance services that are required by legislation to be provided by the auditor;

III. Category 3 – Fees for other assurance and agreed-upon-procedures services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the auditor or another firm; and

IV. Category 4 – Fees for other services

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

Auditor's Remuneration	30 June 2020 $	30 June 2019 $
Fees to Ernst & Young (Australia)		
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	274,710	258,111
Fees for assurance services that are required by legislation to be provided by the auditor	18,995	16,983
Fees for other assurance and agreed-upon-procedures services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the auditor or another firm	162,447	185,058
Fees for other services		
› Tax compliance	72,696	19,240
Total fees to Ernst & Young (Australia) (A)	**528,848**	**479,392**
Fees to other overseas member firms of Ernst & Young (Australia)	142,324	135,660
Fees for auditing the financial report of any controlled entities		
Fees for assurance services that are required by legislation to be provided by the auditor	6,205	5,726
Total fees to overseas member firms of Ernst & Young (Australia) (B)	**148,529**	**141,386**
Total auditor's remuneration (A)+(B)	**677,377**	**620,778**

NOTE 28. PARENT ENTITY INFORMATION

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

	Parent	
	2020 $	2019 $
Statement of financial position		
Total current assets	2,759,815	2,363,714
Total assets	**27,057,544**	**24,532,511**
Total current liabilities	(1,386,657)	(3,449,815)
Total liabilities	**(10,985,650)**	**(10,347,946)**
Equity		
Issued capital	35,811,622	34,391,456
Reserves	3,055,220	1,538,664
Retained losses	(22,795,359)	(21,745,555)
Total equity	**16,071,483**	**14,184,565**
Profit / loss of the parent entity	299,872	(2,244,118)
Total comprehensive profit / loss of the parent entity	299,872	(2,244,118)

The Group consolidated profit after income tax for the year ended 30 June 2020 was $545,761 (2019: $1,140,565 loss). Refer to the consolidated statement of profit and loss and other comprehensive income for further details.

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

The parent entity had no material capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

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.

Notes to the Financial Statements continued

NOTE 29. 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:

Name of entity	Country of incorporation	Equity holding 2020 %	Equity holding 2019 %
Mainstream Fund Services Pty Ltd	Australia	100	100
Mainstream Superannuation Services Pty Ltd	Australia	100	100
ShareBPO Pty Ltd	Australia	100	100
Mainstream Fund Services Pte. Ltd.	Singapore	100	100
Mainstream Fund Services (HK) Limited	Hong Kong	100	100
Mainstream Fund Services, Inc.	U.S.A.	100	100
Mainstream PE Services, Inc.[1]	U.S.A.	100	–
Mainstream Fund Services (Malta) Limited	Malta	100	100
Mainstream Fund Services (IOM) Limited	Isle of Man	100	100
Mainstream Secretarial Services (IOM) Limited	Isle of Man	100	100
Columbus Nominees One Limited	Isle of Man	–	100
JAL Investments Limited	Cyprus	100	100
Mainstream Fund Services (Ireland) Limited	Ireland	100	100
Mainstream Fund Services (Cayman) Limited	Cayman Islands	100	100

1. Mainstream PE Services, Inc. was incorporated on 19 May 2020. The principal activity of the entity is private equity fund administration.

NOTE 30. EVENTS AFTER THE REPORTING PERIOD

On 17 August 2020 the Company announced a final dividend out of the profit reserve account of 1 cent per issued share, franked at 50% at a corporate tax rate of 30%. This dividend is for the financial year ended 30 June 2020 and is payable on 14 October 2020. The Board of Directors resolved that the Company's Dividend Reinvestment Plan (DRP) would not be available for this dividend.

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

Directors Declaration

In accordance with a resolution of the Directors of Mainstream Group Holdings Limited, 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 2020 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 2020 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 2020.

On behalf of the Board

Byram Johnston OAM
Non-Executive Chairman

Date: 17 August 2020
Sydney

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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 2020, the consolidated statement of 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 2020 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 (including Independence Standards) (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.

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.

Independent Auditor's Report continued

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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 2020, the Group's goodwill and other intangible assets balance was $20.5m which represented 34%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. As at 30 June 2020 there is significant uncertainty over any forward-looking estimates arising from the COVID-19 pandemic and the response of Governments to it. This means that future outcomes may change significantly and unexpectedly over a relatively short period of time. In this situation the disclosures in note 2(w) of the financial statements provide particularly important information about the judgements and estimates made as at 30 June 2020. The Group has disclosed in Note 12 of the financial report the assessment method, including the key underlying assumptions, the results of the assessments and the impact of applying sensitivities.	Our audit procedures included: ▸ Assessed the Group's determination of the CGUs to which goodwill is allocated ▸ Assessed the methodology used to calculate the recoverable amount of each CGU; ▸ Agreed the projected cash flows used in the value-in-use impairment models to the Board approved plan of the Group; ▸ Compared the Group's implied growth rate assumptions to comparable companies; ▸ Considered the accuracy of historical cash flow forecasts; ▸ Assessed the methodology and assumptions used in the calculation of the discount rate, including comparison of the rate to market benchmarks; ▸ Tested the mathematical accuracy of the impairment model for each CGU; ▸ Considered the Group's sensitivity analysis and evaluated whether any reasonably foreseeable change in assumptions could lead to a material impairment; and ▸ Assessed the adequacy of the disclosures in Note 12 in accordance with Australian Accounting Standards.

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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 in multiple countries, the accounting policy for which is disclosed in Note 2g. The fee calculation process is largely manual and the majority of customer contracts are bespoke with fixed and/or variable components. Revenue recognition requires making estimates relating to the wide variety of unique contract conditions, which leads to contract revenue recognition being complex. As a result, revenue recognition was considered a key audit matter.	Our audit procedures included: ▸ Assessed the appropriateness of the Group's revenue recognition accounting policies; ▸ Evaluated and tested the Group's processes for recognising contract revenues; ▸ Recalculated fee income, on a sample basis, in accordance with contractual arrangements and other supporting documentation; ▸ Performed cut-off testing on a sample of transactions recorded close to year end to determine whether the associated revenue was recognised in the correct period; ▸ Analysed revenue trends and movements and obtained evidence to support any variations from our expectations; and ▸ Assessed the related note disclosure in accordance with Australian Accounting Standards.

Independent Auditor's Report continued

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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 2020 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:

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- 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, actions taken to eliminate threats or safeguards applied.

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.

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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 27 to 37 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Mainstream Group Holdings Limited for the year ended 30 June 2020, 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

Jon Pye

Jon Pye
Partner
Sydney
17 August 2020

Shareholder Information

Additional information required by the Australian Securities Exchange (ASX) and not shown elsewhere in this report is as follows. The information is current as at 3 August 2020.

a) Distribution of equity securities

Range	Shareholders	Holdings	Percentage
1 – 1000	98	50,841	0.04%
1001 – 5000	805	2,463,379	1.87%
5001 – 10,000	422	3,150,466	2.39%
10,001 – 100,000	562	16,536,987	12.54%
100,001 and above	79	109,640,239	83.16%
Total	**1,966**	**131,841,912**	**100%**
Holdings less than a marketable parcel	45		

b) Substantial shareholders

Position	Investor	Date of last notice	Holdings at date of last notice	Percentage
1	MARTIN CHARLES SMITH [1]	1 October 2019	20,515,087	15.56%
2	BYRAM THOMAS JOHNSTON [2]	31 March 2020	18,458,416	14.00%
3	FORAGER FUNDS MANAGEMENT PTY LTD	31 May 2020	13,142,172	9.97%
4	JOHN PLUMMER	9 April 2020	13,112,757	9.95%

1. Holds direct interests and indirect interests through Sodor Holdings Pty Ltd as trustee for the Sodor Investment Trust and Mr Martin Charles Smith + Mrs Sharon Lee Smith <Smith Family S/F No2 A/C>.
2. Holds direct interests and indirect interests through Johnston Bros Pty Ltd as trustee for the Mainstream Investment Trust.

Shareholders are advised that holdings of 10.0% or more are restricted due to regulator imposed ownership limits that apply to the Company's wholly owned subsidiaries in Europe and the Cayman Islands. Any shareholder seeking to hold 10.0% or more of the Company's securities needs to provide prior written notification of the proposed transaction to the Company Secretary so that the relevant regulators can be informed and determine whether there are any prudential grounds upon which they should object or impose conditions on the transaction. In accordance with ASX Listing Rule 3.19 and to ensure compliance with foreign laws, Mainstream may refuse to register any transfer of shares which would contravene these shareholding restrictions or require divestiture of any shares that exceed the shareholding restrictions.

c) Twenty largest holders of quoted equity securities

Position	Investor	Holdings	Percentage
1	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	20,466,715	15.52
2	SODOR HOLDINGS PTY LTD <SODOR INVESTMENT A/C>	18,993,351	14.40
3	JOHNSTON BROS PTY LTD <MAINSTREAM INVESTMENT TRUST>	17,835,339	13.53
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	14,554,518	11.04
5	JOHN PLUMMER	13,112,757	9.95
6	NATIONAL NOMINEES LIMITED	2,950,931	2.24
7	FILDOT INVESTMENTS LIMITED	1,859,389	1.41
8	MR MARTIN CHARLES SMITH	1,161,843	0.88
9	CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	1,138,113	0.86
10	NATIONAL NOMINEES LIMITED <DB A/C>	1,112,947	0.84
11	KALAN SEVEN PTY LTD	1,060,557	0.80
12	HORRIE PTY LTD <HORRIE SUPERANNUATION A/C>	999,999	0.76
13	SARGON CT PTY LTD <TPI AUSTRALIAN SHARE FUND>	800,000	0.61
14	DR DAVID JOHN RITCHIE & DR GILLIAN JOAN RITCHIE <D J RITCHIE SUPER FUND A/C>	750,000	0.57
15	ANDREW HARRISON	640,406	0.49
16	MR BYRAM THOMAS JOHNSTON	615,460	0.47
17	MS DENISE MARIE DEPAOLA	591,716	0.45
18	MR NICHOLAS PETER HAPPELL	380,208	0.29
19	MR NICHOLAS JAMES BRADFORD	365,373	0.28
20	MR MARTIN CHARLES SMITH & MRS SHARON LEE SMITH <SMITH FAMILY S/F NO2 A/C>	359,893	0.27
Total		**99,749,515**	**75.66**

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
Non-Executive Chairman

Martin Smith
Chief Executive Officer

John Plummer
Non-Executive Director

JoAnna Fisher
Non-Executive Director

Debbie Last
Non-Executive Director

COMPANY SECRETARY

Alicia Gill

REGISTERED OFFICE

Level 1, 51-57 Pitt Street
Sydney NSW 2000

SOLICITORS

Sekel Grinberg Judd

Level 8, Currency House
23 Hunter Street
Sydney NSW 2000

AUDITOR

Ernst & Young

200 George Street
Sydney NSW 2000

SHARE REGISTRY

Mainstream Fund Services Pty Limited
GPO Box 4968
Sydney NSW 2001

SECURITIES EXCHANGE LISTING

Australian Securities Exchange
ASX code (ordinary shares): MAI

WEBSITE

www.mainstreamgroup.com

SHAREHOLDER INFORMATION

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

mainstreamgroup.com

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