

Millennium Services Group Ltd
Appendix 4D
Half year report

1. Company details

Name of entity:	Millennium Services Group Ltd
ABN:	11 607 926 787
Reporting period:	For the six months ended 31 December 2017
Previous period:	For the six months ended 31 December 2016

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	34.9% to	136,284
Profit from ordinary activities after tax attributable to the owners of Millennium Services Group Ltd	down	(58.8)% to	944
Profit for the period attributable to the owners of Millennium Services Group Ltd	down	(58.8)% to	944

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the 2016 financial year	4.4	4.4
Interim dividend for the 2017 financial year	3.5	3.5
Final dividend for the 2017 financial year	5.4	5.4

No interim dividend has been declared for the period.

Comments

The profit for the consolidated entity after providing for income tax amounted to \$944,000 (31 December 2016: \$2,294,000).

For a brief explanation of the results for the period, please refer to the Directors' report and the notes to the attached half year Consolidated Financial Statements.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(54.67)</u>	<u>(57.75)</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the financial year ended 30 June 2017	5.4	5.4
No interim dividend has been declared for the period.		

Previous period

Final dividend for the financial year ended 30 June 2016	4.4	4.4
Interim dividend for the half year ended 31 December 2016	3.5	3.5

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

All foreign entities apply International Financial Reporting Standards (IFRS).

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Half Year Financial Report.

11. Attachments

Details of attachments (if any):

The half year Consolidated Financial Statements of Millennium Services Group Ltd for the period ended 31 December 2017 are attached.

12. Signed

Signed 

Craig Hanley
Director

Date: 26 February 2018

Millennium Services Group Ltd

ABN 11 607 926 787

Half Year Financial Report - 31 December 2017

Millennium Services Group Ltd
Directors' report
31 December 2017

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Millennium Services Group Ltd (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 31 December 2017.

Directors

The following persons were directors of Millennium Services Group Ltd during the whole of the financial period and up to the date of this report, unless otherwise stated:

Peter Anderson – Independent, Non-Executive Chairman
 Craig Hanley – Executive Director and Chief Executive Officer
 Stephen Williams – Independent, Non-Executive Director
 Greg McCormack – Independent, Non-Executive Director
 Sally McCutchan – Independent, Non-Executive Director (appointed 25 October 2017)
 Stephen Lidbury – Executive Director (resigned 25 October 2017)
 Ross Gavranich - Executive Director

Principal activities

Millennium Services Group is a cleaning, security and integrated service specialist in the retail shopping centre, commercial property and Commonwealth and State Government sectors.

Dividends

Dividends paid during the financial period and previous corresponding period were as follows:

	Consolidated	
	December	December
	2017	2016
	\$'000	\$'000
Final dividend of \$0.044 per share (fully franked) was paid in respect of the financial year ended 30 June 2016.	-	2,021
Final dividend of \$0.054 per share (fully franked) was paid in respect of the financial year ended 30 June 2017.	2,480	-
	<u>2,480</u>	<u>2,021</u>

Based on revised guidance and expected forward commitments of the company including in relation to investments for anticipated contract wins, the Board has determined not to pay an interim dividend during this period.

Directors will determine the appropriateness of the payment of a final dividend based on the full year results.

Review of operations

Revenue increased 34.9% to \$136,284,000 compared to the previously corresponding period. The statutory revenue for the period included a full six months of revenue from the Airlite business acquired in November 2016 compared to only two months of Airlite revenue in the prior period.

Earnings before interest, tax, depreciation and amortisation (EBITDA) of \$6,151,000 was 1.8% higher than the prior period.

EBITDA in the current period was impacted by a 31% increase in overhead expenditure of \$3,649,000. This included \$2,068,000 associated with a full 6 months of overhead from Airlite and \$1,581,000 related to investment for new contract revenue and information technologies to further improve forecasting and operational management capability.

Millennium Services Group Ltd
Directors' report
31 December 2017

Depreciation and amortisation expense of \$3,683,000 increased \$1,550,000 or 73% compared with the prior period partly due to amortisation and depreciation related to the intangibles and plant and equipment recognised on the acquisition of the Airlite Group in November 2016. Investment in capitalised equipment of robotics, and plant and equipment to service the growth in the cleaning segment also contributed to the increase.

Finance costs of \$1,108,000 were \$501,000 higher than the prior period due to a full six months of interest expense incurred in the current period in relation to the financing of the Airlite Group acquisition in November 2016.

Profit before income tax expense of \$1,373,000 was \$1,944,000 lower compared to the prior period mostly due to the higher amortisation, depreciation and finance costs noted above. This was partly offset by the higher EBITDA. Income tax expense of \$429,000 (effective income tax rate of 31.2%) was lower compared to \$1,023,000 (effective income tax rate of 30.8%) in the prior period, in line with the lower profit before income tax expense.

The profit for the consolidated entity after providing for income tax amounted to \$944,000 (31 December 2016: \$2,294,000).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial period.

Matters subsequent to the end of the financial period

On 5 February 2018, the company announced the resignation of Mr Damien Gray from the position of Chief Financial Officer and Company Secretary and the appointment of Mr Paul Smith as Interim Chief Financial Officer and Company Secretary.

The Company has identified a potential tax liability which is yet to be quantified. MinterEllison has been appointed to advise the Company and if necessary, liaise with the ATO to resolve this matter. If any material impact on the Company comes to light, the Company will inform the ASX accordingly.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 immediately after this directors' report.

Millennium Services Group Ltd
Directors' report
31 December 2017

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Craig Hanley', written over a horizontal line.

Craig Hanley
Director

26 February 2018

Moore Stephens Audit (Vic)

Level 18, 530 Collins Street
Melbourne Victoria 3000

T +61 (0)3 9608 0100

F +61 (0)3 9608 0192

E victoria@moorestephens.com.au

www.moorestephens.com.au

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF MILLENNIUM SERVICES GROUP LTD & CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2017, there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.



MOORE STEPHENS AUDIT (VIC)
ABN 16 847 721 257



GEORGE S. DAKIS
Partner
Audit & Assurance Services

Melbourne, Victoria

26 February 2018

Millennium Services Group Ltd

Contents

31 December 2017

Statement of profit or loss and other comprehensive income	10
Statement of financial position	11
Statement of changes in equity	12
Statement of cash flows	13
Notes to the financial statements	14
Directors' declaration	21
Independent auditor's review report to the members of Millennium Services Group Ltd	22

General information

The financial statements cover Millennium Services Group Ltd as a consolidated entity consisting of Millennium Services Group Ltd and the entities it controlled at the end of, or during, the period. The financial statements are presented in Australian dollars, which is Millennium Services Group Ltd's functional and presentation currency.

Millennium Services Group Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Millennium Services Group Limited
Level 1, 205-211 Forster Road
Mount Waverley, Victoria 3149

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 February 2018. The directors have the power to amend and reissue the financial statements.

Millennium Services Group Ltd
Statement of profit or loss and other comprehensive income
For the period ended 31 December 2017

	Consolidated	
	31 December 2017	31 December 2016
	\$'000	\$'000
Revenue	136,284	100,997
Other income	17	14
Expenses		
Raw materials and consumables used	(19,895)	(17,889)
Employee benefits expense	(103,598)	(70,530)
Depreciation and amortisation expense	(3,683)	(2,133)
Transaction expenses	(122)	(776)
Other expenses	(6,522)	(5,759)
Finance costs	(1,108)	(607)
Profit before income tax expense	1,373	3,317
Income tax expense	(429)	(1,023)
Profit after income tax expense for the period attributable to the owners of Millennium Services Group Ltd	944	2,294
Other comprehensive income/(loss)		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Foreign currency translation	(33)	(4)
Other comprehensive loss for the period, net of tax	(33)	(4)
Total comprehensive income for the period attributable to the owners of Millennium Services Group Ltd	911	2,290
	Cents	Cents
Basic earnings per share	2.06	4.99
Diluted earnings per share	2.05	4.99

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

Millennium Services Group Ltd
Statement of financial position
As at 31 December 2017

		Consolidated	
	Note	31 December 2017 \$'000	30 June 2017 \$'000
Assets			
Current assets			
Cash and cash equivalents		3,049	8,064
Trade and other receivables		20,661	17,057
Inventories		1,630	824
Other		1,372	1,623
Total current assets		<u>26,712</u>	<u>27,568</u>
Non-current assets			
Property, plant and equipment		14,894	11,331
Intangibles	3	39,006	40,479
Deferred tax		6,859	5,933
Other		322	126
Total non-current assets		<u>61,081</u>	<u>57,869</u>
Total assets		<u>87,793</u>	<u>85,437</u>
Liabilities			
Current liabilities			
Trade and other payables		16,532	11,580
Borrowings	4	8,381	7,016
Income tax		389	3,014
Employee benefits		12,157	10,873
Other		5,121	5,469
Total current liabilities		<u>42,580</u>	<u>37,952</u>
Non-current liabilities			
Borrowings	5	21,356	21,872
Deferred tax		6,673	7,251
Employee benefits		3,253	3,190
Other		278	-
Total non-current liabilities		<u>31,560</u>	<u>32,313</u>
Total liabilities		<u>74,140</u>	<u>70,265</u>
Net assets		<u>13,653</u>	<u>15,172</u>
Equity			
Issued capital		18,967	18,967
Reserves		(7,074)	(7,091)
Retained profits		1,760	3,296
Total equity		<u>13,653</u>	<u>15,172</u>

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

Millennium Services Group Ltd
Statement of changes in equity
For the period ended 31 December 2017

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2016	18,967	(7,200)	707	12,474
Profit after income tax expense for the period	-	-	2,294	2,294
Other comprehensive income for the period, net of tax	-	(4)	-	(4)
Total comprehensive income for the period	-	(4)	2,294	2,290
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 6)	-	-	(2,021)	(2,021)
Balance at 31 December 2016	<u>18,967</u>	<u>(7,204)</u>	<u>980</u>	<u>12,743</u>

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2017	18,967	(7,091)	3,296	15,172
Profit after income tax expense for the period	-	-	944	944
Other comprehensive loss for the period, net of tax	-	(33)	-	(33)
Total comprehensive income/(loss) for the period	-	(33)	944	911
Share based payments	-	50	-	50
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 6)	-	-	(2,480)	(2,480)
Balance at 31 December 2017	<u>18,967</u>	<u>(7,074)</u>	<u>1,760</u>	<u>13,653</u>

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

Millennium Services Group Ltd
Statement of cash flows
For the period ended 31 December 2017

	Consolidated	
	31 December	31 December
Note	2017	2016
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	146,309	108,171
Payments to suppliers and employees (inclusive of GST)	(137,225)	(100,673)
	9,084	7,498
Interest received	13	14
Interest and other finance costs paid	(1,108)	(607)
Income taxes paid	(4,433)	(825)
Net cash from operating activities	3,556	6,080
Cash flows from investing activities		
Payment for purchase of business, net of cash acquired	(1,450)	(22,083)
Payments for property, plant and equipment	(2,528)	(570)
Proceeds from disposal of property, plant and equipment	4	8
Net cash used in investing activities	(3,974)	(22,645)
Cash flows from financing activities		
Proceeds from borrowings	5 1,300	25,086
Repayments of equipment finance	5 (1,186)	(714)
Dividends paid	6 (2,480)	(2,021)
Repayment of borrowings	5 (2,222)	(3,333)
Proceeds from related parties	-	319
Net cash (used in) / from financing activities	(4,588)	19,337
Net increase / (decrease) in cash and cash equivalents	(5,006)	2,772
Cash and cash equivalents at the beginning of the financial period	8,064	6,723
Effects of exchange rate changes on cash and cash equivalents	(9)	(3)
Cash and cash equivalents at the end of the financial period	3,049	9,492

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

Note 1. Significant accounting policies

Statement of compliance

The half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. This interim financial report is intended to provide users with an update on the latest annual financial statements of the company and its controlled entities (referred to as “the Group”). As such, it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2017, together with any public announcements made during the following half year.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the company's 2017 annual financial report for the financial year ended 30 June 2017.

The Group has considered the implications of new or amended Accounting Standards, but determined that their application to the financial statements is either not relevant or not material.

Note 2. Operating segments

Identification of reportable operating segments

The Group has identified its operating segments to be the two major areas of services provided to customers; Cleaning and Security.

Cleaning segment: represents the provision of comprehensive cleaning services to large retail shopping centres, commercial properties, government buildings and education facilities. Included within the segment are ancillary services such as maintenance and gardening.

Security segment: the Group's security services are primarily provided to clients in the large retail shopping centre and commercial property sectors to help ensure and maintain a safe and secure environment for their clients, tenants and customers.

Head Office is not an operating segment, it represents Group overheads, corporate head office, Group tax balances, financing, payroll and treasury functions.

These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments. The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

In the prior half year financial report, the operating segments were based on the geographical location of services provided. The revised segment structure has no impact on the net profit or loss of the Group. To enable comparisons with prior period performance, the historical segment information for the period ended 31 December 2016 has been allocated to the Cleaning and Security segments.

Operating segment information

	Cleaning \$'000	Security \$'000	Head Office \$'000	Total \$'000
Consolidated – 31 December 2017				
Revenue				
Sales to external customers	118,153	18,131	-	136,284
Other income	-	-	4	4
Total revenue and other income	118,153	18,131	4	136,288
Gross margin	18,665	2,772	-	21,437
Other income	-	-	4	4
Overheads			(15,290)	(15,290)
EBITDA				6,151
Depreciation and amortisation				(3,683)
Interest revenue				13
Finance costs				(1,108)
Profit before income tax expense				1,373
Income tax expense				(429)
Profit after income tax expense				944
Segment assets	72,606	7,761	7,426	87,793
Segment liabilities	38,082	5,103	30,955	74,140

Assets used jointly by reportable segments are allocated on the basis of revenues earned by individual reportable segments.

Note 2. Operating segments (continued)

Consolidated – 31 December 2016	Cleaning \$'000	Security \$'000	Head Office \$'000	Total \$'000
Revenue				
Sales to external customers	84,021	16,976	-	100,997
Other income	-	-	-	-
Total revenue and other income	84,021	16,976	-	100,997
Gross margin	15,019	2,665	-	17,684
Overheads			(11,641)	(11,641)
EBITDA				6,043
Depreciation and amortisation				(2,133)
Interest revenue				14
Finance costs				(607)
Profit before income tax expense				3,317
Income tax expense				(1,023)
Profit after income tax expense				2,294
Segment assets	70,815	9,310	5,526	85,651
Segment liabilities	31,792	5,222	35,894	72,908

Assets used jointly by reportable segments are allocated on the basis of revenues earned by individual reportable segments.

Note 3. Non-current assets - intangibles

	Consolidated December 2017 \$'000	June 2017 \$'000
Goodwill - at cost	18,359	18,068
Patents and trademarks - at cost	2,734	2,734
Less: Accumulated amortisation	(320)	(182)
	2,414	2,552
Customer contracts - at cost	22,791	22,791
Less: Accumulated amortisation	(4,558)	(2,932)
	18,233	19,859
	39,006	40,479

Millennium Services Group Ltd
Notes to the financial statements
31 December 2017

Note 3. Non-current assets - intangibles (continued)

Reconciliations

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

Consolidated	Customer contracts \$'000	Goodwill \$'000	Trademarks \$'000	Total \$'000
Balance at 1 July 2017	19,859	18,068	2,552	40,479
Additions through business combinations (note 9)	-	291	-	291
Amortisation expense	(1,626)	-	(138)	(1,764)
Balance at 31 December 2017	<u>18,233</u>	<u>18,359</u>	<u>2,414</u>	<u>39,006</u>

Note 4. Current liabilities - borrowings

	Consolidated	
	December 2017 \$'000	June 2017 \$'000
ANZ interchangeable loan facility	5,828	4,941
Hire purchase	<u>2,553</u>	<u>2,075</u>
	<u>8,381</u>	<u>7,016</u>

The loan facility drawdowns and repayments that occurred during the current financial period are summarised at Note 5.

Financing arrangements

The Group updated its financing arrangements with the ANZ Bank during the period to align the facilities with the Group's requirements for its continuing growth. Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	December 2017 \$'000	June 2017 \$'000
Total facilities:		
Interchangeable loan facility	30,000	30,000
Asset finance facility (hire purchase)	8,500	4,700
Overdraft facility	10,000	5,500
Standby letter of credit and guarantee facility	1,200	1,200
Electronic payway facility	500	500
Commercial card facility	<u>325</u>	<u>325</u>
	<u>50,525</u>	<u>42,225</u>
Used at the reporting date:		
Interchangeable loan facility	23,507	24,429
Asset finance facility (hire purchase)	4,812	2,859
Overdraft facility	-	-
Standby letter of credit and guarantee facility	1,055	851
Electronic payway facility	-	-
Commercial card facility	<u>128</u>	<u>78</u>
	<u>29,502</u>	<u>28,217</u>

Note 4. Current liabilities - borrowings (continued)

	Consolidated	
	December	June
	2017	2017
	\$'000	\$'000
Unused at the reporting date:		
Interchangeable loan facility	6,493	5,571
Asset finance facility (hire purchase)	3,688	1,841
Overdraft facility	10,000	5,500
Standby letter of credit and guarantee facility	145	349
Electronic payway facility	500	500
Commercial card facility	197	247
	<u>21,023</u>	<u>14,008</u>

Note 5. Non-current liabilities – borrowings

	Consolidated	
	December	June
	2017	2017
	\$'000	\$'000
ANZ interchangeable loan facility	17,679	19,488
Hire purchase	<u>3,677</u>	<u>2,384</u>
	<u><u>21,356</u></u>	<u><u>21,872</u></u>

The loan facility drawdowns and repayments that occurred during the current financial period are summarised below. The balances represent the total of the current and non-current liabilities. Loan repayments were made in line with previously disclosed repayment terms.

Consolidated	ANZ	Hire	Total
	interchangeable	purchase	
	loan facility \$'000	\$'000	\$'000
Balance at 1 July 2017	24,429	4,459	28,888
Drawdown for contingent consideration paid for ACS acquisition	1,300	-	1,300
Equipment financing	-	2,957	2,957
Repayments of borrowings	<u>(2,222)</u>	<u>(1,186)</u>	<u>(3,408)</u>
Balance at 31 December 2017	<u><u>23,507</u></u>	<u><u>6,230</u></u>	<u><u>29,737</u></u>

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	December	June
	2017	2017
	\$'000	\$'000
ANZ interchangeable loan facility	23,507	24,429
Hire purchase	<u>6,230</u>	<u>4,459</u>
	<u><u>29,737</u></u>	<u><u>28,888</u></u>

Note 6. Equity - dividends

Dividends paid during the current half year and the previous corresponding period were as follows:

	Consolidated	
	December	December
	2017	2016
	\$'000	\$'000
Final dividend of \$0.044 per share (fully franked) was paid in respect of the reporting period ended 30 June 2016.	-	2,021
Final dividend of \$0.054 per share (fully franked) was paid in respect of the reporting period ended 30 June 2017.	2,480	-
	<u>2,480</u>	<u>2,021</u>

Note 7. Contingent assets

Millennium Services Group Ltd is entitled to an indemnity from certain vendor shareholder entities if their objection, lodged with the NSW Office of State Revenue (OSR), is ultimately unsuccessful. The indemnity, which is capped at \$1.95 million, is in excess of the \$1.927 million levied to Millennium Hi-Tech Group Pty Ltd, a wholly owned subsidiary of Millennium Services Group Ltd, by the NSW Office of State Revenue for payroll tax assessments in respect of the payroll tax years ended 30 June 2011 to 30 June 2015 (inclusive). A corresponding contingent liability, in excess of this amount, has been disclosed in Note 8 of these financial statements.

Note 8. Contingent liabilities

The NSW Office of State Revenue (OSR) on 23 November 2015 issued payroll tax assessments in respect of the payroll tax years ended 30 June 2011 to 30 June 2015 (inclusive) for wholly-owned subsidiary Millennium Hi-Tech Group Pty Ltd totalling \$1.927 million. These assessments were made on the basis that the employment agency provisions of the Payroll Tax Act 2007 (NSW) applied to Millennium Hi-Tech Group Pty Ltd. An objection was lodged with the OSR in early 2016 in respect of this matter.

Should Millennium Hi-Tech Group Pty Ltd be ultimately unsuccessful in its objection, Millennium Services Group Ltd is entitled to an indemnity from certain vendor shareholder entities in excess of the assessments levied. As such a contingent asset of \$1.927 million has also been disclosed in these financial statements. Further, should Millennium Hi-Tech Group Pty Ltd be ultimately unsuccessful in its objection, it is likely that a further amount of payroll tax would be payable in respect of the period since listing to 31 December 2017. It is estimated that the impact of such additional tax would be between \$0.7 million - \$1.7 million (excluding any penalties of interest that may be levied). This additional contingent liability would not be covered under the vendor shareholders' indemnity.

During the period ended 31 December 2016 the OSR rejected the initial objection lodged by Millennium Hi-Tech Group Pty Ltd. Millennium Hi-Tech Group Pty Ltd is appealing this decision to the NSW Supreme Court. Millennium Hi-Tech Group Pty Ltd has received Senior Counsel's opinion that the employment agency provisions of the Payroll Tax Act 2007 (NSW) do not apply and the decision of Justice White in the NSW Supreme Court (UNSW Global Pty Ltd v Chief Commissioner of State Revenue [2016] NSWSC 1852) supports this position.

As at 31 December 2017, the payroll tax matter is before the Supreme Court of NSW. The Court has ordered the matter be listed for directions on 4 April 2018. Millennium Hi-Tech Group Pty Ltd and the OSR are currently engaged in settlement discussions.

Note 9. Business combinations

Acquisition of Airlite Group

Millennium Services Group Ltd acquired the Airlite Group on 1 November 2016. Headquartered in Perth, Airlite provides the company with an established presence in Western Australia with a proven management team and a portfolio of quality contracts predominantly located on the west coast of Australia, primarily in the commercial cleaning and facility management sectors.

The fair value adjustments below have been made in relation to acquisition of the Airlite Group as a result of the completion of acquisition accounting in the current period:

	Provisional Fair value \$'000	Adjustments Fair value \$'000	Completed Fair value \$'000
Cash and cash equivalents	3,505		3,505
Receivables and prepayments	8,088		8,088
Property plant and equipment	2,374		2,374
Trademarks	2,734		2,734
Customer contracts	16,490		16,490
Deferred tax asset	1,462	125	1,587
Payables and accruals	(5,000)	(350)	(5,350)
Provision for income tax	(860)		(860)
Deferred tax liability	(5,767)		(5,767)
Employee benefits	(4,290)	(66)	(4,356)
Borrowings	(4,081)		(4,081)
Net assets/(liabilities) acquired	14,655	(291)	14,364
Goodwill	10,631	291	10,922
Acquisition-date fair value of the total consideration transferred	25,286	-	25,286
Representing:			
Cash paid or payable to vendor	25,086	-	25,086
Contingent consideration paid to vendor	200	-	200
	25,286	-	25,286

The \$291,000 adjustment to the fair value of net assets acquired has been recognised as an adjustment in the current period as it has been deemed to be immaterial to require a restatement of the 30 June 2017 statement of financial position. \$0.2 million in contingent consideration was paid in the current financial period.

Note 10. Events after the reporting period

On 5 February 2018, the company announced the resignation of Mr Damien Gray from the position of Chief Financial Officer and Company Secretary and the appointment of Mr Paul Smith as Interim Chief Financial Officer and Company Secretary.

The Company has identified a potential tax liability which is yet to be quantified. MinterEllison has been appointed to advise the Company and if necessary, liaise with the ATO to resolve this matter. If any material impact on the Company comes to light, the Company will inform the ASX accordingly.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Millennium Services Group Ltd
Directors' declaration
31 December 2017

In the opinion of the Directors of Millennium Services Group Limited:

1. The attached financial statements and notes are in accordance with the *Corporations Act 2001* and:
 - a. comply with Australian Accounting Standard AASB 134 'Interim Financial Reporting', the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - b. give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial period ended on that date; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors



Craig Hanley
Director

26 February 2018

Moore Stephens Audit (Vic)

Level 18, 530 Collins Street
Melbourne Victoria 3000

T +61 (0)3 9608 0100

F +61 (0)3 9608 0192

E victoria@moorestephens.com.au

www.moorestephens.com.au

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF MILLENNIUM SERVICES GROUP LTD & CONTROLLED ENTITIES

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Millennium Services Group Ltd & Controlled Entities (**the company**), which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity, the 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.

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 (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standards on Review Engagements ASRE 2410: *Review of Interim and Other Financial Reports 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:

- a. giving a true and fair view of the company's financial position as at 31 December 2017 and 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*.

As the auditor of the company, 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 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company, would be in the same terms if provided to the directors as at the time of this auditor's review 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 the company is not in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the company's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- b. complying with AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.



MOORE STEPHENS AUDIT (VIC)
ABN 16 847 721 257



GEORGE S. DAKIS
Partner
Audit & Assurance Services

Melbourne, Victoria

26 February 2018