MSL Solutions Limited ABN 96 120 815 778

Half-year final report for the period ended 31 December 2017

Lodged with the ASX under listing Rule 4.2A

Results for announcement to the market
31 December 2017
MSL Solutions Limited

Appendix 4D Reference		31 Dec 2017 $'000	31 Dec 2016 $'000	Variance $'000	Variance %
2.1	Revenue from ordinary activities	14,390	9,201	5,189	56%
2.2	Profit/(loss) from ordinary activities after tax attributable to members	(2,516)	(2,920)	404	14%
2.3	Net profit/(loss) for the period attributable to members	(2,516)	(2,920)	404	14%
2.4	Dividends/distributions	No dividends were paid during the period, and no dividends have been proposed for payment.			
2.5	Record date	Not applicable			
2.6	Explanation of the figures in 2.1 to 2.4	Refer to Directors' Report – Review of operations			
3	Net tangible assets per share (cents)	31 Dec 2017	0.5c	30 Jun 2017	1.0c
4	Details of entities over which control has been gained or loss	Refer to the attached financial statements (Note 3)			
5	Details of Individual and total Dividends	Not applicable			
6	Details of dividend reinvestment plans in operation	Not applicable			
7	Details of associates or joint venture entities	Not applicable			
8	Foreign entities	Foreign entities have been accounted for in accordance with Australian Accounting Standards.			
9	The 31 December 2017 interim financial report and accompanying notes for the Group have been reviewed and is not subject to a modified opinion, emphasis of matter or other matter paragraph.				

MSL Solutions Limited

INTERIM FINANCIAL REPORT – 31 DECEMBER 2017

Directors Report

The Directors of MSL Solutions Limited ('MSL' or 'the Company') submit their report together with the consolidated financial report of the Company, comprising the Company and its controlled entities for the half year ended 31 December 2017 and the auditor's review report thereon.

Directors

The names of the Directors of the Company in office during the period and to the date of this report are as follows:

Name	Director since
Non-Executive	
Mr John Down (Chair)	October 2008
Mr Ian Daly	December 2009
Ms Kaylene Gaffney	March 2017
Dr Richard Holzgrefe	December 2007
Mr David Trude	March 2017
Executive	
Mr Craig Kinross (Managing Director & Chief Executive Officer)	November 2012

Financial and Operational Review

An analysis of the Company's interim period's financial and operating performance from continuing operations is outlined below. Unless otherwise stated, all values are expressed in Australian Dollars (AUD).

Group results

Operating revenue for the period was $14.4 million (December 2016: $9.2 million), which represents an increase of 56%. For the first half of FY2018, 41% of the projected annual revenue has been achieved which is in line with expectations. On a like-for-like pro-forma basis (to factor in the full results from acquisitions occurring part way through the prior year) recurring annuity revenue has grown 30% when compared to the prior reporting period.

Consolidated Summay of results for the half year ended 31 December 2017	Dec-17	Dec-16
Statutory results	$'000	$'000
Operating revenue	**14,390**	**9,201**
Costs of sales	(3,871)	(2,067)
Gross margin	**10,519**	**7,134**
Operating expenses before significant items	(10,732)	(6,906)
Adjusted EBITDA	**(213)**	**228**
Significant items	(517)	(1,937)
EBITDA	**(730)**	**(1,709)**
Depreciation	(106)	(75)
Amortisation	(2,136)	(2,104)
EBIT	**(2,972)**	**(3,888)**
Net finance income/(costs)	81	(37)
NPBT	**(2,891)**	**(3,925)**
Income tax benefit	375	1,005
NPAT	**(2,516)**	**(2,920)**
NPATA	**(380)**	**(816)**

Consolidated Summay of results for the half year ended 31 December 2017	Dec-17	Dec-16
Proforma results	$'000	$'000
Recurring revenue	7,499	5,743
Non-recurring revenue	6,891	8,472
Operating revenue	**14,390**	**14,215**
Costs of sales	(3,871)	(3,666)
Gross margin	**10,519**	**10,549**
Operating expenses before significant items	(10,732)	(10,029)
Adjusted EBITDA	**(213)**	**520**
Significant items	(517)	-
EBITDA	**(730)**	**520**
Depreciation	(106)	(137)
Amortisation	(2,136)	(2,104)
EBIT	**(2,972)**	**(1,721)**
Net finance costs	81	(39)
NPBT	**(2,891)**	**(1,760)**
Income tax benefit	375	(91)
NPAT	**(2,516)**	**(1,851)**
NPATA	**(380)**	**253**

** EBITDA is earnings before interest, tax, depreciation and amortisation. Adjusted EBITDA represents EBITDA before significant and one-off items. NPAT is net profit/(loss) after tax. NPATA is net profit/(loss) after tax but before amortisation.*

Operating expenses increased by approximately $0.5 million (in constant currency), reflecting the investment made in overseas expansion into new geographic segments, along with senior appointments in product management and project delivery to support the Company's growth strategy into these international markets.

Significant items include transaction costs associated with acquisitions and capital raisings, along with foreign exchange movements and fair value adjustments.

MPower Venue

Servicing the stadia, arena and registered clubs (excluding golf) on a global basis, the segment revenue from MPower Venue for the period was $9.3 million (December 2016: $5.0 million), and was in line with the prior year on a pro-forma basis.

The international venue business (from the Verteda acquisition) represented 57% of the segment revenue.

MPower Venue contributed $0.8 million EBITDA, which decreased from the prior year largely due to the timing of non-recurring revenue from hardware sales and project implementation revenue. Importantly, recurring annuity revenue from the European Venue business increased by 55% and contributed to a majority of the Group's annuity growth over the period.

During the first half, the MPower Venue international business secured our first European stadium outside the UK, successfully deploying our stadium solutions into the new Atletico Madrid stadium 'Wanda' - adding to our customer base of leading European football teams with iconic customers including around 50% of the English Premier League stadiums in the UK.

In the Australian MPower Venue business, an upgrade at Village Roadshow (a long-term customer in Australia) for the inaugural TopGolf site occurred on the Gold Coast in Queensland, which we hope to become a global benchmark for TopGolf as they execute on their rapid expansion plans globally.

MPower Golf

Servicing the golf clubs and association markets in Australia and Scandinavia, the MPower Golf segment revenue for the period was $4.4 million which increased by 13% from $3.9 million.

The international golf business (from the acquisition of GolfBox A/S in November 2016) represented 38% of the segment revenue.

MPower Golf contributed $1.1 million EBITDA, a decrease of 13% from the prior period (on a pro-forma basis), again due to the timing of non-recurring revenue.

The key highlights for the MPower Golf business included the expansion of MSL's tournament platform into Singapore to become the official scoring system for the Singapore Golf Association (SGA) for all national tournaments over the next three years, boosting our presence in South East Asia. The GolfBox tournament platform is now used by 16 national golf federations.

Internationally, an agreement was signed for PGA's of Europe to endorse our GolfBox ProPlanner and GolfBox Tournament software solutions, removing a prior long-term relationship with a US company. The PGA's of Europe are based at The Belfry in the UK, and winning this deal involved great collaboration between our UK and Denmark teams.

MPower BI

MPower BI services sports, leisure and hospitality clients with a business analytical solution that provides historical, current and predictive views of the business operations, and is a cloud based software as a service solution that is able to be sold stand-alone or in conjunction with MPower Venue and MPower Golf products.

The MPower BI segment revenue for the period was $0.4 million (December 2016: $0.2 million), an increase of 138% which contributed to a 76% improvement in EBITDA contribution.

The key highlights for the period was the endorsement of MSL's BI solution by MAX (a Tatts Group Company) as part of MAX roadshow in across Queensland, showcasing the integration between MPower BI and the MAX gaming platform. The partnership between MPower MSL and MAX has allowed clients to have increased visibility into business and finance analytics, emphasising the focus on member behaviour to drive additional revenue opportunities.

MPower Media

MPower Media services sports, leisure and hospitality clients with loyalty/media member engagement solutions, and facilitates relationships with media partners. The segment includes the Pallister Games assets acquired in May 2017.

The MPower Media segment revenue for the period was $0.3 million (December 2016: $0.2 million), an increase of 107% compared to the prior reporting period. EBITDA contribution was $28,000 which was an increase of 128%.

MSL and Community First Credit Union formed an industry leading arrangement in July 2017, which entails the provision of a VISA debit card provided by CFCU integrated into the MPower MSL Buying Club product. The CFCU arrangement enhances the Buying Club offerings, placing the platform in an industry leading position, allowing loyalty points to be exchanged into currency. The CFCU Visa component went live during the period at St. George Motor Boat Club in Sydney.

Balance sheet and cash flow

MSL maintains a strong balance sheet, with $6.5 million in cash and no debt. During the interim reporting period, $4 million in deferred acquisition payments were funded from cash reserves along with $1 million in one-off payments relating to the prior financial year.

The Company continues to hold its investment in Zuuse Pty Ltd / Progressclaim.com Limited at held for sale. During the interim reporting period, Zuuse Pty Ltd completed a merger with Progressclaim.com Limited (Progressclaim). The merger was completed under the terms of a Scrip for Scrip deed executed on 18 September 2017. MSL Solutions Limited now has an 11.7% interest (9,776,056 shares) in the acquiring entity, being Progressclaim.

The Company is continuing to actively sell down its interest in this asset, and any eventual sale is expected to provide a return to the Company in excess of the amount held for sale on its balance sheet.

Dividends

No dividends were paid to shareholders during the period, and no dividend has been declared or paid subsequent to the end of the financial period.

Rounding of amounts

The Company is of a kind referred in ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report and consolidated interim financial statements. Amounts rounded are rounded off to the nearest hundred thousand dollars.

Auditors Independence Declaration

A copy of the Auditors Independence Declaration as required under Section 307c of the *Corporations Act 2001* is included at page 8 of this report.

Signed in accordance with a resolution of Directors made pursuant to Section 306(3) of the *Corporations Act 2001*.

On behalf of the Directors

John Down
Chairman

Craig Kinross
Managing Director and Chief Executive Officer

Auditor's Independence Declaration

As lead auditor for the review of MSL Solutions Limited for the half-year ended 31 December 2017, I declare that 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 MSL Solutions Limited and the entities it controlled during the period.

Michael Crowe
Partner
PricewaterhouseCoopers

Brisbane
28 February 2018

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Financial Statements

Interim financial report – 31 December 2017

Interim consolidated statement of profit or loss and other comprehensive income for the six months ended 31 December 2017

	Note	Dec-17 A$'000	Dec-16 A$'000
Revenue	4	14,390	9,201
Other income	4	82	591
Cost of sales		(3,871)	(2,067)
Sales and marketing expenses		(2,430)	(2,098)
Customer support and technical services		(3,170)	(1,643)
Research and development expenses		(2,279)	(1,045)
General and administration expenses		(2,853)	(1,966)
Other gains and expenses (net)	5(b&c)	(366)	(1,175)
Depreciation expense		(106)	(75)
Amortisation expense		(2,136)	(2,105)
Transaction and restructuring costs	5(a)	(151)	(1,506)
Finance costs		(1)	(37)
(Loss) before income tax		**(2,891)**	**(3,925)**
Income tax benefit	8	375	1,005
(Loss) for the period		**(2,516)**	**(2,920)**
Other comprehensive income for the period		(112)	74
Total comprehensive (loss) for the period		**(2,628)**	**(2,846)**
Loss attributable to:			
Owners of MSL Solutions Limited		(2,628)	(2,846)
		(2,628)	**(2,846)**
Total comprehnsive (loss) for the period attributable to:			
Owners of MSL Solutions Limited		(2,628)	(2,846)
		(2,628)	**(2,846)**
EARNINGS PER SHARE FROM LOSS FROM CONTINUING OPERATIONS ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic earnings per share (cents)		(1.1)	(2.0)
Diluted earnings per share (cents)		(1.1)	(2.0)

The above interim consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes. Prior year period has been restated (refer to Note 1).

Interim consolidated balance sheet as at 31 December 2017

	Note	Dec-17 A$'000	Jun-17 A$'000
ASSETS			
Current assets			
Cash and cash equivalents		6,520	11,897
Trade and other receivables		5,571	6,336
Assets classified as held for sale	7a	2,212	2,212
Other current assets		249	573
Total current assets		**14,552**	**21,018**
Non-current assets			
Receivables		896	888
Property, plant and equipment		304	306
Intangible assets	7b	39,711	41,856
Other non-current assets		243	185
Total non-current assets		**41,154**	**43,235**
Total assets		**55,706**	**64,253**
LIABILITIES			
Current liabilities			
Trade and other payables		4,251	5,852
Borrowings		54	225
Provisions	7c	3,659	5,296
Income tax payable		657	461
Deferred revenue		5,401	5,759
Total current liabilities		**14,022**	**17,593**
Non-current liabilities			
Trade and other payables		-	988
Deferred tax liabilty		2,861	3,522
Provisions	7c	834	1,398
Total non-current liabilities		**3,695**	**5,908**
Total liabilities		**17,717**	**23,501**
Net assets		**37,989**	**40,752**
EQUITY			
Contributed equity		60,950	61,085
Reserves		226	338
Accumulated losses		(23,187)	(20,671)
Total equity		**37,989**	**40,752**

The interim consolidated balance sheet should be read in conjunction with the accompanying notes. Prior year period has been restated (refer to Note 1).

Interim consolidated statement of changes in equity for the six months ended 31 December 2017

	Contributed equity $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Share-based payment reserve $'000	Total equity $'000
Balance as at 1 July 2016	**21,629**	**(9,792)**	**-**	**234**	**12,071**
Total comprehensive income for the period					
Profit/(loss) for the period	-	(2,920)	-	-	(2,920)
Other comprehensive income	-	-	74	-	74
Total comprehensive income for the period	-	(2,920)	74	-	(2,846)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	1,452	-	-	-	1,452
Total transactions for the period	1,452	-	-	-	1,452
Balance as at 31 December 2016	**23,081**	**(12,712)**	**74**	**234**	**10,677**
Balance as at 1 July 2017 - restated	**61,085**	**(20,671)**	**235**	**103**	**40,752**
Total comprehensive income for the period					
Profit/(loss) for the period	-	(2,516)	-	-	(2,516)
Other comprehensive income	-	-	(112)	-	(112)
Total comprehensive income for the period	-	(2,516)	(112)	-	(2,628)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	(135)	-	-	-	(135)
Total transactions for the period	(135)	-	-	-	(135)
Balance as at 31 December 2017	**60,950**	**(23,187)**	**123**	**103**	**37,989**

The above interim consolidated statement of changes in equity should be read in conjunction with the accompanying notes. Prior year period has been restated (refer to Note 1).

Interim consolidated statement of cash flows for the six months ended 31 December 2017

	Note	Dec-17 A$'000	Dec-16 A$'000
Cash flows from operating activities			
Receipts from customers		16,667	8,118
Payments to suppliers, employees and others		(17,528)	(9,571)
Finance costs		(5)	(416)
Interest received		64	-
Net cash flows used in operating activities		**(802)**	**(1,869)**
Cash flows from investing activities			
Capital expenditure		(100)	(48)
Purchase of intangibles		-	(1,542)
Acquisition of subsidiaries, net of cash & cash equivalents		(3,954)	(14,901)
Acquisition related costs		(25)	-
Net cash flows used in investing activities		**(4,079)**	**(16,491)**
Cash flows from financing activities			
Issuance of share capital		-	974
Repayment of borrowings		(173)	-
Issuance of converting notes		-	17,000
Repayment of finance leases		-	(29)
Costs paid on issuance of share capital		(129)	(23)
Costs paid on issuance of converting notes		-	(793)
Net cash flows (used in)/from financing activities		**(302)**	**17,129**
Net cash (outflow) for the period		**(5,183)**	**(1,231)**
Cash at beginning of the period		11,741	2,634
Effect of foreign exchange		(38)	-
Cash at end of the period		**6,520**	**1,403**

The above interim consolidated statement of cashflows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

1. Reporting entity

MSL Solutions Limited (the Company) is a company domiciled in Australia. The address of the Company's registered office and principle place of business is Level 1, 307 Queen Street, Brisbane, Queensland.

The condensed consolidated interim financial report of the Company as at and for the period ended 31 December 2017 comprises the Company and its subsidiaries (together referred to as the Group and individually as Group entities).

The Group is a for-profit entity and is primarily involved in the global provision of hosted, software as a service (SaaS) and on-site deployed solutions to clients in the following key segments in the sport, leisure and hospitality sectors:

- Golf clubs and associations;
- Registered clubs;
- Stadia and arenas; and
- Other hospitality and entertainment venues.

a) Basis of preparation

This condensed consolidated interim financial report for the half year period ended 31 December 2017 has been prepared in accordance with the requirements of the *Corporations Act 2001* and Accounting Standard *AASB 134: Interim Financial Reporting*.

The condensed consolidated interim financial report does not include full disclosures of the type normally included in an annual financial report. Accordingly, it is recommended that this interim financial report be read in conjunction with the annual financial report for the year ended 30 June 2017 and any public announcements made by MSL Solutions Limited and its controlled entities during the interim reporting period in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period unless otherwise stated below. Where applicable, various comparative balance have been reclassified to align with current period presentation. These amendments have no material impact on the consolidated financial statements.

The balance sheet at 30 June 2017 and statement of comprehensive income for the period to 31 December 2016 have been restated as explained in Note 3 in relation to the finalisation of the acquisition accounting for Golfbox A/S and Verteda Holdings Limited.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

Title of standard	**AASB 15: Revenue from Contracts with Customers**
Nature of change	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.
Impact	Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected: • IT consulting services – the application of AASB 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue; • Accounting for certain costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognised as an asset under AASB 15; and • Rights of return – AASB 15 requires separate presentation on the balance sheet of the right to recover the goods from customer and the refund obligation. The Group is currently assessing the impact of implementing AASB 15 on the Group's financial accounts and while areas such as system installation and professional services will be affected the Group does not expect those impacts to be material. The Group will have a choice of full retrospective application, or prospective application with additional disclosures.
Mandatory application date/date of adoption by Group	Mandatory for financial years commencing on or after 1 January 2018, but available for early adoption. The Group does not intend to adopt AASB 15 before it is mandatory.

Title of standard	**AASB 16 *Leases***
Nature of change	AASB 16 was issued in February 2016. It will result in almost all the leases being recognised on the

	balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low -value leases.
Impact	The standard will affect primarily the accounting for the Group's operating leases. Management is currently assessing the effects of applying the new standard on the Group's financial statements in relation to the recognition of an asset and a liability for future payments and how will this affect the Group's profit and classification of cash flows. Some of the commitments may be covered by exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.
Mandatory application date/date of adoption by Group	Mandatory for financial years commencing on or after 1 January 2019, but available for early adoption.

Title of standard	**AASB 9: Financial Instruments**
Nature of change	The AASB has issued a new standard for the classification, measurement and derecognition of financial assets and financial liabilities, introduces an "expected loss' impairment model and a revised approach to micro-hedge accounting, replacing the guidance in AASB 139.
Impact	Management is currently assessing the effects of applying the standard to the liabilities carried at fair value through profit or loss. These liabilities relate to contingent consideration due on acquisition payments in financial years 30 June 2017, 2018 and 2019.
Mandatory application date/date of adoption by Group	The standard is applicable for reporting periods after 1 January 2018 but is available for early adoption.

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

2. Segment information

a) Description of segments and principal activities

The Group's executive management team, consisting of the Chief Executive Officer, the Chief Financial Officer, Chief Operating Officer and Chief Revenue Officer, examines the Group's performance from a product perspective with entities in similar markets grouped on an international level. The following are the identified reportable segments:

1. **MPower Venue**: services the stadia and arena and registered clubs (excluding golf clubs) on a global basis. Since November 2016, management has monitored the performance on a global basis since the acquisition of Verteda Holdings Limited.
2. **MPower Golf**: services the golf clubs and associations market on a global basis. Since November 2016, management has monitored the performance on a global basis since the acquisition of GolfBox A/S ("GolfBox").
3. **MPower Media**: services sports, leisure and hospitality clients with loyalty/media member engagement solutions, and facilitates relationships with media partners. The segment includes the Pallister Games assets acquired in May 2017.
4. **MPower BI**: services sports, leisure, and hospitality clients with a business analytics service providing historical, current, and predictive views of business operations.
5. **Corporate**: Group overheads and on-costs that are monitored on a global basis.

Management primarily uses a measure of revenue and adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) to assess the performance on a monthly basis. Information about their key performance indicators is detailed below.

b) Segment Revenue and Adjusted EBITDA

Period ended 31 December 2017	Segment revenue $'000	Segment EBITDA $'000
MPower Venue	9,258	**803**
MPower Golf	4,434	**1,058**
MPower BI	360	**(52)**
MPower Media	338	**28**
Corporate	-	**(2,050)**
Total	**14,390**	**(213)**

Period ended 31 December 2016 - Adjusted	Segment revenue $'000	Segment EBITDA $'000
MPower Venue	5,021	**974**
MPower Golf	3,866	**567**
MPower BI	151	**(214)**
MPower Media	163	**(101)**
Corporate	-	**(998)**
Total	**9,201**	**228**

Adjusted EBITDA excludes the effects of significant non-recurring items of income and expenditure which may have an impact on the quality of earnings such as transaction costs, impacts from fair value movements through the income statement, and gains resulting from acquisition accounting.

The adjustments to the 31 December 2016 revenue reflect the changes made to the apportionment of golf clubs previously accounted for in MPower Venue that are now correctly accounted for MPower Golf.

c) Segment Adjusted EBITDA reconciliation to loss before tax

Reconciliation of Adjusted EBITDA to loss before income tax	Dec-17	Dec-16
	$'000	$'000
Total segment adjusted EBITDA	(213)	228
Net finance income / (costs)	81	(38)
Realised & unrealised FX (losses)	(274)	(379)
Depreciation & amortisation	(106)	(2,178)
Amortisation - acqusitions	(2,136)	-
Transaction and restructuring costs	(151)	(1,506)
Fair value movement on financial liability through profit and loss	-	(796)
Fair value gain (loss) on earnout provision	(92)	588
Inter-segment eliminations	-	156
(Loss) before income tax	**(2,891)**	**(3,925)**

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same ways as in the consolidated statement of profit or loss and other comprehensive income.

3. Business Combinations

Specifics in relation to each of these acquisitions and contingent considerations are discussed in further details below.

Significant estimate: adjustments to provisional amounts previously reported

As part of the consolidated financial statements for the year ended 30 June 2017, the Group reported provisionally acquired net assets for both Golfbox A/S and Verteda Holdings Limited. These provisional amounts were prepared with information available at the time.

Golfbox A/S

The acquisition balance sheet was adjusted to reflect an increase in deferred revenue of $286k following the review of the deferred revenue previously reported as a provisional amount. This has resulted in an associated increase in goodwill for the same value, and a restatement of the prior period's revenue by $20k due to the unwind of the deferred revenue adjustment.

Verteda Holdings Limited

The acquisition balance sheet was adjusted to reflect an increase in provisions of $187k. This has resulted in an associated increase in goodwill for the same value.

a) Contingent consideration

The table below illustrates the contingent consideration as at 31 December 2017:

	Rockit $'000	Verteda $'000	Golfbox $'000	Pallister Games $'000	Total $'000
Balance as at 1 July 2017	**(6)**	**(2,170)**	**(1,896)**	**(1,150)**	**(5,222)**
Add:					
Current contingent consideration	(19)	-	-	-	(19)
Fair value adjustment	-	-	(92)	-	(92)
Foreign exchange through profit and loss	-	119	(4)	-	115
Less:					
Contingent consideration paid	-	2,051	-	-	2,051
Balance 31 December 2017	**(25)**	**-**	**(1,992)**	**(1,150)**	**(3,167)**

Rockit Pty Ltd

As part of the deed of variation previously executed with the vendors the contingent consideration has been increased on a monthly basis in line with performance targets detailed in this deed. The total amount of contingent consideration at 31 December 2017 was $25k being an increase of $19k from 30 June 2017.

Verteda Holdings Limited

The completion of the contingent consideration for Verteda Holdings Limited was processed on 22 July 2017. All contingent consideration for this acquisition have now been paid and no other consideration obligations are to be paid.

GolfBox A/S

The movement of the contingent consideration in the half year ended 31 December 2017 relates to the revaluation of the Danish Krone consideration to AUD and an increase payment due to performance. Finalisation of the earnout consideration is expected to be completed prior to 30 June 2018.

4. Revenue

The Company derives the following types of revenue:

	Dec-17 $'000	Dec-16 $'000
Recurring Revenue		
Customer contracts annuities	4,683	4,307
Subscription annuities	2,816	529
Total - Recurring revenue	**7,499**	**4,836**
Non-recurring revenue		
Booking fees	122	147
System installations	1,793	1,025
Software fees and royalties	1,729	790
Hardware fees	2,750	1,476
Advertising	420	892
Other	77	35
Total - Non-recurring revenue	**6,891**	**4,365**
Revenue from Operating Activities	**14,390**	**9,201**
Other Income		
Gain on reversal of earnout provision	-	588
Settlement of professional matters	-	3
Interest	82	-
Total	**82**	**591**

5. Other significant income and expense items

The Group has identified a number of items which are material due to the significance of their nature and/or amount:

	Dec-17 $'000	Dec-16 $'000
Gain on reversal of earnout provisions	-	588
Transaction and restructuring costs	(151)	(1,506)
Fair value movement of financial liability at fair value through profit and loss	(92)	(796)
Realised/Unrealised FX gain/(loss)	(274)	(379)
Other net movements	-	156
	(517)	**(1,937)**

Aspects of each of the above items are discussed in further detail below.

Other income and expense items

a) Transaction and restructuring costs

A significant number of transaction costs have been incurred in relation to potential acquisitions that the Group is investigating as now part of its underlying business and continued growth strategy. These costs relate to a variety of legal and financial due diligence costs.

b) Fair value movement of financial liability at fair value through profit and loss

Due to the overachievement of GolfBox FY17 EBIT against acquisition forecast, the contingent consideration has been increased to reflect this achievement. The effect on the income statement resulting from this overachievement was a fair value expense of $92,000.

c) Unrealised/Realised FX losses

As part of the consideration for the acquisitions of Verteda and GolfBox, there were a number of deferred target payments recorded as part of the provisions. As these provisions are payable in the acquiree's domicile currency being either Pound Sterling or Danish Krone, the Group applies its policy in relation to foreign exchange currencies and revalues these provisions at the end of each reporting period with any gain or loss recorded against the unrealised foreign exchange account until such times as the amount is crystalised and this amount is the transferred to the realised foreign exchange line of the profit or loss statement. Due to the size of the deferred and earnout payments this movement is a material item on the profit and loss statement.

6. Fair value measurement of financial instruments

a) Recognised fair value measurements

i. Fair value hierarchy

This section explains the judgments and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

	31 Dec 17			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial liabilities				
Contingent consideration - Earnout provision	-	-	(3,167)	(3,167)
Total financial liabilities	-	-	(3,167)	(3,167)

	30 Jun 17			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial liabilities				
Contingent consideration - Earnout provision	-	-	(5,221)	(5,221)
Total financial liabilities	-	-	(5,221)	(5,221)

There were no transfers between levels for recurring fair value measurements during the year. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1 – The fair value of financial instruments traded in active markets (such as publicly traded derivatives and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2 – The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques which maximize the use of observable market date and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument ins included in level 2.

Level 3 – If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

ii. Valuation techniques used to determine fair values.

Specific valuation techniques used to value financial instruments include:

- The fair value of remaining financial liabilities is determined using discounted cash flow analysis.

All fair value estimates are included in level 3 as they are contingent consideration payable where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

iii. Valuation processes.

The finance department of the Group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This team reports directly to the Chief Financial Officer (CFO) and the Company's Audit and Risk Committee (ARC). Discussions of valuation processes and results are held between the CFO and the ARC at least once every six months, in line with the Groups half-yearly reporting period.

The main level 3 inputs used by the Group are derived and evaluated as follows:

- Contingent consideration – expected cash inflows are estimated based on the terms of the sale contract and the entity's knowledge of the business and how the current economic environment is likely to impact it.

Changes in level 2 and 3 fair values are analysed at the end of each reporting period during the half yearly valuation discussion between the CFO and the ARC. As part of this discussion the team presents a report that explains the reason for the fair value movements.

7. Non-financial assets and liabilities

This note provides information about the Group's non-financial assets and liabilities, including:

- Specific information about each type of non-financial asset and non-financial liability
  - Assets held for sale (see Note 7(a))
  - Intangible assets (see Note 7(b))
  - Provisions (Note 7(c))

a) Assets held for sale

i. Progressclaim.com Limited (previously Zuuse Pty Ltd)

During the six-month period ended 31 December 2017, Zuuse Pty Ltd completed a merger with Progressclaim.com Limited (Progressclaim). The merger was completed under the terms of a Scrip for Scrip deed executed on 18 September 2017.

MSL Solutions Limited now has an 11.7% interest (9,776,056 shares) in the merged entity, being Progressclaim.

The Company is continuing to actively sell down its interest in this asset, and any eventual sale is expected to provide a return to the Company in excess of the amount held for sale on its balance sheet.

ii. Related party loan

As at 31 December 2017 the Company has a loan receivable of $856k with Progressclaim.com/Zuuse. The loan is classified as non-current, consistent with the arm's length term the Company has entered into.

b) Intangible assets

	31 Dec 17 $'000	30 Jun 17 $'000
Goodwill		
At cost	18,586	18,586
Accumulated impairment	-	-
	18,586	18,586
Computer Software, other		
At cost	9,400	9,400
Accumulated amortisation	(4,477)	(3,863)
	4,923	5,537
Formation expenses		
At cost	2	2
Contracts and Customer Relationships		
At cost	21,744	21,744
Accumulated amortisation	(5,544)	(4,013)
	16,200	17,731
Total intangible assets	**39,711**	**41,856**

i. Goodwill

Goodwill has increased in line with the adjustment detailed in Note 3.

c) Provisions

	31-Dec-17 $'000	30-Jun-17 $'000
Current		
Long service leave	324	171
Annual leave	925	1,053
Earnout provision	2,410	4,072
	3,659	**5,296**
Non-Current		
Long service leave	77	248
Earnout provision	757	1,150
	834	**1,398**

Contingent consideration - earnout provisions

Movement in the earnout provisions during the financial period, are set out below:

	31-Dec-17 $'000	30-Jun-17 $'000
Opening balance	5,222	2,013
Fair value adjustment	92	88
Gain on reversal of contingent consideration	-	(687)
InfoGenesis acquisition	-	(500)
Rockit acquisition	19	(956)
Verteda acquisition	(2,051)	2,049
Golfbox acquisition	-	1,896
Pallisters Games	-	1,150
FX movement	(115)	169
Closing balance	**3,167**	**5,222**
Current	2,410	4,072
Non-current	757	1,150
	3,167	**5,222**

8. Income tax

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the period 31 December 2017 is 13% compared to 26% for the six months ended 31 December 2016. The change in the effective tax rate results from the impact of the lower corporate tax rate in both Denmark and the United Kingdom.

9. Events occurring after the reporting period

On 9 January 2018, the Company acquired the assets of Xcite Media Pty Ltd, including all customer contracts and intellectual property. The total consideration was $475,000, of which $375,000 was paid on completion and the balance to be deferred until six months after the completion date.

In addition to the increased earnings from the additional customers, the Company also expects to realise positive synergies due to reduced development costs for future enhancements planned for the developed and products sold by the MPower Media division.

Directors Declaration

In accordance with a resolution of the Directors of MSL Solutions Limited, in the Directors' opinion:

a) The consolidated interim financial statements and notes set out on pages 9 to 26, are in accordance with the Corporations Act 2001, including:
   i. Giving a true and fair view of Group's financial position as at 31 December 2017 and of its performance, for the period ended on that date;
   ii. Complying with Accounting Standard AASB 134 Interim Financial Reporting, the Corporations Regulations 2001; and

b) There are reasonable grounds to believe that MSL Solutions Limited will be able to pay its debts as and when they become due and payable.

The declaration is made in accordance with a resolution of the directors:

John Down
Chairman

Craig Kinross
Managing Director and Chief Executive Officer

Dated at Brisbane this 28th day of February 2018.

Independent auditor's review report to the members of MSL Solutions Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of MSL Solutions Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected explanatory notes and the directors' declaration for MSL Solutions Limited. The consolidated entity comprises the Company and the entities it controlled during that half-year.

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 Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of MSL Solutions Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Michael Crowe

Michael Crowe
Partner

Brisbane
28 February 2018