INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED
31 DECEMBER 2020

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

MAINSTREAM

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The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, the report is to be read in conjunction with the annual report for the year ended 30 June 2020 (Annual Report) and any public announcements made by Mainstream Group Holdings Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CORPORATE HIGHLIGHTS

$31.5m

› **Revenue**
↑ 18% on HY20

$7.4m

› **EBITDA[1]**
↑ 131% on HY20

$224bn

› **Funds under Administration**
↑20% on HY20

› **Continued growth in core business**

› **Investment in automation and digital solutions**

› **Expansion of high margin custody and private equity services**

[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 and share based payments.

DIRECTORS' REPORT

The Directors of Mainstream Group Holdings Limited (the "Company" or "Mainstream") present their financial report for the Company and its controlled entities which together form the consolidated entity (the "Group"), in respect of the half year ended 31 December 2020.

DIRECTORS

The following persons were Directors of the Company during the half year and up to the date of this report:

Name	Directorship
Byram Johnston OAM	Non-Executive Chairman
Martin Smith	Chief Executive Officer
John Plummer	Non-Executive Director
JoAnna Fisher	Non-Executive Director
Debbie Last	Non-Executive Director

REVIEW OF RESULTS AND OPERATIONS

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

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

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

For the half year ended 31 December 2020, the Group's revenue was $31.5 million, an increase of 18% over the six months to 31 December 2019. All revenue growth was organic, driven by ongoing demand for our services in our core markets of Australia, Asia and the US.

Global revenue from the provision of Fund Services, including custody, was up 19% on the prior half year and contributed 98% of the Group's results, with Superannuation Services providing the balance.

Asia-Pacific (“APAC”), which includes Australia, Singapore and Hong Kong, contributed 74% of the Group’s revenue during the six months to 31 December 2020 (HY20: 72%). The Australian custody business continued to make good progress with its Funds under Administration (FuA) up 67% for the period, to A$16.4 billion.

The Americas (USA and Cayman Islands) accounted for 20% (HY20: 19%) of revenue. The key driver behind this increase was continued growth in the US private equity (“PE”) business which now administers A$20.9 billion in assets, up 93% for the period. Europe (Ireland, the Isle of Man and Malta) contributed 6% of revenue (HY20: 9%).

The Group’s FuA grew to a record $224 billion as at 31 December 2020, despite ongoing market disruption from COVID-19, an increase of 14% over the half year and 20% on the prior 12 months. Of the $28.3 billion increase in FuA during the period ending 31 December 2020, net inflows[2] contributed 70% and market movements comprised 30%. This shows the resilience of Mainstream’s business model due to the diversity and quality of our clients.

Mainstream now administers 1,202 funds for 362 clients as at 31 December 2020 (30 June 2020: 1,078 funds for 350 clients). Mainstream is experiencing greater engagement with larger fund managers due to market positioning and branding, as reflected in the sizeable increase in funds under administration over the same period, while also seeing consolidation of smaller fund managers who may lack scale, performance or distribution.

Mainstream saw strong interest from fund managers and their retail investors in Quoted Funds during the period. A Quoted Fund allows investors to buy and sell units on the ASX alongside the traditional fund application and redemption process. Mainstream has invested heavily to create a single registry system for Quoted Funds. Australia’s first Quoted Fund went live in June 2020 and in the six months to 31 December 2020 a further two Mainstream administered Quoted Funds went live. As a result, the number of investors serviced by Mainstream increased by 68% during the period, to a total of 157,066 investors. Half of Mainstream’s total investors are in a Quoted Fund as at 31 December 2020.

In order to continue meeting changing investor needs and differentiate our service offering, Mainstream invested $5.9 million on new and existing technology and data during the period (HY20: $4.8 million), with $0.9 million of IT costs capitalised (HY20: $1 million). Two key projects during the period were:

1. The Quoted Fund project, encompassing operational readiness, a proxy voting portal and enhancements to corporate actions, portfolio composition file, distribution processing and online updates to contact details.
2. Process transformation in preparation for the outsourcing of Pendal Australia’s registry services to Mainstream, which includes enhanced deployment of automated workflow for email and paper transactions, automation of daily processes (such as distributions and unit price uploads), online transacting, automation of reporting, Calastone and banking automation. The transition is on track to go live on 22 February 2021.

Global headcount grew to 305 people as at 31 December 2020 (compared to 272 people as at 30 June 2020). This included the recruitment of additional unit registry employees to support the growth in investor numbers. Our people continued to show exceptional commitment and dedication in adapting to new ways of working during the ongoing COVID-19 pandemic. Globally, the majority of employees worked remotely during the period to ensure uninterrupted services to our clients. We continue to adapt to the changing situation as government guidelines are updated.

[2] Net inflows refer to applications and new clients less redemptions, cash distributions and lost clients.

The Group's growth prospects remain promising, with strong pipelines in our core markets of Australia, Asia and the US. Disruption and consolidation within the Australian fund administration and custody sectors continues to generate quality new business leads.

As at 31 December 2020, Mainstream and its subsidiaries had a global cash position of $14.9 million, of which approximately $7.7 million was held to meet Group regulatory capital requirements.

DIVIDENDS

On 14 October 2020 the Company paid a final dividend for the financial year ended 30 June 2020 of 1 cent per issued share, franked at 50%, at a corporate tax rate of 30%. The Company's Dividend Reinvestment Plan was not offered for this dividend.

The Board resolved not to declare an interim dividend for the half year ended 31 December 2020.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Mainstream issued 6,247,528 fully paid ordinary shares during the period:

1. Employee Share Plan: 5,325,175 shares were issued as a result of performance rights granted in prior performance periods converting to fully paid ordinary shares under the following offers:
   - 318,720 shares vesting under the Company's 2019 Employee Share Offer ("ESO")
   - 1,563,955 shares vesting under the Company's 2019 Short Term Incentive ("STI")
   - 83,333 shares vesting under the Company's 2020 Long Term Incentive ("LTI")
   - 150,833 shares vesting under the Company's 2018 Senior Management Share Offer ("SMSO")
   - 108,334 shares vesting under the Company's 2019 LTI
   - 3,100,000 shares vesting under the US Private Equity business' Revenue Share Offer, of which 1,250,000 are subject to a holding lock for 12 months.
2. Trinity Fund Administration earn-out: 922,353 fully paid ordinary shares were issued to the former owner of Trinity Fund Administration (now Mainstream Fund Services (Ireland) Limited and the Mainstream Fund Services (Cayman) Limited) as consideration for successful achievement of the third and final annual Profit Before Tax 'earn out' financial hurdle for in relation to the acquisition of Trinity Fund Administration.

As a result, the Company now has 138,089,440 fully paid ordinary shares on issue as at 31 December 2020.

On 29 September 2020, the Company made a $1 million voluntary prepayment to its debt facility, funded from operating earnings. Following the prepayment, Mainstream's outstanding facility balance was $5 million.

Other than the above, there were no significant changes in the state of affairs of the Group during the half year ended 31 December 2020.

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.
- Focused effort on debtors and cash collection.
- We received a total of $1.8 million of government assistance through various stimulus and grants as follows:
  - Receipt of a $1.3 million training wage subsidy from the Australian Government as part of its Apprenticeship and Trainee support program to provide work-based training to Mainstream in customer service and leadership for eligible Australian employees.
  - Receipt of $0.3 million COVID-19 related employer stimulus packages in the Singapore and Hong Kong to 31 December 2020.
  - Receipt of $0.1 million cash flow boost from the Australian Taxation Office ("ATO") to support businesses during the economic downturn associated with COVID-19.
  - Receipt of $75,000 worth of various government support through a COVID rent waiver by lessors and property tax rebates.

Mainstream did not receive any payments under the Australian Government's JobKeeper payment scheme for businesses significantly impacted by COVID-19.

EVENTS SUBSEQUENT TO THE END OF THE REPORTING DATE

As part of a confidential settlement agreement between Mainstream's US hedge fund administration subsidiary and a US District Court appointed receiver of a legacy client acquired by the Group in September 2016, Mainstream is awaiting Court approval to pay US$3.95 million to the receiver with no further recourse against any Mainstream entity. The proposed settlement is on a no admission of liability basis, and if Court approval is received, the settlement amount will be paid within five days of receiving Court approval. This matter did not involve legal proceedings against the US subsidiary.

The settlement will be funded by an increase in the Company's net debt by A$4 million to A$9 million, under a variation to Mainstream's existing debt facility agreement ("Variation Agreement"). Key terms of the Variation Agreement are disclosed in Note 18.

AUDITOR'S INDEPENDENCE DECLARATION

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

Signed in accordance with a resolution of the Directors:

Byram Johnston OAM
Non-Executive Chairman
Sydney
Date: 19 February 2021

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Auditor's independence declaration to the directors of Mainstream Group Holdings Limited

As lead auditor for the review of Mainstream Group Holdings Limited for the half-year ended 31 December 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 review; and

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

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

Ernst & Young

Ernst & Young

Jonathan Pye

Jonathan Pye
Partner
19 February 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER

	Note	Consolidated 2020 $	 2019 $
Revenue			
Fee income from contracts with customers		28,712,388	23,880,609
Other operating income		1,811,453	1,410,716
Interest income		973,746	1,362,639
Total revenue	6	**31,497,587**	**26,653,964**
Expenses			
Employee benefits expense		16,351,774	16,480,457
Share-based payments expense	7	2,985,707	982,092
Accounting and audit fees		556,538	488,297
Depreciation expense		2,122,062	1,809,399
Amortisation expense	10	768,104	393,683
Bank fees and charges		90,426	155,293
Insurance		331,156	222,350
Interest expense		195,255	269,855
IT support, expenses and data		5,030,020	3,808,164
Legal fees		376,075	273,849
Consulting fees		92,947	74,172
Occupancy and overheads		406,950	678,428
Transaction costs		137,596	483,931
Marketing and advertising		130,380	245,506
Travel and accommodation		3,140	205,301
General and other expenses		551,649	374,666
Total expenses		**30,129,779**	**26,945,443**
Profit / (loss) before income tax expense		**1,367,808**	**(291,479)**
Income tax expense	5	955,929	229,657
Profit / (loss) after income tax expense for the half year		**411,879**	**(521,136)**
Other comprehensive (loss) / income			
Exchange differences on translation of foreign subsidiaries		(668,612)	31,596
Other comprehensive (loss) / income for the half year, net of tax		**(668,612)**	**31,596**
Total comprehensive loss for the half year		**(256,733)**	**(489,540)**
Earnings per share (“EPS”):			
Basic earnings per share	4	$0.00305	($0.00400)
Diluted earnings per share	4	$0.00295	($0.00380)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	31 December 2020	30 June 2020
Assets		$	$
Current Assets			
Cash and cash equivalents	8	14,946,758	14,739,742
Trade and other receivables		9,036,316	8,378,330
Other current assets	9	4,015,582	2,628,069
Total Current Assets		**27,998,656**	**25,746,141**
Non-Current Assets			
Property, plant and equipment		6,313,341	6,446,549
Right of use assets		3,631,735	4,927,189
Intangible assets	10	19,736,103	20,494,092
Deferred tax assets		2,406,213	2,311,177
Other non-current assets		382,238	-
Total Non-Current Assets		**32,469,630**	**34,179,007**
Total Assets		**60,468,286**	**59,925,148**
Liabilities			
Current Liabilities			
Trade creditors and accrued expenses		4,500,970	3,450,087
Provision for employee benefits		1,491,568	1,234,274
Current income tax liabilities		1,500,529	1,015,892
Deferred consideration	11	-	425,668
Other interest-bearing liabilities	12	89,120	351,976
Lease liabilities		1,806,843	2,249,965
Other current liabilities	13	2,627,524	2,535,808
Total Current Liabilities		**12,016,554**	**11,263,670**
Non-Current Liabilities			
Provision for employee benefits		164,126	114,186
Other interest-bearing liabilities	12	5,218,725	5,937,655
Lease liabilities		2,206,115	3,107,603
Deferred tax liabilities		2,092,803	2,568,294
Total Non-Current Liabilities		**9,681,769**	**11,727,738**
Total Liabilities		**21,698,323**	**22,991,408**
Net Assets		**38,769,963**	**36,933,740**
Equity			
Contributed capital	14	40,070,661	35,811,622
Reserves	15	2,105,052	3,539,747
Retained earnings		(3,405,750)	(2,417,629)
Total Equity		**38,769,963**	**36,933,740**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	Contributed Capital $	Reserves $	Retained Earnings $	Total Equity $
CONSOLIDATED				
Balance at 1 July 2019 (restated note 2)	**34,391,456**	**2,144,333**	**(1,693,390)**	**34,842,399**
Loss after income tax	-	-	(521,136)	**(521,136)**
Other comprehensive income, net of tax	-	31,596	-	**31,596**
Total comprehensive income / (loss), net of tax	**-**	**31,596**	**(521,136)**	**(489,540)**
Transactions with owners in their capacity as owners:				
Dividends paid	-	(644,890)	-	**(644,890)**
Dividends reinvested	100,964	-	-	**100,964**
Shares issued under Deferred Consideration	424,393	-	-	**424,393**
Shares issued under Employee Share Plans	894,809	(894,809)	-	**-**
Share-based payments	-	982,092	-	**982,092**
Balance at 31 December 2019	**35,811,622**	**1,618,322**	**(2,214,526)**	**35,215,418**
Balance at 1 July 2020	**35,811,622**	**3,539,747**	**(2,417,629)**	**36,933,740**
Profit after income tax	-	-	411,879	**411,879**
Other comprehensive loss, net of tax	-	(668,612)	-	**(668,612)**
Total comprehensive (loss) / income, net of tax	**-**	**(668,612)**	**411,879**	**(256,733)**
Transactions with owners in their capacity as owners:				
Dividends paid	-	(1,318,419)	-	**(1,318,419)**
Shares issued under Deferred Consideration	425,668	-	-	**425,668**
Shares issued under Employee Share Plans	3,833,371	(3,833,371)	-	**-**
Share-based payments	-	2,985,707	-	**2,985,707**
Transfer to profit reserve	-	1,400,000	(1,400,000)	**-**
Balance at 31 December 2020	**40,070,661**	**2,105,052**	**(3,405,750)**	**38,769,963**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	Note	Consolidated 2020 $	2019 $
Cash flows from operating activities			
Income received		29,865,855	24,696,348
Operating expenses paid		(23,953,716)	(22,409,938)
Interest received		973,746	1,362,639
Interest paid		(170,329)	(225,542)
Income tax paid		(969,044)	(476,229)
Net cash inflow from operating activities		**5,746,512**	**2,947,278**
Cash flows from investing activities			
Purchase of capitalised software & equipment		(1,013,146)	(1,079,393)
Proceeds from sale of equipment		-	1,364
Payments of deferred consideration and amount owing to previous shareholders		-	(354,951)
Net cash outflow from investing activities		**(1,013,146)**	**(1,432,980)**
Cash flows from financing activities			
Transaction costs paid		(137,596)	(305,130)
Payments of principle lease liabilities		(1,189,757)	(1,011,011)
Repayment of other interest bearing liabilities		(1,323,816)	-
Dividends paid		(1,318,419)	(543,925)
Net cash outflow from financing activities		**(3,969,588)**	**(1,860,066)**
Net increase / (decrease) in cash and cash equivalents during the half year		763,778	(345,768)
Effects of exchange rate changes on cash and cash equivalents		(556,762)	3,115
Cash at the beginning of the half year		**14,739,742**	**11,676,758**
Cash at the end of the half year	8	**14,946,758**	**11,334,105**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. CORPORATE INFORMATION

This interim financial report is for Mainstream Group Holdings Limited (the "Company") and its controlled entities (the "Group") for the half year ended 31 December 2020. The Company is a for profit entity limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The interim financial report for the half year ended 31 December 2020 is a general purpose financial report and has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001.* It is presented in Australian dollars ($) and was approved by the Board of Directors on 19 February 2021. The Directors have the power to amend and reissue the financial report.

This interim financial report does not include all the information and disclosures normally included in the annual financial report. Accordingly, this report should be read in conjunction with the 30 June 2020 Annual Report and any public announcements made in respect of the Group during the half year ended 31 December 2020 and to the date of this report, in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

Where necessary, comparative figures have been reclassified to conform to any changes in presentation made in the interim financial report.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these interim financial statements are the same as those applied to the Group's financial statements for the year ended 30 June 2020.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

IMPAIRMENT OF FINANCIAL ASSETS

The Group measures loss allowances at an amount equal to lifetime 'expected credit loss' ("ECL"). The Group considers a financial asset is in default when contractual payments are 90 days past due or when information indicates that the Group is unlikely to receive the outstanding amount in full. However, when internal or external information indicates an outstanding amount is likely to be received, the Group may not consider a financial asset to be in default. In addition, under AASB 9 *Financial Instruments*, expected credit losses on financial assets are recorded either on a 12-month or lifetime basis. The Group applies the simplified approach and records lifetime expected losses on all eligible financial assets.

LEASES AND RIGHT OF USE ASSETS

The Group applied AASB 16 *Leases* for the first time in the previous year ended 30 June 2020. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

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

The Group 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 were 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.

Notes to the Financial Statements continued

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	5,548,112
Prepayments	(56,288)
Total assets	5,491,824
Equity	
Retained earnings	(285,908)
Total equity	(285,908)
Liabilities	
Lease liability	5,779,017
Total liabilities	5,779,017

Nature of the effect of adoption of AASB 16

As at 1 July 2019:

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

a) Summary of accounting policies

Right-of-use assets

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

Lease liabilities

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

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

GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group has reasonably complied with all attached conditions.

As at 31 December 2020, the Group has recognised grants totalling $1,765,000 under the Australian Government's Apprenticeship and Trainee support program and incurred $476,000 in training costs in relation to the program. The Group has applied AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* and recognised the grants in the statement of profit or loss as a benefit against employee benefits expense in the period that they are intended to support. For these training grants, a total net benefit of $1,289,000 has been recognised for the period ended31 December 2020. As at 31 December 2020, the Group also received grants totalling $142,417 under the Singapore Job Support Scheme ("JSS"), $155,944 under the Hong Kong Employment Support Scheme ("ESS") and a $100,000 cash flow boost from the ATO. Other government rent waivers and incentives amounted to $74,900 for the period ended 31 December 2020.

Notes to the Financial Statements continued

NEW, REVISED OR AMENDING ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The Australian and International Accounting Standards issued but not yet mandatory for the 31 December 2020 interim reporting period have not been adopted by the Group in the preparation of this interim financial report.

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

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 continues to impact 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). However, any impact has been cushioned by higher cash balances and increased transaction fees from volatile trading conditions and the number of fund closures, so far, has 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 ("CGU") have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations, loss of customers or some other event. The amortisation period for intangible assets with a finite life are reviewed at least annually and typically range from 5-15 years. 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.

Notes to the Financial Statements continued

NOTE 3. SEGMENT REPORTING

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

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

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

2020	APAC	Americas	Europe	Elimination^	Consolidated
	$	$	$	$	$
Revenue					
External customers	23,204,142	6,247,302	2,046,143	-	31,497,587
Intercompany revenue	(82,543)	-	750,265	(667,722)	-
Intercompany dividends	3,473,601	-	-	(3,473,601)	-
Total revenue	**26,595,200**	**6,247,302**	**2,796,408**	**(4,141,323)**	**31,497,587**
Expenses					
Operating expenses	6,261,611	1,207,965	538,958	(106,402)	7,902,132
Employee benefits expenses	13,703,073	4,027,927	2,174,003	(567,522)	19,337,481
Depreciation and amortisation	2,312,091	332,675	245,400	-	2,890,166
Total expenses	**22,276,775**	**5,568,567**	**2,958,361**	**(673,924)**	**30,129,779**
Profit / (loss) before tax	**4,318,425**	**678,735**	**(161,953)**	**(3,467,399)**	**1,367,808**
Total assets	**52,599,699**	**5,684,878**	**4,687,081**	**(2,503,372)**	**60,468,286**
Total liabilities	**14,915,285**	**4,352,978**	**2,414,866**	**15,194**	**21,698,323**

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

Notes to the Financial Statements continued

NOTE 3. SEGMENT REPORTING CONTINUED

2019	APAC	Americas	Europe	Elimination^	Consolidated
	$	$	$	$	$
Revenue					
External customers	19,190,769	5,028,865	2,434,330	-	26,653,964
Intercompany revenue	(157,800)	-	732,965	(575,165)	-
Intercompany dividends	1,689,949	-	-	(1,689,949)	-
Total revenue	**20,722,918**	**5,028,865**	**3,167,295**	**(2,265,114)**	**26,653,964**
Expenses					
Operating expenses	5,777,357	1,021,287	525,954	(57,276)	7,267,322
Employee benefits expenses	11,424,016	3,998,592	2,557,830	(517,889)	17,462,549
Impairment of trade receivables	113	-	12,377	-	12,490
Depreciation and amortisation	1,804,250	195,404	203,428	-	2,203,082
Total expenses	**19,005,736**	**5,215,283**	**3,299,589**	**(575,165)**	**26,945,443**
Profit / (loss) before tax	**1,717,182**	**(186,418)**	**(132,294)**	**(1,689,949)**	**(291,479)**
Total assets	**47,258,944**	**5,460,313**	**5,208,287**	**(2,494,493)**	**55,433,051**
Total liabilities	**12,850,660**	**4,555,463**	**2,840,774**	**-**	**20,246,897**

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

NOTE 4. EARNINGS PER SHARE ("EPS")

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

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

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

	2020 $	2019 $
Profit / (loss) attributable to ordinary equity holders of the parent:	**411,879**	**(521,136)**
Weighted average number of ordinary shares for basic EPS	134,871,111	130,422,300
Effects of dilution from:		
- Employee Share Plans	4,796,912	6,227,593
- Trinity Deferred Consideration	-	922,353
Weighted average number of ordinary shares adjusted for the effects of dilution	139,668,023	137,572,246

As at 31 December 2020, there were 138,089,440 ordinary shares outstanding (31 December 2019: 131,841,912).

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

- 922,353 fully paid ordinary shares in connection with the Company's deferred consideration on 1 October 2020;
- 4,725,175 and 600,000 fully paid ordinary shares under the Company's Employee Share Plan on 1 October 2020 and 30 October 2020, respectively.

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

Notes to the Financial Statements continued

NOTE 5. INCOME TAX

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the consolidated statement of profit or loss for the half years ended 31 December 2020 and 2019 are:

	Consolidated 2020 $	Consolidated 2019 $
Current income tax	1,702,985	287,527
Current tax adjustment for prior periods	(175,949)	140,945
Deferred tax benefit	(571,107)	(198,815)
Income tax expense	**955,929**	**229,657**

NOTE 6. REVENUE

	Consolidated 2020 $	Consolidated 2019 $
Fee income from contracts with external customers	28,712,388	23,880,609
Other operating income	1,811,453	1,410,716
Interest income	973,746	1,362,639
Total revenue	**31,497,587**	**26,653,964**

Disaggregation of revenue

Geographical	APAC $	America $	Europe $	Total $
2020				
Fee income from contracts with customers	20,451,501	6,226,190	2,034,697	28,712,388
Other operating income	1,788,331	21,688	1,434	1,811,453
Interest income / (expense)	964,310	(576)	10,012	973,746
Total revenue	**23,204,142**	**6,247,302**	**2,046,143**	**31,497,587**
2019				
Fee income from contracts with customers	16,411,560	5,037,678	2,431,371	23,880,609
Other operating income / (expense)	1,415,720	(8,000)	2,996	1,410,716
Interest income / (expense)	1,363,489	(813)	(37)	1,362,639
Total revenue	**19,190,769**	**5,028,865**	**2,434,330**	**26,653,964**

Notes to the Financial Statements continued

NOTE 7. SHARE BASED PAYMENTS

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

The Employee Share Offer grants eligible employees who are not invited to participate in other offers up to $2,000 of shares for nil consideration as an employee benefit. The Employee Share Offer was not offered for the prior performance period and therefore no new Rights were granted under this program during the period.

The Short-Term Incentive ("STI"), previously known as the Management Share Offer, grants Performance Rights to the broader management team in recognition of key performance indicator ("KPI") achievement and performance. It also includes shares granted to US employees for reaching revenue growth targets as part of the build out of the private equity business ("US PE Revenue Share Offer"). This half year was the first time shares have been awarded under the US PE Revenue Share Offer, resulting in an increase to the STI expense relative to the prior period.

The Long-Term Incentive ("LTI"), grants Performance Rights to Executive Directors and senior management subject to achievement of various performance measures tied to the Company's profitability and KPIs.

The total expense recognised for share-based payments during the half years ended 31 December 2020 and 2019 are:

	Consolidated	
	2020	**2019**
	$	**$**
Employee Share Offer	123,106	96,198
Long Term Incentive	337,952	234,024
Short Term Incentive	2,524,649	651,870
Total share-based payments expense	**2,985,707**	**982,092**

The accounting expense attributable to shares issued in October 2020 was $2,005,826. Offers made under the Employee Share Plan that were priced during the period were expensed at a higher cost than the prior year due to MAI's relative share price appreciation. There were no cancellations to the awards in the half year ended 31 December 2020.

NOTE 8. CASH AND CASH EQUIVALENTS

	Consolidated	
	31 December 2020	**30 June 2020**
	$	**$**
Cash at bank	**14,946,758**	**14,739,742**

Notes to the Financial Statements continued

NOTE 9. OTHER CURRENT ASSETS

	Consolidated 31 December 2020 $	30 June 2020 $
Deposit bonds	1,195,206	1,220,589
Prepayments	1,031,046	1,253,082
Other	1,789,330	154,398
Total	**4,015,582**	**2,628,069**

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

NOTE 10. INTANGIBLE ASSETS

	Consolidated 31 December 2020 $	30 June 2020 $
Business combinations – goodwill	10,315,415	10,315,415
Other intangible assets	9,420,688	10,178,677
Total	**19,736,103**	**20,494,092**

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

	Goodwill $	Other Intangible Assets $	Total $
Opening balance at 1 July 2020	**10,315,415**	**10,178,677**	**20,494,092**
Amortisation expense	-	(768,104)	**(768,104)**
Exchange difference	-	10,115	**10,115**
Closing balance at 31 December 2020	**10,315,415**	**9,420,688**	**19,736,103**

Goodwill and Other Intangible Assets

The Group performs its annual impairment test for goodwill and other intangible assets with indefinite useful lives as at 30 June of each respective financial year and through the year if there is an indication there may be impairment. The Group's impairment test for goodwill and intangible assets with indefinite lives is based on value-in-use calculations. The key assumptions used to determine the recoverable amount for the different CGUs were disclosed in the annual consolidated financial statements for the year ended 30 June 2020.

Other than the above, the Group did not identify any indicators of impairment during the half year ended 31 December 2020.

Notes to the Financial Statements continued

NOTE 11. DEFERRED CONSIDERATION

	Consolidated	
	31 December 2020	30 June 2020
Deferred consideration	$	$
- Current	-	425,668
Total deferred consideration	**-**	**425,668**

With respect to the Trinity Group acquisition, the final deferred settlement of 922,353 shares was settled in October 2020 upon achieving financial Key Performance Indicators during the period.

NOTE 12. OTHER INTEREST-BEARING LIABILITIES

	Consolidated	
	31 December 2020	30 June 2020
Other interest bearing liabilities	$	$
- Current	89,120	351,973
- Non-current	5,218,725	5,937,655
Total	**5,307,845**	**6,289,631**

The Company has a debt facility with Australia and New Zealand Banking Group Limited ("ANZ"). As at 31 December 2020, the interest on the facility drawn was charged at BBSY bid + 2.9% per annum. The Group was in compliance with the debt covenants at 31 December 2020. On 22 January 2021 the Company renegotiated its loan facility with ANZ, refer to Note 18 for details.

As at 31 December 2020, the carrying amount of other interest bearing liabilities approximates their fair value.

NOTE 13. OTHER CURRENT LIABILITIES

	Consolidated	
	31 December 2020	30 June 2020
	$	$
GST Liability	547,614	587,142
PAYG withholding payable	257,983	186,026
Superannuation payable	465,349	356,800
Due to previous shareholders of acquired entities	167,842	561,496
Unearned Revenue	1,065,802	531,017
Other payables	122,934	313,327
Total	**2,627,524**	**2,535,808**

Unearned revenue relates to cash received in advance from customers for services to be provided in the future.

NOTE 14. CONTRIBUTED CAPITAL

	Consolidated 31 December 2020 Shares	Consolidated 30 June 2020 Shares	Consolidated 31 December 2020 $	Consolidated 30 June 2020 $
Ordinary shares - fully paid	138,089,440	131,841,912	40,070,661	35,811,622

Ordinary shares

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

	Shares
Ordinary shares outstanding at 30 June 2020	**131,841,912**
Shares issued for Deferred Consideration	922,353
Shares issued under Employee Share Plan	5,325,175
Ordinary shares outstanding at 31 December 2020	**138,089,440**

On 17 August 2020, the Company announced a final dividend out of the profit reserve of 1 cent per issued share, franked at 50%, at a corporate tax rate of 30%. Payment of the dividend was completed on 14 October 2020.

On 1 October 2020, the Company issued 922,353 shares to the former owner of Trinity Fund Administration (now Mainstream Fund Services Ireland and Cayman) for successful achievement of the Year 3 Profit Before Tax financial hurdle as part of a 3 year ‘earn-out’ in relation to the acquisition of Trinity Group.

On 1 October 2020 and 30 October 2020, the Company issued 4,725,175 and 600,000 fully paid ordinary shares under the Company’s Employee Share Plan, respectively.

Notes to the Financial Statements continued

NOTE 15. RESERVES

	Consolidated	
	31 December 2020 $	30 June 2020 $
Foreign currency translation reserve	(147,880)	520,732
Profit reserve	1,406,691	1,325,110
Share-based payment reserve	846,241	1,693,905
Total	**2,105,052**	**3,539,747**

Foreign currency translation reserve

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

Profit reserve

The reserve is used to recognise the profits that have been appropriated for payment of dividends. During the period, $1,400,000 was allocated from current profits as at 31 December 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 16. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Group did not have any contingent assets as at 31 December 2020 (30 June 2020: Nil) nor contingent liabilities as at 31 December 2020 (30 June 2020: Nil).

Litigation risk is the risk that legal action will be taken against the Company which leads to financial liabilities, brand damage and diversion of management time. During the normal course of business, the Company may become subject to claims and litigation. The Directors have given consideration to such matters, which are or may be subject to litigation and subject to specific provisions raised, are of the opinion that no material contingent liability exists as at 31 December 2020. A potential material litigation related event after the reporting period is disclosed in Note 18.

NOTE 17. RELATED PARTY TRANSACTIONS

The following are related party transactions.

The Company's office premises in the Isle of Man is leased from a related party at commercial market rates on an arms-length basis.

Total receivables from Directors as at 31 December 2020 is nil (30 June 2020: nil).

NOTE 17. RELATED PARTY TRANSACTIONS (CONTINUED)

In December 2020, Mainstream Group Holdings Limited provided a loan to Jay Maher, CEO Americas, to pay withholding taxes due upon vesting of Share Based Payment incentives. The loan is payable within 3 years, applies the ATO benchmark arm-length interest rates and the balance as at 31 December 2020 is $382,238.

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

NOTE 18. EVENTS AFTER THE REPORTING PERIOD

As part of a confidential settlement agreement between Mainstream's US hedge fund administration subsidiary and a US District Court appointed receiver of a legacy client acquired by the Group in September 2016, Mainstream is awaiting Court approval to pay US$3.95 million to the receiver with no further recourse against any Mainstream entity. The proposed settlement is on a no admission of liability basis, and if Court approval is received, the settlement amount will be paid within five days of receiving Court approval. This matter did not involve legal proceedings against the US subsidiary.

Mainstream has signed a variation to its existing debt facility agreement (the "Variation Agreement") and increased the commitment by an amount of $4 million in order to make an inter-company loan to Fundadministration to pay the balance of the Settlement. The Variation Agreement is subject to the usual documentation for a variation to a facility agreement of this nature. Key terms of the Variation Agreement are:

- Interest rate charged on the facility drawn at BBSY bid plus 3.0% per annum.
- Schedule to repay:
  - $2 million on 31 March 2021;
  - $2 million on 31 August 2021; and
  - all principal amounts outstanding on the 12 January 2022.
- If any part of the Settlement is recovered under an insurance policy, those insurance proceeds must be used to repay the New Loan, plus any associated fees, costs and other charges.
- It is a "Repayment Event" if any of the following occur without the prior consent of the lender:
  - any person or group of persons (other than Byram Johnston and/or Martin Smith or any of their related entities) acting in concert gains, directly or indirectly, more than 50% of the voting share capital of Mainstream; or
  - Byram Johnston and Martin Smith (or any of their related entities) cease to hold an aggregate of at least 20% of the shares of Mainstream.

As at the date of this report the drawn down balance of the debt facility is $9 million. The events above do not affect the Group's results as at 31 December 2020.

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

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

1. the financial statements and notes of Mainstream Group Holdings Limited for the half year ended 31 December 2020 are in accordance with the *Corporations Act 2001*, including:

   a. giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half year ended on that date; and

   b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Byram Johnston OAM
Non-Executive Chairman
Date: 19 February 2021
Sydney

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

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Mainstream Group Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance for the half-year ended on that date; and

b. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Ernst & Young

Ernst & Young

Jonathan Pye

Jonathan Pye
Partner
Sydney
19 February 2021

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
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Sydney NSW 2000

Auditor

Ernst & Young
200 George Street
Sydney NSW 2000

Share Registry

Mainstream Fund Services Pty Ltd
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