MAINSTREAMBPO
SPECIALISTS IN BUSINESS PROCESS OUTSOURCING

MainstreamBPO Limited and its Controlled Entities

ABN 48 112 252 114

Interim Financial Report

For the half year ended 31 December 2016

Contents

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 2016 and any public announcements made by MainstreamBPO Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Chairman's Report

Dear Shareholder,

On behalf of the Board I am pleased to report a strong financial performance underpinned by continued growth in the first half of the 2017 financial year. The Group had a successful half year with the three key geographies exceeding targets established by management and the Board to deliver a strong financial result. Particularly pleasing has been the strong result in our Asia-Pacific business where the revenue exceeded our half year plans by more than 10% and EBITDA exceeded our half year plans by 54% on the back of strong organic growth.

For the half year ended 31 December 2016, the Group's net profit after tax increased by 106% to $0.7 million (compared to $0.3 million for the six months to 31 December 2015). Revenue was $13.1 million which increased by 49% over the six months to 31 December 2016. Overall, the Group was up 9% or $1.0 million on budgeted revenue and 37% or $0.5 million up on budgeted EBITDA for the six months ended 31 December 2016.

Funds under administration for the half year grew 20%, from $88 billion to $106 billion, driven by key client inflows and acquisitions. Client numbers also increased during the period. As at 31 December 2016 we provided administration services for 187 clients, an increase of 57% compared to our 119 clients as at 30 June 2016.

This time last year we provided fund administration services from four offices covering Australia (Sydney and Melbourne), Singapore and Hong Kong. As mentioned above these established locations continue to perform well exceeding plan this half year. In this letter last year I mentioned our objective of expanding our business beyond our existing Australian and Asian operations. We are pleased to report that we have come a long way in building our global service platform, opening offices in New York, Isle of Man and Malta over the last six months. This international expansion included the acquisition of Fundadministration, Inc in New York and Galileo Fund Services Limited in the Isle of Man as well as the purchase of Alter Domus' hedge fund business in Europe. In addition our Cayman Islands office opened at the beginning of the second half of our financial year. For this half year period we recorded three months of financial results for Fundadministration, Inc and one month of financial results for Galileo.

During the half year, management worked on continued operational improvements across all areas of the business. These improvements covered a range of technologies and processes covering FundBPO's general ledger reporting, distribution processes and the security of our investor reporting. A range of productivity improvements and the integration of our global operating model resulted in an increase in revenue per employee of over 20%. Implementation of new workflow management technology is currently underway and will result in continued productivity improvements.

On the technology front, we signed new software licence agreements with a number of our technology partners and further details on these are covered in the Directors' Report.

With operations in seven countries, we now have the global presence to support our clients across the world's major fund services regions. We continue to evaluate further potential acquisitions in a number of jurisdictions and are encouraged by the opportunities that we are currently evaluating. We will update shareholders as we progress these opportunities during the second half of this financial year.

We are encouraged by our strong half year results which confirm the execution of our strategy will result in significant growth and continued financial performance. As a result of this strong financial performance, the Board is pleased to announce a fully franked interim dividend of half a cent per share and it is the intention of the Board to announce a fully franked final dividend following the release of the Annual Report in August of this year.

The Board thanks shareholders for their ongoing support. We look forward to updating you on our continued progress in our Annual Report.

B Johnston

Byram Johnston OAM
Chairman

Directors' Report

The Directors of MainstreamBPO Limited (the "Company" or "MainstreamBPO") 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 2016.

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	Chief Executive Officer, MainstreamBPO
Martin Smith	Chief Executive Officer, FundBPO
Michael Houlihan	Chief Executive Officer, SuperBPO
John Plummer	Non-executive Director
Lucienne Layton	Non-executive Director

Review and results of operation

For the half year ended 31 December 2016, the Group's net profit after tax increased by 106% to $0.7 million (compared to $0.3 million for the six months to 31 December 2015). Revenue was $13.1 million which increased by 49% over the six months to 31 December 2015. Please refer to the Chairman's Report for further information on the Group's operations.

Dividends

On 29 August 2016, the Company announced a fully franked final dividend of $0.01 per issued share for the financial year ended 30 June 2016. Payment of the dividend was completed on 1 November 2016.

Approximately 75% of total shares outstanding elected to participate in the Dividend Reinvestment Plan (DRP). Per Appendix 3A.1 as filed with the ASX on 29 August 2016, the DRP price was calculated based on a 5% discount to the 10 day Volume Weighted Average Price (VWAP) of MAI stock during the period 10 October 2016 to 21 October 2016. The DRP resulted in the issuance of an additional 1,049,325 fully paid ordinary shares in MainstreamBPO Limited. As of the date of this report, there are 90,283,729 fully paid ordinary shares in MainstreamBPO Limited outstanding.

On 20 February 2017, the Company announced a fully franked interim dividend of $0.005 per issued share for the half year ended 31 December 2016, payable on 3 April 2017. The Board of Directors also resolved to offer all shareholders who are recorded on the share register as at 28 March 2017 (the Record Date) the right to participate in the Company's DRP in respect to the 2017 interim dividend. The DRP shall be calculated on a 5% discount to the 10 day VWAP of MAI stock during the period 13 March 2017 to 24 March 2017. A copy of the DRP is available on the Company website.

No dividends were declared and paid during the half year ended 31 December 2015.

Significant changes in the state of affairs

As detailed on Page 12 of the Company's 2016 Annual Report, after consideration of the favourable share price movements since the listing date on 1 October 2015, the Board modified the share price hurdle for Tranches 2 and 3 under the PY2016 Director Share Offer Plan. The modification did not increase the fair value of the award.

On 19 September 2016, the Company issued $7 million of Senior Secured Convertible Notes to fund strategic acquisitions. For further details please refer to Note 12.

On 4 October 2016, the Company acquired 100% of the shares of New York based Fundadministration, Inc.

On 4 November 2016, MainstreamBPO signed a seven year registry software contract with financial services technology firm GBST for their GBST Composer, GBST ComposerWeb and Fund Gateway products.

On 24 November 2016, the Company signed an Asset Sale Agreement to purchase the European hedge fund administration business of fund and corporate services provider Alter Domus following receipt of in-principle approval from the Malta Financial Services Authority (MFSA) to act as a Fund Administrator in Malta.

On 28 November 2016, the Company acquired 100% of the shares in the Isle of Man based administrator Galileo Fund Services Limited.

Other than the above, there were no significant changes in the state of affairs of the Group during the half year ended 31 December 2016.

Events subsequent to the end of the reporting date

On 12 January 2017, the Company announced that it had received approval for a Full Mutual Fund Administrators Licence from the Cayman Islands Monetary Authority.

On 30 January 2017, the Company issued an additional $2 million of Senior Secured Convertible Notes (Notes) to fund further acquisitions. The additional Notes issued were again arranged by Mason Stevens Limited and have the same terms and conditions as the initial $7 million of Notes that were issued on 19 September 2016. As of the date of this report, the Company now has a total of $9 million of Senior Secured Convertible Notes outstanding.

On 20 February 2017, the Company paid a deposit of EUR 200,000 for the acquisition of the Alter Domus European hedge fund administration business. Revenue recognition related to the acquisition commenced in 15 January 2017.

On 20 February 2017, the Company made its first payment of $0.7 million under a new $1.4 million software licence agreement with key technology provider SS&C Solutions Pty Limited, provider of the HiPortfolio fund administration and accounting solution. The $1.4 million contract increases the number of licences and modules available to FundBPO as the Company increase the size of its fund administration team. It also removes a change of control provision that was present in the previous contract with HiPortfolio's former owner DST International Pty Ltd as disclosed in MainstreamBPO's initial public offer (IPO) Prospectus dated 21 August 2015.

On 20 February 2017, the Company announced a fully franked interim dividend of $0.005 per issued share for the half year ended 31 December 2016, payable on 3 April 2017. The Board of Directors also resolved to offer all shareholders who are recorded on the share register as at 28 March 2017 (the Record Date) the right to participate in the Company's DRP in respect to the 2017 interim dividend. The DRP shall be calculated on a 5% discount to the 10 day VWAP of MAI stock during the period 13 March 2017 to 24 March 2017. A copy of the DRP is available on the Company website.

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

Directors' Report continued

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
Director

Sydney
Date: 20 February 2017

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Auditor’s Independence Declaration to the Directors of MainstreamBPO Limited

As lead auditor for the review of MainstreamBPO Limited for the half-year ended 31 December 2016, 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 MainstreamBPO Limited and the entities it controlled during the financial period.

Ernst & Young

Rita Da Silva
Partner
20 February 2017

Consolidated statement of profit or loss and other comprehensive income

For the half year ended 31 December 2016

	Note	Consolidated 2016	2015
		$	$
Revenue			
Fee income		12,379,092	8,270,955
Other operating income		698,712	438,708
Interest income		36,061	115,310
Total revenue	6	**13,113,865**	**8,824,973**
Expenses			
Employee benefits expense		7,375,696	5,095,164
Share-based payments expense	7	290,974	333,061
Accounting and audit fees		286,853	208,838
Amortisation and depreciation expense		378,559	183,225
Bank fees and charges		49,581	71,590
Insurance		105,661	103,355
Interest expense		223,267	89,150
IT support and expenses		2,073,932	1,186,992
Legal fees		101,976	27,774
Occupancy		568,482	483,323
General and other expenses		782,499	527,823
Total expenses		**12,237,480**	**8,310,295**
Profit before income tax expense		**876,385**	**514,678**
Income tax expense	5	211,040	192,028
Profit after income tax expense for the half year		**665,345**	**322,650**
Other comprehensive income			
Exchange differences on translation of foreign subsidiaries		(76,415)	49,279
Other comprehensive income for the half year, net of tax		**(76,415)**	**49,279**
Total comprehensive income for the half year		**588,930**	**371,929**
Earnings per share (EPS):			
Basic earnings per share	4	$0.0076	$0.0047
Diluted earnings per share	4	$0.0074	$0.0046

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 2016

	Note	31 December 2016 $	30 June 2016 $
Assets			
Current Assets			
Cash and cash equivalents	8	2,563,451	1,368,536
Trade and other receivables		4,647,089	2,618,612
Other current assets	9	1,259,187	1,039,587
Total Current Assets		**8,469,727**	**5,026,735**
Non-Current Assets			
Property, plant and equipment		1,349,696	1,017,895
Intangible assets	10	16,857,969	7,471,368
Deferred tax asset		432,585	497,332
Total Non-Current Assets		**18,640,250**	**8,986,595**
Total Assets		**27,109,977**	**14,013,330**
Liabilities			
Current Liabilities			
Trade creditors and accrued expenses		2,568,615	1,820,058
Provision for employee benefits		682,882	525,530
Provision for income tax		409,499	302,618
Deferred consideration	10	770,620	-
Other current liabilities	11	1,216,022	519,490
Total Current Liabilities		**5,647,638**	**3,167,696**
Non-Current Liabilities			
Interest-bearing liabilities	12	6,820,646	-
Total Non-Current Liabilities		**6,820,646**	**-**
Total Liabilities		**12,468,284**	**3,167,696**
Net Assets		**14,641,693**	**10,845,634**
Equity			
Contributed capital	13	12,953,169	8,902,554
Reserves	14	332,231	359,788
Retained earnings		1,356,293	1,583,292
Total Equity		**14,641,693**	**10,845,634**

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 2016

	Contributed Capital	Reserves	Retained Earnings	Total Equity
	$	$	$	$
Consolidated				
Balance at 1 July 2016	**8,902,554**	**359,788**	**1,583,292**	**10,845,634**
Profit after income tax expense	-	-	665,345	**665,345**
Other comprehensive income, net of tax	-	(76,415)	-	**(76,415)**
Total comprehensive income, net of tax	**-**	**(76,415)**	**665,345**	**588,930**
Transactions with owners in their capacity as owners:				
Dividends Paid	-	-	(892,344)	**(892,344)**
Dividends reinvested	672,269	-	-	**672,269**
Shares issued for acquisitions	3,136,230	-	-	**3,136,230**
Shares issued under Employee Share Plans	242,116	(242,116)	-	**-**
Share-based payments	-	290,974	-	**290,974**
Balance at 31 December 2016	**12,953,169**	**332,231**	**1,356,293**	**14,641,693**
Balance at 1 July 2015	**1,745,760**	**345,454**	**554,057**	**2,645,271**
Profit after income tax expense	-	-	322,650	322,650
Other comprehensive income, net of tax	-	49,279	-	49,279
Total comprehensive income, net of tax	**-**	**49,279**	**322,650**	**371,929**
Transactions with owners in their capacity as owners:				
Shares issued under IPO	8,901,455	-	-	8,901,455
Transaction costs, net of tax	(1,044,247)	-	-	(1,044,247)
Share buy-backs	(1,254,400)	-	-	(1,254,400)
Shares issued	486,400	-	-	486,400
Share-based payments	-	(72,552)	-	(72,552)
Balance at 31 December 2015	**8,834,968**	**322,181**	**876,707**	**10,033,856**

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 2016

		Consolidated	
		2016	**2015**
	Note	**$**	**$**
Cash flows from operating activities			
Income received		11,085,388	7,953,805
Operating expenses paid		(10,402,795)	(8,151,590)
Interest received		36,061	115,310
Interest paid		-	(57,382)
Income tax paid		-	(180,169)
Net cash inflow/(outflow) from operating activities		**718,654**	**(320,026)**
Cash flows from investing activities			
Purchase of capitalised software & equipment		(753,228)	(54,495)
Payments for acquisitions, net of cash received	10	(5,410,436)	-
Purchase of intangible assets		-	(2,422,071)
Net cash outflow from investing activities		**(6,163,664)**	**(2,476,566)**
Cash flows from financing activities			
Shares issued under IPO		-	8,901,455
Transaction costs		-	(1,096,473)
Employee Gift Offer		-	(207,000)
IPO share buy-backs		-	(1,254,400)
Shares issued		-	137,787
Proceeds from/(repayment of) Interest bearing liabilities, net of fees		6,860,000	(1,250,000)
Dividends paid		(220,075)	-
Repayment of shareholder loans		-	(1,422,533)
Payment for ASX settlement bond		-	(500,000)
Net cash inflow from financing activities		**6,639,925**	**3,308,836**
Net increase/(decrease) in cash and cash equivalents during the half year		1,194,915	512,244
Cash at the beginning of the half year		1,368,536	242,400
Cash at the end of the half year	8	**2,563,451**	**754,644**

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 MainstreamBPO Limited (the "Company") and its controlled entities (the "Group") for the half year ended 31 December 2016. 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 2016 is a general purpose financial report and has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001.* It is presented in Australian dollars ($) and was approved by the Board of Directors on 20 February 2017. 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 2016 Annual Report and any public announcements made in respect of the Group during the half year ended 31 December 2016 in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

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

New, revised or amending Accounting Standards and Interpretations adopted
The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. None of the standards and amendments which became mandatory for the first time in the interim reporting period commencing 1 July 2016 resulted in any adjustments to the amounts recognised in the financial statements or disclosures.

AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)

AASB 116 *Property Plant and Equipment* and AASB 138 *Intangible Assets* both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. This amendment clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. This standard was effective to the Group 1 July 2016. The adoption of this amendment does not have any material impact on the financial performance or position of the Group.

Accounting Standards and Interpretations issued but not yet effective
The Australian and International Accounting Standards issued but not yet mandatory for the 31 December 2016 interim reporting period have not been adopted by the Group in the preparation of this interim financial report. An assessment of the impact of the new standards and interpretations which may have a material impact on the Group is set out below:

AASB 15 Revenue from Contracts with Customers
AASB 15 incorporates the requirements of IFRS 15 *Revenue from Contracts with Customers* issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard will be effective 1 July 2018 for the Group. The Group is still in the process of assessing the impact.

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

IFRS 16 Leases
During January 2016, the IASB issued IFRS 16 *Leases*, which replaces the existing leases guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Lease – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. The definition is based on the premise of control, where a lease is identified when a customer has the right to (1) obtain substantially all of the economic benefits from the use of the identified asset; and (2) direct the use of the identified asset.

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

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16. The Group is still in the process of assessing the impact.

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

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

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

Notes to the financial statements continued

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

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

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

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

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

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

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

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

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

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

Refer to Note 12 for further details on the Senior Secured Convertible Notes.

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 reporting period are discussed below.

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

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

Goodwill and other indefinite life intangible assets
The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

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

Notes to the financial statements continued

Note 3. Segment reporting

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

MainstreamBPO has operations in Asia-Pacific (APAC) which includes Australia, Singapore, Hong Kong, and also has operations in North America and Europe. The Company had operations in North America for three months and Europe for one month during the six months ended 31 December 2016. The table below shows a break-up of revenue by geography for the six months ended 31 December 2016 and 2015.

	2016 $	2015 $
APAC	12,032,039	8,824,973
North America	937,462	-
Europe	144,364	-
	13,113,865	**8,824,973**

Note 4. Earnings per share (EPS)

Basic EPS is calculated by dividing the profit for the period attributable to ordinary equity holders 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 equity holders 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:

	2016 $	2015 $
Profit attributable to ordinary equity holders of the parent:	**665,345**	**322,650**
Weighted average number of ordinary shares for basic EPS*	87,041,590	68,515,722
Effects of dilution from:		
- Employee Share Plans	2,594,600	1,190,000
Weighted average number of ordinary shares adjusted for the effect of dilution*	89,636,190	69,705,722

*The calculation of weighted average number of ordinary shares outstanding takes into account the issuance of 331,666 fully paid ordinary shares under the Company's Director Share Offer and Senior Management Share Offer on 30 September 2016, the issuance of 4,569,100 fully paid ordinary shares in connection with the acquisition of Fundadministration on 4 October 2016 and the issuance of 1,049,325 fully paid ordinary shares in connection with the Company's Dividend Reinvestment Plan (DRP) on 1 November 2016.

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 2016 and 2015 are:

	Consolidated	
	2016	**2015**
	$	**$**
Current income tax	146,293	213,031
Current tax adjustment for prior periods	-	(814)
Deferred tax expense/(benefit)	64,747	(20,189)
Income tax expense	**211,040**	**192,028**

Note 6. Revenue

	Consolidated	
	2016	**2015**
	$	**$**
Fee income	12,379,092	8,270,955
Other operating income	698,712	438,708
Interest income	36,061	115,310
Total revenue	**13,113,865**	**8,824,973**

Note 7. Share based payments

The Company has in place an Employee Share Plan (ESP). The ESP is a plan under which Directors, senior management and eligible employees may be allocated Awards as a means of retaining their service and aligning their interests with shareholders. Awards can be issued in the form of Performance Rights, Options or Restricted Shares. The total expense recognised for share-based payments during the half year ended 31 December 2016 is:

	Consolidated	
	2016	**2015**
	$	**$**
Share-based payments		
Employee Share Offer	39,990	134,550
Management Share Offer	88,749	158,890
Senior Management Share Offer	119,455	32,560
Director Share Offer*	42,780	7,061
Total share-based payments expense	**290,974**	**333,061**

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

As detailed on Page 12 of the Company's 2016 Annual Report, after consideration of the favourable share price movements since the listing date on 1 October 2015, the Board modified the share price hurdle for Tranches 2 and 3 under the PY2016 DSO Plan. The modification did not increase the fair value of the award.

There were no cancellations to the awards in the half year ended 31 December 2016.

Notes to the financial statements continued

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	31 December 2016 $	30 June 2016 $
Cash at bank	**2,563,451**	**1,368,536**

On 19 September 2016, the Company issued $7 million of Senior Secured Convertible Notes to fund strategic acquisitions. Refer to the consolidated statement of cash flows for further details.

Note 9. Current assets – other

	Consolidated	
	31 December 2016 $	30 June 2016 $
Deposit bonds	1,008,658	962,895
Prepayments	220,625	75,644
Other	29,904	1,048
	1,259,187	**1,039,587**

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

Note 10. Non-current assets - intangibles

	Consolidated	
	31 December 2016 $	30 June 2016 $
Business combinations – goodwill	12,049,174	2,589,072
Other intangible assets	4,808,795	4,882,296
	16,857,969	**7,471,368**

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

	Goodwill*	Other Intangible Assets*	Total
Opening balance at 30 June 2016	2,589,072	4,882,296	**7,471,368**
Acquisition of Fundadministration, Inc.	7,900,971	-	**7,900,971**
Acquisition of Galileo Fund Services Limited	1,559,131	-	**1,559,131**
HFO Limited	-	13,999	**13,999**
Amortisation expense	-	(87,500)	**(87,500)**
Closing balance at 31 December 2016	**12,049,174**	**4,808,795**	**16,857,969**

Note 10. Non-current assets – intangibles (continued)

Business Combinations - Goodwill

The Business Combinations Goodwill is derived from the acquisition of 100% of the shares of SuperBPO Pty Ltd (formerly Group Benefits Pty Ltd), Fundadministration, Inc. and Galileo Fund Services Limited.

During this half year, the Company acquired 100% of the shares of Fundadministration, Inc based in New York and the Isle of Man based administrator Galileo Fund Services Limited.

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

	Fundadministration, Inc.	Galileo	Total
	$ AUD	$ AUD	$ AUD
Cash and cash equivalents	424,509	449,370	**873,879**
Trade and other receivables	384,952	296,342	**681,294**
Other current assets	21,858	79,119	**100,977**
Total Assets	**831,319**	**824,831**	**1,656,150**
Total Liabilities	**809,462**	**115,610**	**925,072**
Net assets acquired at fair value	**21,857**	**709,221**	**731,078**
Goodwill arising on acquisition (provisional)*	7,900,971	1,559,131	**9,460,102**
Purchase consideration transferred	**7,922,828**	**2,268,352**	**10,191,180**
Cash paid	(4,786,598)	(1,497,717)	**(6,284,315)**
Cash acquired within the subsidiary	424,509	449,370	**873,879**
Net Cash Paid	**(4,362,089)**	**(1,048,347)**	**(5,410,436)**

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

At the date of acquisition, the total fair value of trade and other receivables was $681,294. At 31 December 2016, none of the trade and other receivables related to acquisitions had been impaired.

From the date of acquisition, Fundadministration, Inc. has contributed $937,462 of revenue to the Group. If the acquisition had taken place at the beginning of the period, then Fundadministration, Inc. would have contributed $1,874,924 of revenue to the group for the six months ended 31 December 2016.

From the date of acquisition, Galileo Fund Services Limited has contributed $144,364 of revenue to the Group. If the acquisition had taken place at the beginning of the period, then Galileo Fund Services Limited would have contributed $866,184 of revenue to the group for the six months ended 31 December 2016.

With respect to the Galileo Fund Services Limited acquisition, at 31 December 2016, $0.8 million (£457,677) of the purchase price is recorded as Deferred Consideration. On 13 January 2017, $0.4 million (£236,677) of this Deferred Consideration was paid and the remaining $0.4 million (£221,000) is to be paid in November 2017 subject to certain financial Key Performance Indicators being achieved.

Notes to the financial statements continued

Note 10. Non-current assets – intangibles (continued)

Other Intangible Assets

The other intangible assets include the purchase of customer relationships and contracts from Perpetual Limited, HFO Limited, Alter Domus and a transaction with an Australian based fund administrator. FundBPO (HK) Ltd was established in July 2014 following the acquisition of customer relationships and contracts from HFO Limited.

The Group performs its annual impairment test for intangible assets with indefinite useful lives and for Goodwill as at 30 June of each respective financial year. No impairment was recorded at 30 June 2016 or 2015. The Group did not identify any indicators of impairment during the half year ended 31 December 2016.

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

Note 11. Other current liabilities

	Consolidated	
	31 December 2016 $	**30 June 2016 $**
GST Liability	286,735	289,961
PAYG withholding payable	37,208	37,978
Superannuation payable	186,699	190,917
Due to previous senior shareholder of Fundadministration, Inc.	698,839	-
Other	6,541	634
Total	**1,216,022**	**519,490**

At 31 December 2016, there is $0.7 million (USD $506,030) recorded as other current liabilities relating to a liability due to the previous senior shareholder of Fundadministration, Inc. for their historical retained earnings as agreed to between the respective parties in the Sale Agreement.

Note 12. Interest bearing liabilities

	Consolidated	
	31 December 2016 $	30 June 2016 $
Interest bearing liabilities, net of fees	**6,820,646**	-

On 19 September 2016, MAI Finance SPV Pty Ltd, a wholly owned subsidiary of the Company, issued $7 million of Senior Secured Convertible Notes to fund acquisitions. The Notes were arranged by Mason Stevens Limited and have a fixed interest rate of 10.5% per annum for a three year term. Interest is payable quarterly in arrears and the first interest payment was made on 16 January 2017.

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

As at 31 December 2016, the carrying amount of interest bearing liabilities approximates their fair value.

Note 13. Equity - contributed capital

	Consolidated		Consolidated	
	31 December 2016 Shares	30 June 2016 Shares	31 December 2016 $	30 June 2016 $
Ordinary shares - fully paid	90,283,729	84,333,638	12,953,169	8,902,554

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 2016	**84,333,638**
Shares issued under Employee Share Plan	331,666
Shares issued in consideration for acquisitions	4,569,100
Shares issued under Dividend Reinvestment Plan	1,049,325
Ordinary shares outstanding at 31 December 2016	**90,283,729**

On 30 September 2016, at the Company's Annual General Meeting, shareholders approved the issuance of a total of 331,666 fully paid ordinary shares under the Company's Director Share Offer and Senior Management Share Offer.

On 4 October 2016, the Company issued 4,569,100 fully paid ordinary shares in connection with the acquisition of Fundadministration, Inc. The shares were issued at a Volume Weighted Average Price (VWAP) of $0.69.

Notes to the financial statements continued

On 29 August 2016, the Company announced a fully franked final dividend of $0.01 per issued share for the financial year ended 30 June 2016. Payment of the dividend was completed on 1 November 2016. Approximately 75% of total shares outstanding elected to participate in the Company's Dividend Reinvestment Plan (DRP). The DRP price was calculated based on a 5% discount to the 10 day VWAP of MAI stock during the period 10 October 2016 to 21 October 2016. The DRP resulted in the issuance of an additional 1,049,325 fully paid ordinary shares in MainstreamBPO Limited.

Note 14. Reserves

	Consolidated	
	31 December 2016 $	30 June 2016 $
Revaluation reserve	416,703	416,703
Foreign currency translation reserve	(139,509)	(63,094)
Share-based payment reserve	55,037	6,179
	332,231	**359,788**

Revaluation reserve
The reserve is used to recognise increments and decrements in the fair value of software. There were no movements in this reserve during the half year ended 31 December 2016 (June 2016: Nil).

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

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

Note 15. Contingent assets and contingent liabilities

The Group had contingent liabilities of approximately $57,370 as at 31 December 2016 (30 June 2016: $68,844). These contingent liabilities are related to future payments for the purchase of customer relationships and contracts from HFO Limited. These future payments are contingent upon the level of revenue to be received in future periods. The Group did not have any contingent assets as at 31 December 2016 or 30 June 2016.

Note 16. Related party transactions

The following are related party transactions entered into during the period.

The Senior Secured Convertible Notes are guaranteed by a related party.

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.

With respect to the Fundadministration, Inc. acquisition, as at 31 December 2016, there is $0.7 million (USD $506,030) recorded as other current liabilities. This relates to a liability due to the previous senior shareholder of Fundadministration, Inc. for their historical retained earnings as agreed to between the respective parties in the Sale Agreement.

Refer to the Company's Replacement Prospectus dated 21 August 2015 and 2016 Annual Report for information on other related party transactions.

Notes to the financial statements continued

Note 17. Events after the reporting period

On 12 January 2017, the Company announced that it had received approval for a Full Mutual Fund Administrators License from the Cayman Islands Monetary Authority.

On 30 January 2017, the Company issued an additional $2 million of Senior Secured Convertible Notes (Notes) to fund acquisitions. The additional Notes issued were also arranged by Mason Stevens Limited and have the exact same terms and conditions as the initial $7 million of Notes that were issued on 19 September 2016. As of the date of this report, the Company now has a total of $9 million of Senior Secured Convertible Notes outstanding.

On 20 February 2017, the Company paid a deposit of EUR 200,000 for the acquisition of the Alter Domus European hedge fund administration business. Revenue recognition related to the acquisition commenced 15 January 2017.

On 20 February 2017 the Company made its first payment of $0.7 million under a new $1.4million software license agreement with key technology provider SS&C Solutions Pty Limited, provider of the HiPortfolio fund administration and accounting solution. The $1.4 million contract increases the number of licences and modules available to FundBPO as the Company increase the size of its fund administration team. It also removes a change of control provision that was present in the previous contract with HiPortfolio's former owner DST International Pty Ltd as disclosed in MainstreamBPO's initial public offer (IPO) Prospectus dated 21 August 2015.

On 20 February 2017, the Company announced a fully franked interim dividend of $0.005 per issued share for the half year ended 31 December 2016, payable on 3 April 2017. The Board of Directors also resolved to offer all shareholders who are recorded on the share register as at 28 March 2017 (the Record Date) the right to participate in the Company's DRP in respect to the 2017 interim dividend. The DRP shall be calculated on a 5% discount to the 10 day VWAP of MAI stock during the period 13 March 2017 to 24 March 2017. A copy of the DRP is available on the Company website.

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

Directors' declaration

In accordance with a resolution of the Directors of MainstreamBPO Limited, I state that:

In the opinion of the Directors:

a) the financial statements and notes of MainstreamBPO Limited for the half year ended 31 December 2016 are in accordance with the *Corporations Act 2001*, including:

   i) giving a true and fair view of the Group’s financial position as at 31 December 2016 and of its performance for the half year ended on that date; and
   ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

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

On behalf of the Board

Byram Johnston OAM
Director

Date: 20 February 2017
Sydney

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To the members of MainstreamBPO Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of MainstreamBPO Limited, which comprises the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the 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 controls as the directors determine are 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, 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 2016 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 MainstreamBPO Limited and the entities it controlled during the half-year, 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*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is attached to the Directors' Report.

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 MainstreamBPO Limited is not in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 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*.

Ernst & Young

Ernst & Young

Rita Da Silva

Rita Da Silva
Partner
Sydney
20 February 2017

Corporate information

Directors
Byram Johnston OAM - Chief Executive Officer, MainstreamBPO
Martin Smith - Chief Executive Officer, FundBPO
Michael Houlihan - Chief Executive Officer, SuperBPO
John Plummer - Non-Executive Director
Lucienne Layton - Non-executive Director

Company Secretary
Justin O'Donnell - Chief Financial Officer, MainstreamBPO

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

Website
www.mainstreambpo.com

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