

# millennium

SERVICES GROUP LTD

ABN: 11 607 926 787

## ANNUAL REPORT 2019





Millennium creates clean, safe and inviting environments on behalf of valued clients, every hour of every day.

Our dedicated team prides itself on supplying high-quality cleaning, security and integrated services at a diverse range of facilities across Australia and New Zealand.

Specialising in the retail shopping centre, commercial property, education, infrastructure, special events and government sectors, Millennium ensures that client's facilities and brands are always presented at their best.

Millennium's trusted team of professionals deliver lasting first impressions.

#### **DISCLAIMER**

Unless otherwise stated, all dollar values in this Annual Report are Australian dollars (\$AUD).

The Report contains forward-looking statements, including projections and opinions (Forward Statements).

These are indicated where words such as 'expected', 'may', 'intend', 'likely', 'should', 'plan', 'forecast', 'estimate', 'consider', 'believe', 'anticipate', or similar words are used.

The Forward Statements are based on assumptions, statements of current intention and opinion and predictions as to possible future outcomes as at the date of this Annual Report. The actual outcomes may differ materially from the Forward Statements, based on changes in circumstances, events, risks and general economic conditions.

Statements about past performance do not represent a guide to future performance (and should not be relied upon as such) and are given for illustrative purposes only.



# ANNUAL REPORT

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# REPORT FROM THE CHAIRMAN



# REPORT FROM THE CHAIRMAN



“ We have embarked on a path to reset the Company for consolidation, profitability, and growth. The result has been an encouraging \$4.9m turnaround in our underlying business performance throughout the second half of the year.”

**F**Y19 has been a tale of two halves for the Millennium Services Group. Since the establishment of a new Board in October 2018 and the subsequent appointments of a new CEO and CFO, we have embarked on a path to reset the Company for consolidation, profitability, and growth. The result has been an encouraging \$4.9m EBITDA turnaround in our underlying business performance throughout the second half of the year (1H \$2.4m loss to 2H \$2.5m positive).

Our revenue for the year increased 4.5% to \$294.7m, but critically this was not at the expense of our overall gross margin. The new Board took the decision to reset the balance sheet at the end of FY19 to better reflect the current circumstances of the business and to position the Company for future growth. Statutory earnings declined by \$13.1m to a \$4.3m loss compared to the prior year, and the Company recorded a loss after income tax of \$45.6m. The majority of this loss was due to non-cash impairments (\$26.8m), deferred tax assets not recognised (\$12.7m) and non-recurring expenses (\$4.4m).

The first half of FY19 saw the Company record an underlying EBITDA loss of \$2.4m. Much of this decline in financial performance was a result of the Company's previous focus on revenue growth rather than margin management; inefficient labour controls; and increased overheads.

Our underlying EBITDA for the second half however tells a much more positive story. A strategic review of the business initiated by the new Board and the early impact of the 2-year Business Improvement Plan which was commenced in early 2019, have resulted in a \$4.9m underlying EBITDA turnaround for the full year (1H \$2.4m loss to 2H \$2.5m positive).

This has set the Company on a clear and sustainable path to profitability going forward.

## STRATEGIC REVIEW

The new Board's business-wide strategic review has identified a number of key strengths and challenges. We have confirmed that the Company's foundations are solid, with an extensive base of blue chip clients across Australia and New Zealand, and a strong recurring contract book. Our scale, broad service offering, and geographic diversity creates opportunities with larger clients who are looking to consolidate their providers and ensure the ethical provision of high-quality services.

Areas highlighted by the review requiring immediate attention were; leadership communication and accountability; improving technology and eliminating the manual nature of many of our business processes; addressing margin compression; and reducing excessive overheads.

The review also identified a number of challenges that have required a focus on the improved integration of the various Millennium businesses. This includes the WA based Airlite Group and other businesses that have joined Millennium over recent years.

The Millennium Services Group is the product of a number of companies being merged at the time of the IPO and acquired over recent years. This has led to some inefficiencies and duplications in our structure and processes, particularly in support areas. The new leadership team is addressing this as a priority, through targeted integration which will ensure the effective delivery of services across the Company, while managing and reducing overheads and costs.



## BUSINESS IMPROVEMENT PLAN

As part of resetting the business we have focused on sustainable improvements in three key areas: our people; our clients; and the financial structure of the business. Savings are already being achieved, with an expected \$11m in annualised savings fully realised by FY21.

### Our people

Millennium is an organisation of 5,300 employees. Each employee is a vital part of the success of our business and is valued for their contribution.

During FY19 the new Board welcomed our new CEO Darren Boyd and CFO Michael Constable to the Executive Leadership Team. As part of our investment in the Company's future, other senior leaders have been appointed in the critical areas of People & Culture and Health & Safety. The enhanced capabilities that these executives bring to Millennium will drive ongoing accountability, improved workplace safety, and positive change across the organisation into FY20 and beyond.

During FY20, Millennium will be focussing and enhancing our values of accountability, and recognition of achievement. The new Board has encouraged the introduction of a short-term incentive plan to reward our business and operational managers, so that they can share in the achievements of the Company when they improve our service to clients, our profitability, and our workplace safety and compliance.

### Our clients

Millennium counts some of the largest companies in Australia and New Zealand as its clients. These clients depend on the Company and our operational staff to deliver environments that are clean, safe and inviting. Our clients expect that

Millennium's workforce is compliant with all labour laws and awards, and that we are delivering on our contractual agreements. This year a significant effort has been put in to ensuring that Millennium meets these obligations. The introduction in FY20 of our new automated time and attendance system, will further assist and simplify this process.

Moving forward we will be looking to continue and deepen our partnerships with existing and new clients. We will do this by continuing the excellent service that we already provide; improving client engagement; broadening our service offerings; retaining and expanding our existing client base; focusing on winning new business; and diversifying into new industry segments which have improved and sustainable margins.

### Our financials

Throughout the second half of FY19, the new Board focused on the strengthening of the Company's financial position for its future stability. The adjustments made to our balance sheet have had a significant impact on our FY19 statutory results but, in the view of the new Board, this needed to be done to reset the Company for future success.

There still remains work to be done in FY20 to strengthen the balance sheet and finalise a new bank debt facility. Real progress has been made, including a commitment from the ANZ Bank to extend our existing facilities until 1 September 2020 to allow time for us to review our terms and conditions for refinancing, and the negotiation of a \$10m trade facility with Scottish Pacific. All related party loans have now been repaid and our aged debtor position has materially improved, resulting in a much stronger cash position.

FY19 has been a challenging year, but the new Board and I are confident that the FY19 second half results are a solid indicator that Millennium is consolidating the foundation for our future success.

FY20 will show continuing improvement in the results and initiatives that have been recently commenced. We expect most of the major initiatives that have been identified to reset the business will be in place by FY21.

On behalf of the new Board I would like to recognise and thank everyone at Millennium and Airlite for their hard work throughout the year. It has been a challenging twelve months with significant changes to how we work. It gives me confidence in our future to see that everyone's commitment to delivering their best efforts for our clients has not wavered through this time.

My thanks to our valued clients for their ongoing support of Millennium, Airlite and our people. Millennium will always strive to be the best that we can be for you and will help you to improve and grow your businesses and give your customers the best and safest experience possible.

My thanks to my Board and our advisers for their efforts and wise counsel over the last year.

Finally, I would like to thank you – our shareholders. I look forward to sharing a long and successful future together.

Roger Smeed  
Chairman

“ Millennium has an, incredible team of hard working, loyal and customer focused employees. All of our 5,300 team members go to work every day with the goal of making a difference to their work environments ”



# REPORT FROM THE CEO



# REPORT FROM THE CEO



“ Over the past six months we have experienced a return in our clients’ confidence with new or renewed contracts signed and a sense of optimism for what can be delivered in FY20 “

Since joining the company as CEO in February 2019, I have been impressed with the commitment and speed at which the team has embraced the necessary changes we have had to implement in order to set us on a path towards sustainable growth.

Last year was a demanding year for the Millennium team and as the Chairman put it, it was truly a tale of two halves. During the first half, the Company did not perform to its potential which was disappointing for everyone however the \$4.9m turnaround in underlying EBITDA during the second half, driven largely by our Business Improvement Plan, demonstrated just what we can achieve.

My key themes since coming on board have been straightforward - simplify, automate and integrate and this focus will continue throughout the duration of the Business Improvement Plan. All three themes are intrinsically linked to the Board’s areas of focus: our people, our clients and strengthening our financial position.

## FY19 ACHIEVEMENTS

### Our people

At Millennium we employ over 5,300 team members, each one of them dedicated to delivering quality services on behalf of our clients. Just as we expect our team to provide services ethically and responsibly, they expect us to be a trusted employer ensuring that we meet our obligations and create a safe and supportive workplace. Throughout FY19 we took steps to address any anomalies that had been created as a result of the bringing together of multiple entities and moving forward we have

commenced a project that will see all operational staff using an automated time and attendance system by the end of FY20.

We have reviewed our operational and support structures to better align with client expectations and improve cost effectiveness, but importantly we have continued to invest in people in critical parts of the business. The executive team has been strengthened with key appointments in People & Culture and Health & Safety and we have enhanced our capability in finance, quality, compliance and IT.

Our people are key to our success and their dedication and loyalty to both Millennium and our clients is a cornerstone of how we are resetting the business for the future.

### Our clients

Our relationship with clients is critical and having quality contracts and a clear understanding of their expectations underpins this. Throughout the year we completed a thorough assessment of our contract book, exited unprofitable contracts and implemented stronger labour management controls to redress issues impacting on margin erosion on a site by site and company wide basis. Significantly we also renegotiated and won a number of contracts at market competitive margins, thereby improving total business performance, a trend we expect to continue into FY20.

### Our financials

FY19 has been a year to review, remediate and reset the business for future growth and our \$4.9m underlying EBITDA turnaround in the second half is a good indicator that we are on the right path.



As mentioned in the Chairman's Report, significant work has been done at corporate level to solidify the balance sheet. Operationally, the activities undertaken to reassess existing contracts and our overhead structures will also position the company to continue to strengthen its financial position into FY20.

## FY20 STRATEGIC PRIORITIES

### Growth & expansion

Millennium is a service business that was built on a reputation of client engagement and responsiveness. A key outcome of our Business Improvement Plan is a return to a customer centric business model. Over the past 6 months we have experienced a growth in our clients' confidence with new or renewed contracts signed and a sense of optimism for what can be delivered in FY20.

While not losing sight of our traditional retail markets, we will commence de-risking the business by targeting clients in new sectors including commercial offices, education, government and infrastructure where compliance is critical and our scale is valued. We will also aim to leverage organic growth from existing clients and their development pipeline.

Expanding our exposure in the New Zealand, ACT, Queensland and Western Australian markets where we have a solid footprint for growth and where the anticipated returns remain greater than our traditional NSW and Victorian markets will form a key part of FY20 business development strategy.

### Diversification

Across the Group we have the capability to offer a wide range of services to new and existing clients.

In FY20 and beyond we will focus on deepening relationships with clients by growing our security, maintenance and integrated service offerings.

### People

Millennium has an incredible team of hard working, loyal and customer focused employees. All of our 5,300 team members go to work every day with the goal of making a difference to their work environments, whether it be ensuring the general public has a clean and hygienic food court or a safe experience at the races; students maximise their experience on a university campus or workers arrive to an inviting environment at their place of employment, our teams are working diligently to deliver quality outcomes.

Our commitment throughout FY20 is to create a unified operational structure and business wide culture that allows the Millennium team to feel supported to do their best and recognised when they do. We are focussing on enhancing the experience of the 5,300 team members by making the work place a more rewarding and safer place.

### Systems

With a number of disparate businesses being brought together to form Millennium Services Group we have inherited multiple systems and processes, many of which are manual. As part of our Business Improvement Plan we are integrating the WA based Airlite business to ensure we leverage best practice across the total business.

We are implementing four key company-wide systems to simplify and automate the operational areas of our business.

These integrated systems will deliver the checks and balances in labour management, Health and Safety, invoice accuracy, public liability exposure and service quality. This will allow greater levels of analysis and control throughout the organisation and offer improved transparency, confidence and trust.

In addition, moving our backend system to the cloud will enable us to roll out Office365 and other cloud based tools to help share information and enable our support teams to undertake more value adding activities.

There remains work to be done in FY20 but I am confident that the \$11m annualised improvement initiatives identified in the Business Improvement Program will be progressively delivered throughout FY20 and fully realised by the first half of FY21. Building on the momentum we have gained in the second half of FY19, this next year will see us complete the initial phase of the Plan which as noted has already started to deliver some promising results.

Although I am a recent addition to the Millennium Services Group team, based on the commitment and energy I have witnessed so far, I am looking forward to leading a strong, engaged and proud organisation delivering exceptional services on behalf of our clients throughout FY20 and beyond.

**Darren Boyd**  
Chief Executive Officer

# CORPORATE DIRECTORY

30 JUNE 2019

## Directors

Roger Smeed – Independent, Non-Executive Chairman  
Darren Boyd – Chief Executive Officer and Managing Director  
Royce Galea – Executive Director

## Company secretary

Jo-Anne Dal Santo

## Registered office

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

## Principal place of business

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

## Share register

Computershare Investor Services Pty Limited  
Yarra Falls, 452 Johnston Street  
Abbotsford, Victoria 3000

## Auditor

Moore Stephens Audit (Vic)  
Level 18, 530 Collins Street  
Melbourne, Victoria 3000

## Stock Exchange listing

Millennium Services Group Limited shares are listed on the Australian Securities Exchange (ASX code: MIL)

**Website** [www.millenniumsg.com](http://www.millenniumsg.com)

## Corporate Governance

Refer to [www.millenniumsg.com/investor/governance](http://www.millenniumsg.com/investor/governance)



# DIRECTORS' REPORT



# DIRECTORS' REPORT

30 JUNE 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity' or the 'Group') consisting of Millennium Services Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

## DIRECTORS

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

**Roger Smeed** – Independent, Non-Executive Chairman (appointed as Non-Executive Director effective 27 September 2018; appointed as Chairman on 3 October 2018)

**Darren Boyd** - Chief Executive Officer and Managing Director (appointed 7 February 2019)

**Royce Galea** – Executive Director (appointed 27 September 2018)

**Neil Cathie** – Independent, Non-Executive Director (appointed 16 October 2018, resigned 7 March 2019)

**Peter Anderson** – Independent, Non-Executive Chairman (resigned 3 October 2018)

**Craig Hanley** – Executive Director and Chief Executive Officer (resigned 21 November 2018)

**Stephen Williams** – Independent, Non-Executive Director (resigned 3 October 2018)

**Greg McCormack** – Independent, Non-Executive Director (resigned 26 September 2018)

**Sally McCutchan** – Independent, Non-Executive Director (resigned 3 October 2018)

**Ross Gavranich** - Executive Director (resigned 26 September 2018)

## 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 were as follows:

	Consolidated	
	2019	2018
	\$'000	\$'000
Final dividend of \$0.054 per share (fully franked) was paid in respect of the reporting period ended 30 June 2017.	-	2,480
No dividend declared or payable in respect of the reporting year ended 30 June 2018.	-	-
	-	2,480

No interim dividend has been declared for the current period.

## REVIEW OF OPERATIONS

### Results

Revenue for the year ending 30 June 2019 increased 4.5% to \$294.7m (2018: \$282.1m). Earnings before interest, tax, depreciation and amortisation (EBITDA) declined by \$13.1m to a \$4.3m loss compared to the prior year and the Group recorded a loss after income tax of \$45.6m (including \$26.8m of non-cash impairments, \$12.7m of deferred tax assets not recognised and \$4.4m of non-recurring expenses which are explained later in the review). This is a \$44.8m reduction in profit after income tax from the prior year (2018 \$0.7m loss).

The non-recurring expenses included external advisory costs (\$1.4m), impairment of receivables (\$0.8m), redundancies (\$0.6m), increase in public liability claim provisioning (\$0.3m), a contingent liability at 30 June 2018 to the ATO for \$0.6m recognised in the current period and \$0.7m of other accounting adjustments for costs now prudently recognised. \$3.5m of the above non-recurring expenses were incurred in the first half of the 2019 financial year, while \$0.9m were a second half expense.

EBITDA was also impacted by a decline in gross margin of \$10.9m and a 7% increase in overhead expenditure amounting to \$2.2m (net of prior vendors' reimbursements in the prior year). The increase in overheads was attributed to non-recurring expenses listed above.

As previously announced, the new Board, appointed in October 2018, became aware of a significant reduction in the Group's profitability and promptly commenced a strategic review of the



# DIRECTORS' REPORT (CONTINUED)

30 JUNE 2019

business with the assistance of external advisors. In addition to the \$14.6m of impairment of intangibles recognised during the December 2018 half year period, the Board reassessed the carrying value of assets in the business and determined to make further non-cash impairments to intangibles of \$12.2m during the second half period, resulting in annual non-cash intangible impairments of \$26.8m.

As a result of the review, a comprehensive Business Improvement Plan was approved and a range of initiatives commenced in order to return the Group to sustainable profitable growth. The positive impact of these initiatives started to flow through in the second half of FY19 and should continue well into FY20.

Generally gross margin has been impacted by margin compression in the industry, competitive tendering at lower margins, inefficient labour management and national wage increases not been fully recovered from customers. The actions contained within the Business Improvement Plan address each of these factors.

The Cleaning segment's revenue decreased by 0.4% over the prior year to \$241.3m from \$242.2m partly due to not retaining a number of large contracts with AMP Capital. The decline in gross margin experienced in FY18 continued in the first half of FY19 to 9.0% but due to the Business Improvement Plan this recovered in the second half to 12.5% and continues to improve. The Security segment increased revenue by 34% over the prior year to \$53.4m from \$39.8m, however gross margin declined from \$5.5m to \$5.0m. To stem this margin pressure, initiatives implemented as part of the Business Improvement Plan have resulted in margins improving from 8.7% in the first half to 10.2% in the second half.

As part of an organisational restructure, one layer of management has been removed from the business resulting in improved accountability and communication flows. New controls over overtime, rostering and discretionary spending are now operating and yielding positive results. Realistic annualised profit improvements in the order of \$11m have been identified and are expected to be progressively realised through FY20 and into FY21. The Company has reported a material growth in the normalised second half EBITDA. The actions to deliver the total package of improvements continue and our plans are geared to ensuring that the full impact is achieved by the first quarter of FY21.

As the new Board and Executives continue to focus on the Business Improvement Plan, targeting contract performance and

retaining contracts at market competitive rates, this will lead to a natural refresh of the contract base. Our renewed focus on winning quality new contracts and the implementation of our growth strategy will ensure we retain and win business at a market competitive gross margin. There have already been a number of new contract wins using these criteria.

Since its appointment ten months ago, the new Board has taken prompt and decisive action to uncover the operational and organisational issues that underpinned the poor 1H19 financial results, and to develop plans to address them. With the appointment of the new CEO, and an experienced CFO, the Company is confident of successfully executing its Business Improvement Plan. The benefits of the Business Improvement Plan have already been partially realised in 2H19, with the full impact expected to be in place by the first quarter of FY21.

The Company received confirmation from the ANZ Bank in August 2019 of their continuing support for the Company which will allow time to review the terms and conditions of a debt restructure and a general reset of the Company's financial position. The ANZ Bank extended its facilities to the Group to 1 September 2020. Further, in August 2019, the Group's line of credit with the existing trade finance facility increased by \$2.0m to \$12.0m.

## 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

In August 2019, the ANZ Bank extended its facilities to the Group to 1 September 2020, subject to certain conditions. Further, in August 2019, the Group's line of credit with the existing trade finance facility increased by \$2.0m to \$12.0m. No other matter or circumstance has arisen since 30 June 2019 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.

# DIRECTORS' REPORT (CONTINUED)

30 JUNE 2019

## ENVIRONMENTAL REGULATION

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

## INFORMATION ON DIRECTORS

### ROGER SMEED

**Title: Chairman  
Independent, Non-Executive Director**  
(appointed as Non-Executive Director effective 27 September 2018; appointed as Chairman on 3 October 2018)

#### Qualifications

Roger is a Fellow of the Australian Institute of Company Directors (FAICD) and a Fellow of the Australian Institute of Management (FAIM), each for over 25 years.

#### Experience and expertise

Roger has extensive experience at Board level, including with companies that specialise in large scale retail and commercial cleaning, security and facilities management.

Roger was previously Chair of Millennium Hi-Tech Group Pty Limited, which merged into the listed Millennium Services Group company at the Initial Public Offering (IPO). He is an experienced director with both ASX listed and private companies. He is Chairman of a successful consultancy practice that provides corporate and commercial advice.

#### Other current directorships

Nil

#### Former directorships (last 3 years)

Nil

#### Interests in shares

453,258 fully paid ordinary shares

#### Interests in options

Nil

### DARREN BOYD

**Title: Chief Executive Officer and  
Managing Director**  
(appointed 7 February 2019)

#### Qualifications

Darren holds an MBA (Deakin University), a Degree in Accounting (Charles Sturt University), is a CPA and a Graduate of the Australian Institute of Company Directors (GAICD).

#### Experience and expertise

Darren is a results driven senior executive who brings broad commercial experience acquired through a number of leadership positions with respected services businesses across Australia and the Asia Pacific region.

Previous roles have included positions as Managing Director - ANZ and PNG of the UK based, LSE listed services conglomerate G4S (formerly Group 4 Securicor) directly overseeing 5000+ staff; Divisional General Manager, Spotless Group; Chief Operating Officer, Regis Health Care; and recently providing strategic planning advice to the national services and facilities management group OCS.

Darren has proven strengths in finance, marketing, business development and strategic planning. In his previous roles he has developed a strong understanding of efficiently managing, and significantly improving the profitability of large-scale service-based businesses. Darren's track record of being an effective leader in managing people and guiding businesses through significant change speaks for itself.

#### Other current directorships

Nil

#### Former directorships (last 3 years)

Nil

#### Interests in shares

Nil

#### Interests in options

Nil

### ROYCE GALEA

**Title: Executive Director**  
(appointed 27 September 2018)

#### Qualifications

Royce holds Diplomas in Frontline Management and Cleaning Services Supervision from Sydney Technical College.

#### Experience and expertise

Royce has over 30 years' experience in the cleaning industry, in particular major retail cleaning. Royce has also held the role of Organisational Excellence Leader of Integrated Services for the Millennium Group, a role that is vital to the future success of MIL and, in particular, its cleaning business. He is a major shareholder in the Company.

Royce was the joint founder of Millennium Hi-Tech Group Pty Limited, prior to it becoming part of the Millennium Services Group Limited IPO. Established in 2003, Millennium Hi-Tech Group operated a highly successful and profitable business focussing on providing cleaning, security and facilities management services to major shopping centres, commercial and state and government buildings in NSW, the ACT and South Australia.

#### Other current directorships

Nil

#### Former directorships (last 3 years)

Nil

#### Interests in shares

6,970,362 fully paid ordinary shares

#### Interests in options

Nil

# DIRECTORS' REPORT (CONTINUED)

30 JUNE 2019

## NEIL CATHIE

**Title:** Independent Non-Executive Director (appointed 16 October 2018, resigned 7 March 2019)

### Qualifications:

Neil is a Fellow of CPA Australia (FCPA), a Graduate of the Australian Institute of Company Directors (GAICD) and a Fellow of the Governance Institute of Australia (FGIA).

### Experience and expertise

Neil is an experienced company director with extensive financial skills. He commenced his career in Chartered Accounting before joining Australia's largest plumbing and bathroom retailer, Reece Limited. During his 27 years at Reece, Neil held senior positions in finance and governance including Chief Financial Officer, Company Secretary and General Manager of Finance and IT.

Neil is currently Non-Executive Chairman of ASX-listed Coventry Group Limited and a director of and advisor to a number of private companies.

### Other current directorships

Non-Executive Chairman of Coventry Group Limited

### Former directorships (last 3 years)

Nil

### Interests in shares

Nil

### Interests in options

Nil

## PETER ANDERSON

**Title:** Chairman Independent, Non-Executive Director (resigned 3 October 2018)

### Qualifications

Peter holds a Post Graduate Diploma of Finance and a Bachelor of Commerce from the University of Melbourne.

### Experience and expertise

Peter served as Executive Chairman of advisory firm McGrathNicol and brought to Millennium over 25 years of experience as a chartered accountant specialising in corporate restructuring. Publicly listed projects Peter has worked on include Slater & Gordon, Billabong, McAleese, Babcock & Brown and Centro Properties Group. Peter is an Official Liquidator and a member of the Institute of Chartered Accountants in Australia, the Australian Restructuring, Insolvency and Turnaround Association and the Australian Institute of Company Directors.

### Other current directorships

Nil

### Former directorships (last 3 years)

Nil

### Interests in shares

2,290,000 fully paid ordinary shares

### Interests in options

Nil

## CRAIG HANLEY

**Title:** Chief Executive Officer (resigned 21 November 2018)

### Qualifications

Craig holds a Graduate Diploma in Applied Science (Innovation & Service Management) R.M.I.T along with a Diploma of Management.

### Experience and expertise

Mr. Hanley was appointed to the position of Chief Executive Officer in June 2017 having joined Millennium Services Group Limited in February 2017 as Chief Operating Officer following a fifteen-year career within the Australian and New Zealand Integrated Services Industry. Craig has achieved an enviable reputation over that period leading triple digit strategic profitable growth during tenure as Chief Executive Office from 2011 and Managing Director in 2016 at SECUREcorp. At Millennium, Craig focused on strategy review and subsequent structural and systems positioning to lead Millennium into the future. Craig was previously principle of consulting firm, TKBMS Pty Limited., which he established following a twenty-year career with Philip Morris Limited, where he held management roles in Finance, Marketing and Manufacturing.

### Other current directorships

Nil

### Former directorships (last three years)

Nil

### Interests in shares

Nil

### Interests in performance rights

Nil

# DIRECTORS' REPORT (CONTINUED)

30 JUNE 2019

## INFORMATION ON DIRECTORS (CONTINUED)

### GREG MCCORMACK

**Title:** Independent, Non-Executive Director (resigned 26 September 2018)

#### Qualifications

Greg holds a Bachelor of Business from Swinburne University.

#### Experience and expertise

Greg brought to Millennium extensive expertise in finance and accounting. During his 37- year career, Greg previously held senior executive management positions in primary industry in Australia. Greg currently serves as the Non-Executive Chairman of Midway Ltd, Chairman of Directors for the Midway Group of Companies, Chairman of Queensland Commodity Exports. Greg is currently President of the Australian Forest Products Association.

#### Other current directorships

Nil

#### Former directorships (last 3 years)

Nil

#### Interests in shares

Nil

#### Interests in options

Nil

### STEPHEN WILLIAMS

**Title:** Independent, Non-Executive Director (resigned 3 October 2018)

#### Qualifications

Stephen holds a Bachelor of Laws from Sydney University.

#### Experience and expertise

Stephen joined Millennium as a Non-Executive Director with over 35 years legal practice experience in corporate, commercial and property law and as a retired partner of Kemp Strang Lawyers. Stephen served as a Non-Executive Director and Chairman of Coffey International Limited and Non-Executive Director of PrimeAg Australia Limited.

#### Other current directorships

Nil

#### Former directorships (last 3 years)

Axiom Mining Limited (AVQ), Australian Career Network Limited (Administrators appointed) (ACO)

#### Interests in shares

22,222 fully paid ordinary shares

#### Interests in options

Nil

### ROSS GAVRANICH

**Title:** Executive Director and Organisational Excellence Leader – Airlite Group (resigned 26 September 2018)

#### Experience and expertise

Ross is a veteran of the facility services industry with more than 30 years of experience in the industry. Ross has been Executive Chairman of the Airlite Group since 2012 and has been instrumental in the strategic direction of the business. Prior to that time, he has held various senior management roles at Airlite in operations and marketing. Ross has a strong reputation for his commitment to excellence.

#### Other current directorships

Nil

#### Former directorships (last 3 years)

Nil

#### Interests in shares

Nil

#### Interests in options

Nil

# DIRECTORS' REPORT (CONTINUED)

30 JUNE 2019

## INFORMATION ON DIRECTORS (CONTINUED)

### SALLY McCUTCHAN

**Title:** Independent Non-Executive Director (resigned 3 October 2018)

#### Qualifications

Sally is a Certified Practising Accountant and a Graduate of the Australian Institute of Company Directors. She holds a Graduate Diploma in Accounting and Finance and a Bachelor of Economics from Monash University.

#### Experience and expertise

Sally is the CEO and an Executive Director of Impact Investing Australia. She has extensive experience in finance, funds management and strategy, and has spent many years working in and understanding Asia Pacific markets.

She has held senior roles with Accenture, Legg Mason Asset Management and SBC Warburg [now UBS]. Sally is a non-executive director of Oxfam Australia, Indigenous Business Australia Asset Management, and two National Australia Bank securitisation companies.

#### Other current directorships

Nil

#### Former directorships (last 3 years)

Nil

#### Interests in shares

104,400

#### Interests in options

Nil

#### Footnote

*'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.*

*'Former directorships (last 3 years)' quoted previously are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.*

### COMPANY SECRETARY

#### Ms Jo Anne Dal Santo

Ms Dal Santo was appointed as Company Secretary on 12 October 2018. Ms Dal Santo is a Fellow of the Governance Institute of Australia and of the Institute of Company Secretaries and Administrators and has served as Company Secretary to a number of ASX listed companies providing company secretarial and corporate advisory services to boards and companies across a variety of industries both in Australia and internationally.

#### Paul Smith

Title: (interim role as Chief Financial Officer and Company Secretary ended in October 2018)

Mr Smith, assumed the role of Chief Financial Officer and Company Secretary in an interim capacity effective 5 February 2018. Before joining Millennium, Mr Smith spent five years as Chief Financial Officer at SECUREcorp where he was responsible for technical accounting, audit and statutory compliance.

### Meetings of Directors

The number of meetings (including meetings of committees of directors) of the company's Board of Directors ('the Board') held during the year ended 30 June 2019, and the number of meetings attended by each director were:

	Board Meetings		Audit Committee Meetings		Nominations & Remuneration Committee Meetings	
	Attended	Held*	Attended	Held*	Attended	Held*
Roger Smeed	18	18	1	1	3	3
Darren Boyd	9	9	0	0	1	1
Royce Galea	16	18	0	1	2	2
Neil Cathie	10	10	1	1	1	1
Peter Anderson	6	6	1	1	0	0
Craig Hanley	9	9	1	1	0	0
Stephen Williams	6	6	1	1	0	0
Greg McCormack	4	4	1	1	0	0
Sally McCutchan	6	6	1	1	0	0
Ross Gavranich	4	4	0	0	0	0

\* Held: represents the number of meetings held during the time the Director held office.

# DIRECTORS' REPORT (CONTINUED)

30 JUNE 2019

## REMUNERATION REPORT (AUDITED)

This remuneration report outlines the Director and Executive remuneration arrangements of the Group in accordance with the Corporations Act 2001 and its Regulations. It also provides the remuneration disclosures required by paragraphs AUS25.4 and AUS 25.7.2 of AASB 124 Related Party Disclosures which have been transferred to the Remuneration Report in accordance with the Corporations Regulation 2M 6.04.

This report outlines the remuneration arrangements in place for the Directors (both Executive and Non-Executive) and Executives of the Group.

This report is audited as the entity has transferred the disclosures from the financial statements.

For the purposes of this report the term 'Senior Executive' encompasses the Chief Executive Officer, the Executive Director and the Chief Financial Officer.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Executive employment agreements
- D Share based compensation
- E Additional disclosures relating to key management personnel

### **A Principles used to determine the nature and amount of remuneration**

Remuneration levels are set to attract or retain, as appropriate, qualified and experienced directors and senior executives. From time to time and as required, the Board will seek independent professional advice on the appropriateness of remuneration packages.

#### *Use of remuneration consultants*

The Company did not engage a remuneration consultant during the 2019 financial year. In the prior financial year \$57,000 was paid to a remuneration consultant for general advice.

### *Short Term Incentive Scheme*

The Short-Term Incentive Scheme ("Scheme") for eligible employees commenced from the 2018 financial year.

The Scheme, subject to the achievement of Board approved performance metrics (including financial performance delivery against a Board approved Budget), is designed to deliver cash incentives ranging from 5% to 50% (inclusive of superannuation) of relevant employees' fixed annual remuneration. \$109,534 of short term incentives, including superannuation, were accrued under the scheme for the 2019 financial year (2018:nil).

### *Long Term Incentive Scheme*

The Board has adopted a Long-Term Incentive Plan ("LTIP") through which it will determine appropriate long-term incentive mechanisms for employees, including directors and senior management of the Group. There were no awards under this plan for the 2019 financial year.

On 27 November 2017, 185,024 performance rights were granted to the previous Chief Executive Officer under the Plan. The vesting of rights was subject to the company meeting Earnings per Share (EPS) and Return on Capital Employed (ROCE) performance hurdles. Based on the company's EPS and ROCE for the 2018 financial year, the conditions for the vesting of the performance rights were not met.

### *Voting and comments made at the company's 27 November 2018 Annual General Meeting ('AGM')*

At the 27 November 2018 AGM, 73.9% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. As a result, the 2019 AGM will include a conditional spill resolution item, depending on the outcome of the voting on resolution for the 2019 Remuneration Report. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

# DIRECTORS' REPORT (CONTINUED)

30 JUNE 2019

## REMUNERATION REPORT (AUDITED) continued

### B Details of remuneration

#### Amounts of remuneration

Details of the remuneration of Directors and key management personnel of the consolidated entity are set out in the following tables.

	Short-term benefits		Post Employment benefits	Long-term Employment benefits	Share-based Payments	Total \$
	Cash salary and fees \$	Other \$	Super- annuation \$	Long Service Leave \$	Equity settled \$	
<b>2019</b>						
<b>Non-Executive Directors:</b>						
Roger Smeed (1)	90,849	-	-	-	-	90,849
Neil Cathie (2)	36,666	-	-	-	-	36,666
Peter Anderson (3)	30,000	-	-	-	-	30,000
Gregory McCormack (4)	18,264	-	1,735	-	-	19,999
Stephen Williams (5)	18,264	-	1,735	-	-	19,999
Sally McCutchan (6)	20,645	-	-	-	-	20,645
<b>Executive Directors:</b>						
Royce Galea (7)	250,000	110,718	22,511	4,168	-	387,397
Darren Boyd (8)	149,013	38,052*	15,115	125	-	202,305
Craig Hanley (9)	172,204	212,765	12,507	-	-	397,476
Ross Gavranich (10)	242,176	9,230	9,345	1,680	-	262,431
<b>Other Key Management Personnel:</b>						
Michael Constable (11)	250,833	61,979*	29,717	209	-	342,738
Paul Smith (12)	125,457	-	-	-	-	125,457
	1,404,371	432,744	92,665	6,182	-	1,935,962

\* Short term incentives excluding superannuation.

- (1) Mr. Smeed was appointed effective 27 September 2018. Fees were paid to Roger Smeed & Associates Pty Limited, a company associated with Mr. Smeed.
- (2) Mr. Cathie was appointed 16 October 2018, resigned 7 March 2019.
- (3) Mr. Anderson resigned 3 October 2018. Fees were paid to Strategic Vision Australia Pty Limited, a company associated with Mr. Anderson.
- (4) Mr. McCormack resigned 26 September 2018.
- (5) Mr. Williams resigned 3 October 2018.
- (6) Ms. McCutchan resigned 3 October 2018. Fees were paid to G & S Strategic Consulting Pty Limited, a company associated with Ms. McCutchan.
- (7) Mr. Galea was appointed as Executive Director effective 27 September 2018. Prior to that he was Organisational Excellence Leader – Integrated Services.
- (8) Mr. Boyd was appointed 7 February 2019.
- (9) Mr. Hanley resigned 21 November 2018.
- (10) Mr. Gavranich resigned 26 September 2018.
- (11) Mr. Constable commenced as Chief Financial Officer on 15 October 2018.
- (12) Mr. Smith's interim role as Chief Financial Officer and Company Secretary ended in October 2018. Fees were paid to Backbone Management Services Pty Limited, a company associated with Mr. Smith.

# DIRECTORS' REPORT (CONTINUED)

30 JUNE 2019

## REMUNERATION REPORT (AUDITED) continued

2018	Short-term benefits		Post Employment benefits	Long-term Employment benefits	Share-based Payments	Total
	Cash salary and fees	Other	Super- annuation	Long Service Leave	Equity settled	
	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>						
Peter Anderson (1)	120,000	-	-	-	52,066	172,066
Gregory McCormack	73,059	-	6,941	-	26,033	106,033
Stephen Williams	73,059	-	6,941	-	26,033	106,033
Sally McCutchan (2)	53,333	-	-	-	-	53,333
<i>Executive Directors:</i>						
Craig Hanley	350,000	30,000	20,049	5,835	-	405,884
Ross Gavranich	220,000	19,998	20,900	3,758	-	264,656
<i>Other Key Management Personnel:</i>						
Royce Galea	251,076	53,125	20,049	4,186	-	328,436
Stephen Lidbury (3)	208,332	40,000	17,941	3,473	-	269,746
Damien Gray (4)	266,362	-	20,205	-	-	286,567
Paul Smith (5)	364,574	-	-	-	-	364,574
	1,979,795	143,123	113,026	17,252	104,132	2,357,328

- (1) Fees were paid to Strategic Vision Australia Pty Limited, a company associated with Mr. Anderson.
- (2) Fees were paid to G & S Strategic Consulting Pty Limited, a company associated with Ms. McCutchan.
- (3) Mr. Lidbury resigned as Executive Director effective 25 October 2017; Mr. Lidbury retained his role as Organisational Excellence Leader – Security.
- (4) Mr. Gray resigned as Chief Financial Officer and Company Secretary effective 2 May 2018.
- (5) Mr. Smith assumed the role of Chief Financial Officer and Company Secretary in an interim capacity effective 5 February 2018; and was previously General Manager Strategic Development since April 2017. Fees were paid to Backbone Management Services Pty Limited, a company associated with Mr. Smith.

### C Executive Employment Agreements

The Executive Directors and the senior management of the Group noted above have entered into independent executive employment agreements with the Company. There are variations between each of the respective executive employment agreements in relation to, for example, remuneration and leave entitlements. However, the following terms below are uniform between each of the executive agreements:

- 1) The executive employee must perform their duties to the best of their ability and knowledge; during ordinary business hours and at other times reasonably necessary to fulfil their duties.
- 2) The executive employee is eligible to participate in a 'Short Term Incentive Plan' and the 'Long Term Incentive Plan', on terms to be determined by the Company from time to time.

# DIRECTORS' REPORT (CONTINUED)

30 JUNE 2019

## REMUNERATION REPORT (AUDITED) continued

### C Executive Employment Agreements continued

- 3) The Company may terminate the employment of the executive employee by providing, in general, 3 months written notice. Individual executive employment terms may stipulate termination notice periods ranging between 3 to 12 months. Details of executives' employment terms are noted below.
- 4) The executive employee is subject to a 12-month restraint period in acting for a competitor, on standard terms, from the point in time their employment with the Company ceases.

Remuneration and other terms of employment for key management personnel are formalised in executive employment agreements. Details of these agreements are as follows:

**Name:** Darren Boyd  
**Title:** Chief Executive Officer and Managing Director  
**Agreement commenced:** 7 February 2019  
**Details:** Mr Boyd is the Company's Managing Director and Chief Executive Officer under a contract of employment which commenced on 7 February 2019. Under the contract Mr Boyd is entitled to \$400,000 per annum inclusive of superannuation, along with related minor benefits. The contract may be terminated initially with 3 months' notice within the first 12 months and then with 6 months' notice thereafter.

**Name:** Michael Constable  
**Title:** Chief Financial Officer  
**Agreement commenced:** 15 October 2018  
**Details:** Mr Constable is the Company's Chief Financial Officer under a contract of employment which commenced on 15 October 2018. Under the contract Mr Constable is entitled to \$350,000 per annum plus statutory superannuation, along with related minor benefits. The contract may be terminated by the Company or Mr Constable with six months' notice. No payments or retirement benefits are payable on termination.

**Name:** Royce Galea  
**Title:** Executive Director (previously Organisational Excellence Leader – Integrated Services)  
**Agreement commenced:** 19 November 2015  
**Details:** Mr R Galea is the Company's Executive Director under a contract of employment which commenced on 19 November 2015. Under the contract Mr Galea is entitled to \$250,000 per annum plus statutory superannuation and a \$48,000 car allowance, along with related minor benefits. The contract has a fixed term of 3 years from the commencement date and may be terminated by the Company or Mr Galea with one year's notice. No payments or retirement benefits are payable on termination. The contract is currently being negotiated.

**Name:** Craig Hanley  
**Title:** Chief Executive Officer (resigned 21 November 2018)  
**Agreement commenced:** 26 June 2017 (as Chief Executive Officer), 1 February 2017 (as Chief Operating Officer)  
**Details:** Mr C Hanley was the Company's Chief Executive Officer (formerly Chief Operating Officer) under a contract of employment which commenced on 1 February 2017. Under the contract Mr Hanley was entitled to \$350,000 per annum plus statutory superannuation and a \$30,000 car allowance, along with related minor benefits. Mr Hanley resigned effective 21 November 2018.

# DIRECTORS' REPORT (CONTINUED)

30 JUNE 2019

## REMUNERATION REPORT (AUDITED) continued

### C Executive Employment Agreements continued

**Name:** Ross Gavranich  
**Title:** Executive Director & Organisational Excellence Leader – Airlite Group (resigned 26 September 2018)  
**Agreement commenced:** 11 October 2016  
**Details:** Mr R Gavranich was the Company's Executive Director & Organisational Excellence Leader - Airlite under a contract of employment which commenced on 11 October 2016. Under the contract Mr Gavranich was entitled to \$220,000 per annum plus statutory superannuation and a \$20,000 car allowance, along with related minor benefits. The contract had an initial term of 5 years from the commencement date and could be terminated by the Company or Mr Gavranich with 6 months' notice during the initial term. Mr Gavranich resigned effective 26 September 2018. No payments or retirement benefits were payable on termination.

**Name:** Damien Gray  
**Title:** Chief Financial Officer and Company Secretary (resigned effective 2 May 2018)  
**Agreement commenced:** 30 May 2016  
**Details:** Mr D Gray was the Company's Chief Financial Officer and Company Secretary under a contract of employment which commenced on 30 May 2016 and concluded on 2 May 2018. Under the contract Mr Gray was entitled to \$319,000 per annum plus statutory superannuation, along with related minor benefits. No payments or retirement benefits were payable on termination.

**Name:** Paul Smith  
**Title:** Interim Chief Financial Officer and Company Secretary (appointed 5 February 2018, interim role ended October 2018)  
**Agreement commenced:** 1 April 2017  
**Details:** Mr P Smith was the Company's interim Chief Financial Officer and Company Secretary from 5 February 2018. Prior to the holding the interim position, Mr Smith was General Manager Strategic Development at the Company. Mr Smith was entitled to \$30,000 per month under a contractor agreement which commenced April 2017. No payments or retirement benefits were payable at the conclusion of the contractor agreement in October 2018.

Key management personnel have no entitlement to termination payments, other than accrued leave balances, in the event of removal for misconduct.

### D Share-based compensation

#### *Issue of shares*

There were no ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2019.

#### *Options*

During the financial year, there were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2019.

# DIRECTORS' REPORT (CONTINUED)

30 JUNE 2019

## REMUNERATION REPORT (AUDITED) continued

### Additional information

The earnings of the consolidated entity for the year to 30 June 2019 and the prior period to 30 June 2018 are summarised below:

	2019 \$'000	2018 \$'000
Sales revenue	294,737	282,066
EBITDA	(4,329)	8,794
EBIT	(39,900)	1,091
Loss after income tax	(45,550)	(747)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2019	2018
Share price at financial year end (\$)	0.17	0.93
Basic earnings/(loss) per share (cents per share)	(99.18)	(1.63)
Diluted earnings/(loss) per share (cents per share)	(99.18)	(1.63)

## E Additional disclosures relating to key management personnel

### Shareholding

The number of shares in the company held during the financial period by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the period	Received as part of remuneration	Acquired	Disposals/other	Balance at the end of the period
<i>Ordinary shares</i>					
Roger Smeed	-	-	453,258	-	453,258
Peter Anderson (resigned 3 October 2018)	2,290,000	-	-	-	2,290,000
Stephen Williams (resigned 3 October 2018)	22,222	-	-	-	22,222
Greg McCormack (resigned 26 September 2018)	640,000	-	-	(640,000)	-
Sally McCutchan (resigned 3 October 2018)	104,400	-	-	-	104,400
Royce Galea	6,892,837	-	77,525	-	6,970,362
	9,949,459	-	530,783	(640,000)	9,840,242

# DIRECTORS' REPORT (CONTINUED)

30 JUNE 2019

## REMUNERATION REPORT (AUDITED) continued

### Option holding

The number of options over ordinary shares in the company held during the financial period by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the period	Received as part of remuneration	Exercised	Expired/forfeited/other	Balance at the end of the period
<i>Options over ordinary shares</i>					
Peter Anderson	1,200,000	-	-	(1,200,000)	-
Greg McCormack	600,000	-	-	(600,000)	-
Stephen Williams	600,000	-	-	(600,000)	-
	2,400,000	-	-	(2,400,000)	-

The exercise price of the options exceeded the market price significantly as at 30 June 2019 and 30 June 2018.

This concludes the remuneration report, which has been audited.

## SHARES UNDER OPTION

Due to the option holders ceasing employment in the current financial year, there were no exercisable options at the date of this report. Unissued ordinary shares of Millennium Services Group Limited under option at the end of the previous financial year were as follows:

### 2018 – Financial year

Grant date	Expiry date	Exercise price	Number under option
19 November 2015	Upon ceasing employment	\$2.93	800,000
19 November 2015	Upon ceasing employment	\$3.38	800,000
19 November 2015	Upon ceasing employment	\$3.71	800,000
			2,400,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

## SHARES ISSUED ON THE EXERCISE OF OPTIONS

There were no ordinary shares of Millennium Services Group Limited issued on the exercise of options during the year ended 30 June 2019 and up to the date of this report.

## PERFORMANCE RIGHTS

Grant Date	Exercise Price	Balance at the start of the period	Number of performance rights granted	Total value of performance rights on grant date \$	Valuation of each performance right at grant date \$	End of performance period
27/11/2017	Nil	-	185,024	\$278,000	\$1.50	30 June 2018

The vesting of rights granted in the 2018 financial year was subject to the company meeting Earnings per Share (EPS) and Return on Capital Employed (ROCE) performance hurdles. Based on the company's EPS and ROCE for the 2018 financial year, the conditions for the vesting of the performance rights were not met.

# DIRECTORS' REPORT (CONTINUED)

30 JUNE 2019

## INDEMNITY AND INSURANCE OF OFFICERS

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial period, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

## INDEMNITY AND INSURANCE OF AUDITOR

The company has not, during or since the end of the financial period, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial period, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

## NON-AUDIT SERVICES

During the year, Moore Stephens Audit (Vic), the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements. These non-audit services included taxation compliance and corporate transaction services. The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with the general standards of independence for auditors imposed by the Corporations Act 2001.

Details of the amounts paid to the auditor of the Group, for audit and non-audit services provided during the year are set out at note 28.

## OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF MOORE STEPHENS AUDIT (VIC)

There are no officers of the company who are former partners of Moore Stephens Audit (Vic).

## 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.

## AUDITOR

Moore Stephens Audit (Vic) continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Roger Smeed  
Chairman

29 August 2019

# AUDITOR'S INDEPENDENCE DECLARATION

## **MOORE STEPHENS**

Moore Stephens Audit (Vic)

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Melbourne Victoria 3000  
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**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER S 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF MILLENNIUM SERVICES GROUP LIMITED & CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2019, there have been no contraventions of:

- i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.



**MOORE STEPHENS AUDIT (VIC)**  
ABN 16 847 721 257



**GEORGE S. DAKIS**  
**Partner**  
**Audit & Assurance Services**

Melbourne, Victoria

29 August 2019

Moore Stephens Audit (Vic) ABN 16 847 721 257. Liability limited by a scheme approved under Professional Standards legislation.  
An independent member of Moore Stephens International Limited - members in principal cities all throughout the world.

# FINANCIAL STATEMENTS

30 JUNE 2019

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## GENERAL INFORMATION

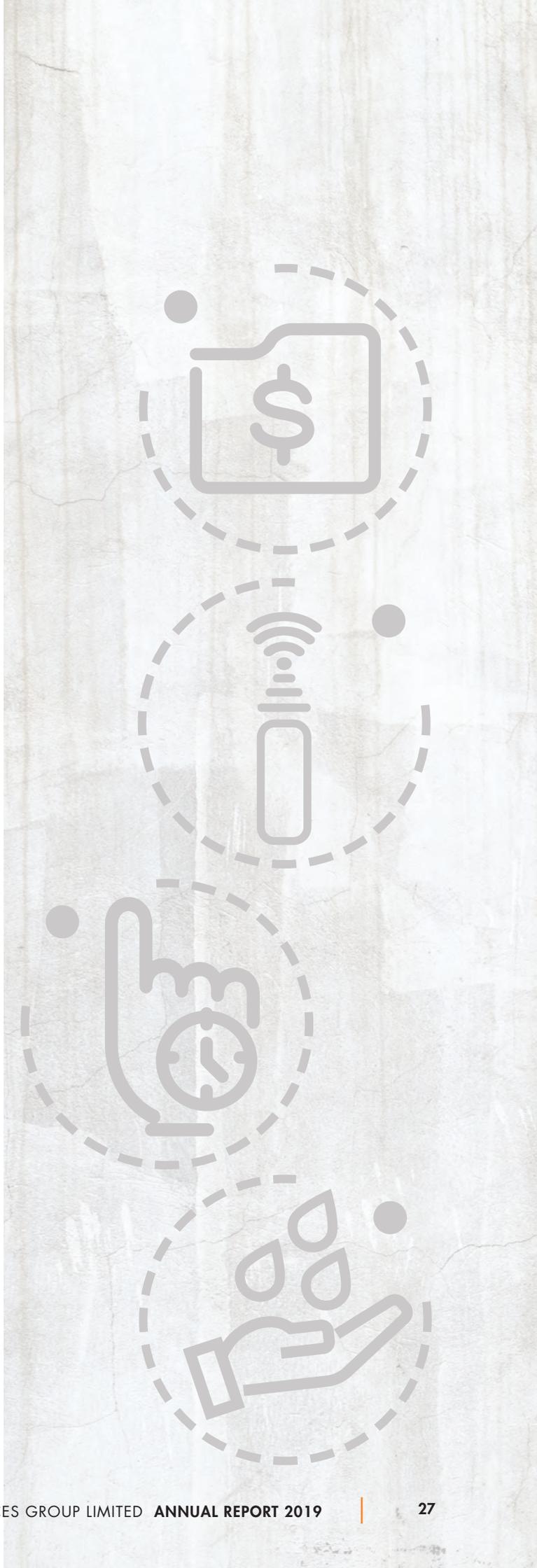
The financial statements cover Millennium Services Group Limited as a consolidated entity consisting of Millennium Services Group Limited and the entities it controlled at the end of, or during, the period. The financial statements are presented in Australian dollars, which is Millennium Services Group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

Millennium Services Group Limited 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 29 August 2019. The directors have the power to amend and reissue the financial statements.



## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Note	Consolidated	
		2019 \$'000	2018 \$'000
<b>Revenue</b>	5	294,737	282,066
Other income/(expense)	6	(11)	1,552
<b>Expenses</b>			
Raw materials and consumables used		(44,014)	(42,477)
Employee benefits expense		(239,258)	(219,416)
Depreciation and amortisation expense	7	(8,752)	(7,703)
Impairment of goodwill and other intangibles	7	(26,819)	-
Transaction expenses		-	(19)
Other expenses		(15,773)	(12,887)
Finance costs		(2,472)	(2,105)
<b>Loss before income tax expense</b>		(42,362)	(989)
Income tax benefit/(expense)	8	(3,188)	242
<b>Loss after income tax expense for the year attributable to the owners of Millennium Services Group Limited</b>		(45,550)	(747)
<b>Other comprehensive income/(loss)</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		22	(26)
<b>Other comprehensive income/(loss) for the year, net of tax</b>		22	(26)
<b>Total comprehensive loss for the year attributable to the owners of Millennium Services Group Limited</b>		(45,528)	(773)
		<b>Cents</b>	<b>Cents</b>
Basic earnings/(loss) per share	37	(99.18)	(1.63)
Diluted earnings/(loss) per share	37	(99.18)	(1.63)

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

## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	Consolidated	
		30 June 2019 \$'000	30 June 2018 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	2,687	3,948
Trade and other receivables	10	19,528	23,213
Inventories	11	815	1,562
Income tax refundable	19	409	-
Other	12	810	2,480
Total current assets		24,249	31,203
<b>Non-current assets</b>			
Property, plant and equipment	13	11,355	14,998
Intangibles	14	7,470	37,367
Deferred tax	15	232	9,568
Other	16	89	280
Total non-current assets		19,146	62,213
<b>Total assets</b>		43,395	93,416
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	22,155	24,383
Borrowings*	18	29,766	28,243
Income tax payable	19	-	762
Provisions	20	26,063	22,760
Total current liabilities		77,984	76,148
<b>Non-current liabilities</b>			
Borrowings	21	-	-
Deferred tax	22	232	6,099
Provisions	20	1,557	1,836
Total non-current liabilities		1,789	7,935
<b>Total liabilities</b>		79,773	84,083
<b>Net assets/(deficiency)</b>		(36,378)	9,333
<b>Equity</b>			
Issued capital	23	18,967	18,967
Reserves	24	(8,413)	(8,252)
Accumulated losses		(46,932)	(1,382)
<b>Total equity/(deficiency)</b>		(36,378)	9,333

\*Refer to note 18 on the classification of borrowings as current liabilities as at 30 June 2019 and 30 June 2018.  
The above statement of financial position should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits/ (accumulated losses) \$'000	Total equity \$'000
Balance at 1 July 2017	18,967	(8,330)	1,845	12,482
Loss after income tax expense for the year	-	-	(747)	(747)
Other comprehensive loss for the year, net of tax	-	(26)	-	(26)
Total comprehensive loss for the year	-	(26)	(747)	(773)
Share based payments	-	104	-	104
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 25)	-	-	(2,480)	(2,480)
Balance at 30 June 2018	18,967	(8,252)	(1,382)	9,333

Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2018	18,967	(8,252)	(1,382)	9,333
Loss after income tax expense for the year	-	-	(45,550)	(45,550)
Other comprehensive income for the year, net of tax	-	22	-	22
Total comprehensive income/(loss) for the year	-	22	(45,550)	(45,528)
Share based payments	-	(183)	-	(183)
Balance at 30 June 2019	18,967	(8,413)	(46,932)	(36,378)

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

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Note	Consolidated	
		2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		326,473	305,179
Payments to suppliers and employees (inclusive of GST)		(323,919)	(289,322)
		2,554	15,857
Interest received		10	25
Interest and other finance costs paid		(2,458)	(1,887)
Income taxes paid		(890)	(5,645)
Net cash from /(used in) operating activities	36	(784)	8,350
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired		-	(1,450)
Payments for property, plant and equipment	13	(1,349)	(3,806)
Proceeds from disposal of property, plant and equipment		38	4
Net cash used in investing activities		(1,311)	(5,252)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		931	3,873
Repayments of equipment finance		(2,737)	(2,541)
Dividends paid	25	-	(2,480)
Repayment of borrowings		(4,539)	(6,064)
Net cash used in financing activities		(6,345)	(7,212)
Net decrease in cash and cash equivalents		(8,440)	(4,114)
Cash and cash equivalents at the beginning of the financial year		3,948	8,064
Effects of exchange rate changes on cash and cash equivalents		3	(2)
Cash and cash equivalents at the end of the year, less overdraft facility utilised		(4,489)	3,948

		Consolidated	
		30 June 2019 \$'000	30 June 2018 \$'000
<b>Cash on hand and overdraft utilisation</b>			
Cash and cash equivalents at the end of the financial year	9	2,687	3,948
Overdraft facility utilised at the end of the financial year	18	(7,176)	-
Cash and cash equivalents at the end of the financial year, less overdraft facility utilised		(4,489)	3,948

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



# NOTES TO FINANCIAL STATEMENTS 30 JUNE 2019



## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2018:

*AASB 9 Financial Instruments;*

*AASB 15 Revenue from Contracts with Customers;*

*AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions;*

*AASB 2017-1 Amendments to Australian Accounting Standards - Transfers to Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments; and Interpretation 22 Foreign Currency Transactions and Advance Consideration.*

#### *Initial application of AASB 9 Financial Instruments*

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. The adoption of AASB 9 *Financial Instruments* from 1 July 2018 resulted in no changes or adjustments to the amounts recognised in the financial statements and the impact of its adoption is not material to the Group.

In accordance with the transitional provisions in AASB 9, comparative information has not been restated. The new accounting policy is described below under the paragraph titled *Investments and other financial assets*.

#### *Initial application of AASB 15: Revenue from Contracts with Customers*

The Group has adopted AASB 15: *Revenue from Contracts with Customers* with an initial application date of 1 July 2018. The Group has applied AASB 15 using the cumulative effect method.

The application of AASB 15 resulted in no changes or adjustments to the amounts recognised in the financial statements as the consolidated entity recognises revenue from the provision of services over the period the contractually agreed tasks or service obligations are completed. The existing accounting for revenue is materially in line with the AASB 15. Therefore, the comparative information has not been restated and continues to be reported under AASB 118 *Revenue*. The new accounting policy is described below under the paragraph titled *Revenue and other income*.

#### Reporting period

The reporting period is for the year ended 30 June 2019, and the comparative information covers the year ended 30 June 2018.

#### Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

#### Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes the continuity of normal business activities and the settlement of liabilities in the normal course of business. During the year ended 30 June 2019, the Group incurred a net loss after tax of \$45,550,000 (2018: loss of \$747,000) and at that date, the Group's current liabilities exceeded its current assets by \$53,735,000. The Group's net deficiency amounted to \$36,378,000 as at 30 June 2019 (30 June 2018: net assets \$9,333,000).

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 1. Significant accounting policies (continued)

The results for the year were impacted by \$26,819,000 of intangible impairments, \$12,675,000 of deferred tax assets not recognised and \$4,442,000 of non-recurring expenses. The net cash used in operating activities was \$784,000 for the current year compared to \$8,350,000 of net cash generated in the prior year.

In determining that the going concern basis is appropriate, the Directors have had regard to:

- The current debt facilities are due to be refinanced in November 2019 and the Company is currently in discussions with its existing debt provider and exploring a number of alternative funding strategies. In August 2019, the ANZ Bank extended its facilities to the Group to 1 September 2020, subject to certain conditions. Further, in August 2019, the Group's line of credit with the existing trade finance facility increased by \$2.0m to \$12.0m;
- \$14.6 million of the Group's borrowings were reclassified from non-current liabilities to current liabilities due to refinancing occurring within twelve months of the reporting date (refer to Note 18);
- The Group's cash flow forecast, and budget for the next 12 months show positive operating cash flows and an improvement in profitability respectively. The new Board has developed and is implementing, with the assistance of external advisors, a Profit Improvement Plan comprising a range of actions to reverse the decline in profitability and improve overall Company processes and controls; and
- The Group suspending or adjusting the amount of dividends paid to shareholders.

The Group's ability to continue to operate as a going concern is dependent upon the items listed above. Should these events not occur as anticipated, the Group may not be able to pursue its business objectives and will have difficulty continuing to operate as a going concern, including realising its assets and extinguishing its liabilities at the amounts shown in the financial statements.

### Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 33.

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Millennium Services Group Limited ('company' or 'parent entity') as at 30 June 2019 and the results

of all subsidiaries for the year then ended. Millennium Services Group Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

### Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

### Foreign currency translation

The financial statements are presented in Australian dollars, which is Millennium Services Group Limited's functional and presentation currency.

#### *Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates at the dates of the transactions.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 1. Significant accounting policies (continued)

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains/(losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as at fair value through other comprehensive income are recognised in other comprehensive income.

#### Foreign operations

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into Australian dollars as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates, and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### Revenue and other income

The Group has adopted *AASB 15 Revenue from Contracts with Customers* from 1 July 2018 using the cumulative effective method. Therefore, the comparative information has not been restated and continues to be presented under *AASB 118 Revenue*, *AASB 111 Construction Contracts* and related interpretations. Additionally, the disclosure requirements in *AASB 15* have not generally been applied to comparative information.

Under *AASB 15*, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. The core principle of the new standard is that an entity will recognise 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. For service or performance obligations satisfied over time, the Group measures the progress of its obligations over a contract service period to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the Group's performance and the customer's payment. The application of *AASB 15* resulted in no changes or adjustments to the amounts recognised in the financial statements as the consolidated entity recognises revenue from the provision of services over the period the contractually agreed tasks or service obligations are completed. The existing accounting for revenue is materially in line with the *AASB 15*.

Revenue generated by the Group is categorised into the following reportable segments:

- **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.

Revenue from the provision of cleaning and security services to customers is recognised when the performance obligations are delivered to customers over time. Once a contract has been entered into, the Group has an enforceable right to payment for work completed to date. Therefore, revenue is recognised over time. Revenue from these services is based on the price.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 1. Significant accounting policies (continued)

stipulated in the enforceable contracts, and there are no discounts for services provided. Additional billings are recognized when the performance obligations are delivered over time and are included within the sales to external customers.

Trade receivables are recognised as cleaning and security services are provided over contractually stipulated time periods. The Group's right to consideration is deemed unconditional at this time, as only the passage of time is required before payment of that consideration is due. There is no significant financing component because sales are made within normal credit terms of 30 days.

#### *Interest*

Interest revenue is recognised as interest accrues using the effective interest method.

#### *Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

### Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax

assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

### Tax consolidation

Millennium Services Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'standalone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The Group notified the Australian Taxation Office that it has formed an income tax consolidation group to apply from 1 November 2015.

The income tax consolidated group has entered a tax sharing and funding arrangement whereby each Company in the Group contributes to the income tax payable by the Group in proportion to their contributions to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution, to the head entity.

### Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 1. Significant accounting policies (continued)

12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

#### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance.

Trade receivables are amounts due from customers for services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

See note 10 for further information about the group's accounting for trade receivables and note 26 for a description of the group's impairment policies.

Other receivables are recognised at amortised cost, less loss allowance.

#### Inventories

Stock on hand is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### Investments and other financial assets

##### Classification

From 1 July 2018, the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The group reclassifies debt investments when and only when its business model for managing those assets changes.

##### Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

##### Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

##### Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 1. Significant accounting policies (continued)

assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

#### *Equity instruments*

The group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

#### *Impairment of financial assets*

From 1 July 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 26 further details.

#### *Accounting policies applied until 30 June 2018*

The Group has not applied AASB 9 retrospectively, and comparative information has not been restated. As a result, the comparative information provided continues to be accounted for

in accordance with the Group's previous accounting policy as described below:

Investments and other financial assets were initially measured at fair value. Transaction costs were included as part of the initial measurement, except for financial assets at fair value through profit or loss. They were subsequently measured at either amortised cost or fair value depending on their classification. Classification was determined based on the purpose of the acquisition and subsequent reclassification to other categories was restricted.

Financial assets were derecognised when the rights to receive cash flows from the financial assets expired or had been transferred and the consolidated entity had transferred substantially all the risks and rewards of ownership.

#### *Loans and receivables*

Loans and receivables were defined as non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They were carried at amortised cost using the effective interest rate method. Gains and losses were recognised in profit or loss when the asset was derecognised or impaired.

#### *Impairment of financial assets*

The consolidated entity assessed at the end of each reporting period whether there was any objective evidence that a financial asset or group of financial assets was impaired. Objective evidence included significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it became probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there was a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost was the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there was a reversal of impairment, the reversal could not exceed the amortised cost that would have been recognised had the impairment not been made and was reversed to profit or loss.

### **Property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 1. Significant accounting policies (continued)

Leasehold improvements	3 to 5 years
Plant and equipment	3 to 7 years
Motor vehicles	5 to 8 years
Computer equipment	3 to 4 years
Office equipment	5 to 8 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

#### Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

#### Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately

are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

#### Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

#### Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

#### Customer contracts

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 7 years.

#### Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

#### Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the

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**Note 1. Significant accounting policies (continued)**

financial period and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

**Employee benefits**

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

*Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Share-based payments*

Equity-settled and cash-settled share-based compensation benefits are provided to employees. Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 1. Significant accounting policies (continued)

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

#### Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### Dividends

Dividends are recognised when declared during the financial period and no longer at the discretion of the company.

#### Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

#### Earnings per share

##### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of Millennium Services Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the financial period.

##### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 1. Significant accounting policies (continued)

#### Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

#### 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.

### Note 2. New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

#### AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 Leases and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are

expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

AASB 16 will be applied by the Group from its mandatory adoption date of 1 July 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. While the right-of-use assets for property leases will be measured on transition as if the new rules had always been applied, all other right-of-use assets will be measured at the amount of the lease liability on adoption (after adjustments for any prepaid or accrued lease expenses). The Group's non-cancellable operating lease commitments amount to \$3.4 million as at the reporting date. No material amount of the non-cancellable operating lease commitments are either short-term leases or low-value leases. The Group has performed a preliminary impact assessment and has estimated that on 1 July 2019, the Group expects to recognise the right-of-use assets and lease liabilities of approximately \$2.8 million. Following the adoption of this new Standard, EBITDA, finance costs and depreciation are estimated to increase by \$0.8 million, \$0.1 million and \$0.6 million respectively in the 2020 financial year. The Group's net profit after tax is expected to increase by approximately \$0.1 million in 2020. The repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities, thus increasing operating cash flows and decreasing financing cash flows by approximately \$0.8 million. Given that the Group's activities as a lessor will not be materially impacted by this new Standard, the Group does not expect any significant impact on its financial statement from a lessor perspective. Nonetheless, starting from 2020, additional disclosures will be required.

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### Note 3. Critical accounting judgements, estimates and assumptions

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

#### *Share-based payment transactions*

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

#### *Impairment of receivables*

For estimating the impairment of trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 26 further details.

#### *Estimation of useful lives of assets*

The consolidated entity 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 or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives; or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

#### *Goodwill and other indefinite life intangible assets*

The consolidated entity 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 stated in note 1. The recoverable amounts of cash-generating units have been determined based on the higher of their fair value less costs of disposal and their value-in-use. These calculations require the use of assumptions, including their fair values, estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

#### *Income tax*

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

#### *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences and tax losses only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

#### *Employee benefits provision*

As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

#### *Employee entitlements provision*

An internal payroll review; which commenced in the prior reporting period; of the application of employment instruments indicated possible errors in payments of employee entitlements dating back to November 2015. Professional advisors have been engaged to confirm and quantify errors in payments. Management has provided for the entitlements and the provision amounted to \$5,708,000 as at 30 June 2019 (June 2018: \$4,058,000). The Group commenced payment of wages owing to employees in July 2019.

#### *Provision for public liability claims*

Companies within the Group had at the end of the reporting period a number of public liability claims made against it in relation to incidents occurring at facilities cleaned by the company. These claims are part of normal business activity for

## NOTES TO THE FINANCIAL STATEMENTS

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companies of this nature. As required by AASB 137 Provisions, Contingent Liabilities and Contingent Assets, the Group recognises a provision for public liability claims based on the best estimate of the expenditure required to settle the claims at the end of the reporting period. The estimates of the amounts required to settle claims are determined by the judgement of the management of the Group, supplemented by experience of similar transactions. The evidence considered includes any additional evidence provided by events after the reporting period.

### *Business combinations*

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

### *Accounting for restructuring*

On 17 November 2015, the Group restructured under the newly created entity Millennium Services Group Limited ("MIL") and listed on the stock exchange on 19 November 2015. The parties who controlled the acquired entities pre-restructure, also now control MIL post restructure and listing. As a result, this transaction is scoped out of AASB 3: Business Combinations as a combination of entities or businesses under common control. Therefore, no goodwill has been recognised on MIL's acquisition of the Millennium entities. While this situation is not covered specifically by Australian Accounting Standards, the directors have chosen to apply the pooling of interests method (rather than the acquisition method) as this provides the most relevant and reliable information to users of the financial statements. As such, these financial statements recognise the assets and liabilities of all the Group entities immediately after the restructure on 17 November 2015 at existing book values.

## **Note 4. 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.

### *Revenue Categorisation*

Revenue is generated by the Group and is categorised into the reportable segments disclosed below. Sales to external customers are recognised when the performance obligations are delivered over time. Once a contract has been entered into, the Group has an enforceable right to payment for work completed to date. Therefore, revenue is recognised over time. Additional billings are recognized when the performance obligations are delivered over time and are included within the sales to external customers.

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.

## NOTES TO THE FINANCIAL STATEMENTS

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### Note 4. Operating segments (continued)

#### Operating segment information

Consolidated - 2019	Cleaning \$'000	Security \$'000	Head Office \$'000	Total \$'000
<b>Revenue</b>				
Sales to external customers	241,312	53,425	-	294,737
Other income/(expense)	-	-	(21)	(21)
<b>Total revenue and other income</b>	<b>241,312</b>	<b>53,425</b>	<b>(21)</b>	<b>294,716</b>
<b>Gross margin</b>	<b>25,103</b>	<b>5,029</b>	<b>-</b>	<b>30,132</b>
Other income/(expense)			(21)	(21)
Overheads			(34,440)	(34,440)
<b>EBITDA</b>				<b>(4,329)</b>
Depreciation and amortisation				(8,752)
Impairment of goodwill and other intangibles				(26,819)
Interest revenue				10
Finance costs				(2,472)
<b>Loss before income tax expense</b>				<b>(42,362)</b>
Income tax benefit / (expense)				(3,188)
<b>Loss after income tax expense</b>				<b>(45,550)</b>
<b>Segment assets</b>	<b>36,090</b>	<b>6,180</b>	<b>1,125</b>	<b>43,395</b>
<b>Segment liabilities</b>	<b>35,501</b>	<b>5,735</b>	<b>38,537</b>	<b>79,773</b>
<b>Net Deficiency</b>	<b>589</b>	<b>445</b>	<b>(37,412)</b>	<b>(36,378)</b>
<b>Consolidated - 2018</b>	<b>Cleaning \$'000</b>	<b>Security \$'000</b>	<b>Head Office \$'000</b>	<b>Total \$'000</b>
<b>Revenue</b>				
Sales to external customers	242,221	39,845	-	282,066
Other income	-	-	1,527	1,527
<b>Total revenue and other income</b>	<b>242,221</b>	<b>39,845</b>	<b>1,527</b>	<b>283,593</b>
<b>Gross margin</b>	<b>35,442</b>	<b>5,547</b>	<b>-</b>	<b>40,989</b>
Other income	-	-	1,527	1,527
Overheads			(33,722)	(33,722)
<b>EBITDA</b>				<b>8,794</b>
Depreciation and amortisation				(7,703)
Interest revenue				25
Finance costs				(2,105)
<b>Loss before income tax expense</b>				<b>(989)</b>
Income tax benefit				242
<b>Loss after income tax benefit</b>				<b>(747)</b>
<b>Segment assets</b>	<b>74,734</b>	<b>8,778</b>	<b>9,904</b>	<b>93,416</b>
<b>Segment liabilities</b>	<b>42,691</b>	<b>5,900</b>	<b>35,492</b>	<b>84,083</b>
<b>Net Assets/(Liabilities)</b>	<b>32,043</b>	<b>2,878</b>	<b>(25,588)</b>	<b>9,333</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

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### Note 5. Revenue

	Consolidated	
	2019 \$'000	2018 \$'000
Provision of services	294,737	282,066

### Note 6. Other Income/(expense)

	Consolidated	
	2019 \$'000	2018 \$'000
Net gain/(loss) on disposal of property, plant and equipment	(21)	4
Reimbursement from related parties for legal costs incurred by Group	-	495
Indemnity from related parties for payroll taxes (NSW) related to 2011 to 2015 financial years (note 32)	-	1,028
Interest income	10	25
Other income/expense	(11)	1,552

### Note 7. Expenses

	Consolidated	
	2019 \$'000	2018 \$'000
Profit before income tax includes the following specific expenses:		
<i>Impairment</i>		
Impairment of receivables	804	450
Impairment of goodwill (note 14)	11,014	-
Impairment of customer contracts and trademarks (note 14)	15,805	-
Impairment of goodwill and other intangibles	26,819	-
Payroll taxes (NSW) for the 2011 to 2015 financial years (note 32)	-	1,028
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	4,010	4,004
Amortisation (note 14)	3,078	3,528
Depreciation (note 13)	5,674	4,175
Total amortisation and depreciation	8,752	7,703

## NOTES TO THE FINANCIAL STATEMENTS

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### Note 8. Income tax expense

	Consolidated	
	2019 \$'000	2018 \$'000
<i>Income tax expense</i>		
Deferred tax - origination and reversal of temporary differences	3,430	(3,674)
Current tax expense /(benefit) - Australia	(2,532)	3,369
Deferred tax asset not recognised in relation to unused tax losses	2,532	-
Current tax expense /(revenue) - New Zealand	5	38
Under/(over) provision in prior year – current tax	(247)	25
Aggregate income tax expense/(benefit)	3,188	(242)
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets (note 15)	9,297	(2,522)
Increase/(decrease) in deferred tax liabilities (note 22)	(5,867)	(1,152)
Deferred tax - origination and reversal of temporary differences	3,430	(3,674)
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(42,362)	(989)
Income tax /(benefit) at the statutory tax rate of 30%	(12,709)	(297)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Other permanent differences	24	66
Deferred tax asset not recognised in relation to unused tax losses	2,532	-
Deferred tax asset not recognised in relation to temporary differences	10,143	-
Impairment - goodwill	3,304	-
Black hole deduction from equity	(39)	(39)
Employee share scheme	(55)	31
Difference in tax rate in New Zealand	(12)	(3)
Income tax expense/(benefit)	3,188	(242)
The applicable weighted average effective tax rates are as follows:	(7.5%)	24.5%

	Consolidated	
	2019 \$'000	2018 \$'000
<i>Amounts charged/(credited) directly to equity</i>		
Deferred tax assets (note 15)	39	39

### Note 9. Current assets - cash and cash equivalents

	Consolidated	
	2019 \$'000	2018 \$'000
Cash at bank	2,687	3,948

## NOTES TO THE FINANCIAL STATEMENTS

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### Note 10. Current assets - trade and other receivables

	Consolidated	
	2019 \$'000	2018 \$'000
Trade receivables	19,787	21,302
Less: loss allowance (note 26, AASB 9)	(674)	-
Less: provision for impairment of receivables (AASB 139)	-	(383)
	<u>19,113</u>	<u>20,919</u>
Other receivables	415	2,294
	<u>19,528</u>	<u>23,213</u>

Trade receivables are amounts due from customers for services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

Details about the group's impairment policies and the calculation of the loss allowance are provided in note 26.

Trade receivables from related parties amounted to nil as at 30 June 2019 (30 June 2018: \$533,000), (note 32).

As at the end of the previous financial year, 30 June 2018, other receivables included \$1,028,000 from related parties in relation to indemnities from certain vendor shareholders (note 32). There were no related party receivables as at 30 June 2019.

#### *Previous accounting policy for impairment of trade receivables*

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments (more than 90 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash. The information below relates to the prior financial year, for current accounting policy and calculation of loss allowance, refer to note 26.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 10. Current assets - trade and other receivables (continued)

Impairment of receivables

The ageing of the impaired receivables provided for in the prior financial year were as follows:

	Consolidated 2018 \$'000
1 to 30 days	-
31 to 60 days	-
61 to 90 days	-
Over 90 days	383
	<u>383</u>

*Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to \$6,781,000 as at 30 June 2018.

The ageing of the past due but not impaired receivables in the prior financial year were as follows:

	Consolidated 2018 \$'000
1 to 30 days	5,652
31 to 60 days	293
61 to 90 days	125
Over 90 days	711
	<u>6,781</u>

### Note 11. Current assets - inventories

	Consolidated	
	2019 \$'000	2018 \$'000
Consumables - at cost	815	<u>1,562</u>

### Note 12. Current assets - other

	Consolidated	
	2019 \$'000	2018 \$'000
Prepayments	810	<u>2,480</u>

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 13. Non-current assets - property, plant and equipment

	Consolidated	
	2019	2018
	\$'000	\$'000
Leasehold improvements - at cost	397	397
Less: Accumulated depreciation	(311)	(119)
	86	278
Plant and equipment - at cost	24,428	23,110
Less: Accumulated depreciation	(15,313)	(10,763)
	9,115	12,347
Motor vehicles - at cost	2,857	2,712
Less: Accumulated depreciation	(1,449)	(1,112)
	1,408	1,600
Computer equipment - at cost	1,681	1,423
Less: Accumulated depreciation	(1,157)	(831)
	524	592
Office equipment - at cost	531	399
Less: Accumulated depreciation	(309)	(218)
	222	181
	11,355	14,998

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 13. Non-current assets - property, plant and equipment (continued)

#### Reconciliations

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

Consolidated	Motor Vehicles \$'000	Office Equipment \$'000	Computer Equipment \$'000	Plant & Equipment \$'000	Leasehold Improvements \$'000	Total \$'000
Balance at 1 July 2017	1,510	218	541	8,935	127	11,331
Additions	102	17	370	3,054	263	3,806
Effect of movement in exchange rates	-	-	-	(3)	-	(3)
Additions through hire purchase	287	-	-	3,752	-	4,039
Depreciation expense	(299)	(54)	(319)	(3,391)	(112)	(4,175)
Balance at 30 June 2018	1,600	181	592	12,347	278	14,998
Additions	27	5	258	1,059	-	1,349
Effect of movement in exchange rates	-	-	-	49	-	49
Disposals	(59)	-	-	-	-	(59)
Additions through hire purchase	355	127	-	210	-	692
Depreciation expense	(515)	(91)	(326)	(4,550)	(192)	(5,674)
Balance at 30 June 2019	1,408	222	524	9,115	86	11,355

During the 2019 financial year the Group acquired motor vehicles, plant and equipment with a carrying amount of \$692,000 (2018: \$4,039,000) via finance leases. The equipment financing transactions are non-cash transactions and excluded from the payments for property, plant and equipment within the Statement of Cash Flows.

The ANZ bank loan is secured over motor vehicles and equipment with a carrying value of \$11,269,000 (2018: \$14,720,000).

### Note 14. Non-current assets - intangibles

	Consolidated	
	2019 \$'000	2018 \$'000
Goodwill - at cost, less impairments	7,470	18,484
Patents and trademarks - at cost, less impairments	734	2,734
Less: Accumulated amortisation	(734)	(458)
	-	2,276
Customer contracts - at cost, less impairments	6,274	22,791
Less: Accumulated amortisation	(6,274)	(6,184)
	-	16,607
	7,470	37,367

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 14. Non-current assets - intangibles (continued)

#### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous 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*	-	416	-	416
Amortisation expense	(3,252)	-	(276)	(3,528)
Balance at 30 June 2018	16,607	18,484	2,276	37,367
Impairment – Goodwill, Cleaning CGU	-	(9,176)	-	(9,176)
Impairment – Goodwill, Security CGU	-	(1,838)	-	(1,838)
Impairment – other intangibles	(13,805)	-	(2,000)	(15,805)
Amortisation expense	(2,802)	-	(276)	(3,078)
Balance at 30 June 2019	-	7,470	-	7,470

\*The Airlite Group was acquired in the 2017 financial year. The \$416,000 adjustment to the fair value of net assets acquired was recognised as an adjustment to goodwill in the 2018 financial year on completion of acquisition accounting and deemed to be immaterial to require a restatement of the 30 June 2017 statement of financial position.

#### Impairment of other intangible assets – Customer Contracts and Trademarks

During the financial year, the carrying value of certain intangible assets (customer contracts and trademarks) were assessed to be impaired by \$15,805,000 and written down accordingly. The assessment considered, among other variables, the declining gross profit margins from the relevant customer groups and the level of competition in the industry impacting acquired trademarks.

#### Impairment testing of Goodwill

Goodwill has been allocated to the consolidated entity's cash generating units ("CGUs") according to the Cleaning and Security business segments. A summary of goodwill allocated to CGUs at the end of the of the current and previous financial period is presented below:

	Consolidated	
	2019 \$'000	2018 \$'000
<b>Goodwill allocation to CGUs</b>		
Cleaning CGU	7,470	16,646
Security CGU	-	1,838
	7,470	18,484

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 14. Non-current assets - intangibles (continued)

#### *Calculation Methodology*

The recoverable amount of a CGU is the higher of its fair value less costs of disposal and its value in use.

During the December 2018 half year period, the Group reassessed the carrying value of the CGUs and re-performed impairment analysis to take into account the decline in the Group's trading conditions since June 2018. The Group's performance was impacted by margin compression in the industry, competitive tendering at lower margins and national wage increases that had not been fully recovered from customers. This led to the revision of EBITDA forecasts for the 2019 and 2020 financial years, resulting in significantly lower cash flow forecasts used in the updated discounted cash flow models for impairment testing compared to those used in the 2018 financial year. Goodwill impairments discussed below were recognised by the Group during the half year period ended 31 December 2018.

#### *Cleaning CGU*

The Cleaning CGU recoverable amount was assessed on basis of fair value less costs to sell as at 31 December 2018. In assessing the fair value, management considered the potential sale value of customer contracts and trademarks that generated relatively higher gross profit margins from cleaning operations and required lower overhead expenditure to support their functions. Due to changes in trading conditions noted above, the fair value less costs calculation did not fully support the carrying amount of the Cleaning CGU goodwill of \$16,646,000 as at 31 December 2018, and this goodwill was partially impaired by \$9,176,000 in the December 2018 half year period; resulting with a carrying amount of \$7,470,000 of goodwill.

The key assumptions on which management based its cash flow projections to undertake impairment testing of goodwill as at 31 December 2018 were:

- The range of historical, current and forecast EBITDA generated;
- Range of EBITDA multiples applicable to sales of businesses in the service sector; and
- Average transaction costs incurred for similar businesses in the service sector.

The recoverable amount of the Cleaning CGU was also re-assessed as at 30 June 2019. Management has conducted sensitivity analysis using the value in use model and is of the view that there are no reasonably possible changes in variables that would cause further impairment of goodwill beyond the impairment recognised during the December 2018 half year. Value in use is calculated using a discounted cash flow model covering a 5-year period with an appropriate terminal growth rate at the end of that period. The model utilised cash flow forecasts and extrapolations based on the EBITDA budget for the 2020 financial year that has been reviewed by management and the Board.

The key assumptions on which management based its cash flow projections to undertake impairment testing of goodwill as at 30 June 2019 were:

- Cash flow forecasts are based on the Cleaning segment's EBITDA budget for the 2020 financial year. Cash flows for a further four years have been extrapolated such that the forecast compound annual growth rates (CAGR) is between 0.8% to 1.0% (June 2018: 1.0%) for years 1 to 5;
- Conservative terminal growth rates of 1.0% (30 June 2018: 1.0%); and
- Pre-tax discount rate of 17.0% (30 June 2018: 14.0%) which approximates the CGUs' weighted average cost of capital (pre-tax).

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 14. Non-current assets - intangibles (continued)

#### Security CGU

All goodwill and intangibles within the Security CGU were impaired as at 31 December 2018.

The recoverable amount of the Security CGU was assessed on basis of value in use as at 31 December 2018. Value in use is calculated using a discounted cash flow model covering a 5-year period with an appropriate terminal growth rate at the end of that period. The model utilised cash flow forecasts and extrapolations based on revised financial and EBITDA forecasts for the 2019 and 2020 financial years that were reviewed by management and the Board. Due to changes in trading conditions noted above, the value in use calculation did not support the carrying amount of the Security CGU goodwill of \$1,838,000 as at 31 December 2018 and this goodwill was impaired during the December 2018 half year period.

The key assumptions on which management based its cash flow projections to undertake impairment testing of goodwill as at 31 December 2018 were:

- Cash flow forecasts are based on the Security segment's EBITDA forecasts for the 2019 and 2020 financial years. Cash flows for a further three years were extrapolated such that the forecast compound annual growth rates (CAGR) is 0.0% to 1.0% (June 2018: 1.0%) for years 1 to 5;
- Conservative terminal growth rates of 1.0% (30 June 2018: 1.0%); and
- Pre-tax discount rate of 16.0% (30 June 2018: 14.0%) which approximates the CGUs' weighted average cost of capital (pre-tax).

### Note 15. Non-current assets - deferred tax

	Consolidated	
	2019	2018
	\$'000	\$'000
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Impairment of receivables	202	115
Employee benefits	7,639	6,668
Superannuation payable	1,112	1,324
Other accruals	251	202
Provisions	797	696
Blackhole expenditure - profit and loss	199	349
Investments	136	136
Blackhole expenditure - equity	39	78
Deferred tax asset not recognised	(10,143)	-
Unused tax losses	-	-
Deferred tax asset	232	9,568
<i>Movements:</i>		
Opening balance	9,568	7,085
Credited to profit or loss (note 8)	(9,297)	2,522
Credited/(charged) to equity (note 8)	(39)	(39)
Closing balance	232	9,568

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 15. Non-current assets - deferred tax (continued)

Deferred tax assets are recognised for deductible temporary differences and tax losses only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Total deferred tax assets of \$12,675,000; comprising \$2,532,000 and \$10,143,000 in relation to unused tax losses and temporary differences respectively; were not recognised as at 30 June 2019.

### Note 16. Non-current assets - other

	Consolidated	
	2019 \$'000	2018 \$'000
Security deposits	89	86
Prepayments	-	194
	<u>89</u>	<u>280</u>

### Note 17. Current liabilities - trade and other payables

	Consolidated	
	2019 \$'000	2018 \$'000
Trade payables	4,856	7,935
GST payable	1,789	2,013
Accrued expenses	8,430	6,849
Other payables	7,080	7,586
	<u>22,155</u>	<u>24,383</u>

Refer to note 26 for further information on financial instruments.

### Note 18. Current liabilities - borrowings

	Consolidated	
	2019 \$'000	2018 \$'000
ANZ interchangeable loan facility	18,137	20,593
Hire purchase	3,945	5,990
Bank overdraft utilised	7,176	-
Other borrowings	508	1,660
	<u>29,766</u>	<u>28,243</u>

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 18. Current liabilities - borrowings (continued)

*Borrowings have been classified as current liabilities as at 30 June 2019*

The consolidated entity is subject to certain financing arrangements and meeting these is given priority in all capital risk management decisions. As at 30 June 2019, the Group had total debt obligations of \$30,123,000 owing to the ANZ Bank (the 'Lender'). The Group's obligations with respect to financing covenants for the December 2018, March 2019 and June 2019 quarters were waived by the lender, subject to conditions, with no additional restrictions to the access of available financing.

The current debt facilities are due to be refinanced in November 2019 and the consolidated entity is currently in discussions with its existing debt provider and exploring a number of alternative funding strategies; and as a consequence, the Group does not have an unconditional right to defer settlement of its loans for at least 12 months after the 30 June 2019 reporting date. Hence borrowings have been classified as current liabilities as at 30 June 2019. Refer to note 35 for events after the reporting period.

*Borrowings classified as current liabilities as at 30 June 2018*

As at 30 June 2018, the Group had total debt obligations of \$27,006,000 owing to the lender. The consolidated entity breached its financing covenants in relation to the March 2018 and June 2018 quarters. The breaches were waived by the lender with no additional restrictions to the access of available financing.

As a consequence of the lender's due diligence review occurring over the June 2018 reporting period which was completed on 26 July 2018; as at 30 June 2018, the Group did not have an unconditional right to defer settlement of its loans for at least 12 months after the 30 June 2018 reporting date. Hence borrowings were classified as current liabilities as at 30 June 2018.

If the refinancing was effective on 30 June 2019 and if the due diligence review in the prior year was completed by 30 June 2018; and the Group had an unconditional right to defer settlement of its loans for at least 12 months after the relevant reporting dates; current borrowings would have been presented as follows:

	Consolidated	
	2019 \$'000	2018 \$'000
ANZ interchangeable loan facility	5,828	5,828
Hire purchase	1,698	2,618
Bank overdraft utilised	7,176	-
Other borrowings	508	1,660
	15,210	10,106

Refer to note 26 for further information on financial instruments.

The borrowings above are secured liabilities, refer to Note 21 for security details. The loan facility drawdowns and repayments that occurred during the current financial period are summarised below.

Consolidated	ANZ interchangeable loan facility \$'000	Hire purchase \$'000	Bank Overdraft \$'000	Other borrowings \$'000	Total \$'000
Balance at 1 July 2018	20,593	5,990	-	1,660	28,243
Drawdown for working capital requirements	-	-	7,176	931	8,107
Equipment financing	-	692	-	-	692
Repayments of borrowings	(2,456)	(2,737)	-	(2,083)	(7,276)
Balance at 30 June 2019	18,137	3,945	7,176	508	29,766

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 18. Current liabilities - borrowings (continued)

#### Financing arrangements

As at the reporting date, the Group had unrestricted access to the following lines of credit:

	Consolidated	
	2019 \$'000	2018 \$'000
Total facilities		
ANZ Interchangeable loan facility	19,136	23,050
Asset finance facility (hire purchase)	4,000	8,500
Overdraft facility	10,000	10,000
Trade finance facility	10,000	-
Standby letter of credit and guarantee facility	1,200	1,200
Electronic payway facility	500	500
Commercial card facility	325	325
	<u>45,161</u>	<u>43,575</u>
Used at the reporting date		
Interchangeable loan facility	18,137	20,593
Asset finance facility (hire purchase)	3,515	5,195
Overdraft facility	7,176	-
Trade finance facility	-	-
Standby letter of credit and guarantee facility	1,172	1,055
Electronic payway facility	-	-
Commercial card facility	123	163
	<u>30,123</u>	<u>27,006</u>
Unused at the reporting date		
Interchangeable loan facility	999	2,457
Asset finance facility (hire purchase)	485	3,305
Overdraft facility	2,824	10,000
Trade finance facility	10,000	-
Standby letter of credit and guarantee facility	28	145
Electronic payway facility	500	500
Commercial card facility	202	162
	<u>15,038</u>	<u>16,569</u>

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 18. Current liabilities - borrowings (continued)

#### Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt:

	Consolidated	
	2019 \$'000	2018 \$'000
Cash and cash equivalents	2,687	3,948
Borrowings – repayable within one year	(29,766)	(28,243)
Borrowings – repayable after one year	-	-
Net debt	(27,079)	(24,295)
Cash and cash equivalents	2,687	3,948
Gross debt – fixed interest rates	(508)	(1,660)
Gross debt – variable interest rates	(29,258)	(26,583)
Net debt	(27,079)	(24,295)

	Other assets Cash and cash equivalents \$'000	Liabilities from financing activities				Total \$'000
		Finance leases due within 1 year \$'000	Finance leases due after 1 year \$'000	Borrowings/ Overdraft due within 1 year \$'000	Borrowings due after 1 year \$'000	
Net debt as at 1 July 2018	3,948	(5,990)	-	(22,253)	-	(24,295)
Cash flows	(1,264)	2,737	-	(3,568)	-	(2,095)
Acquisitions – finance leases	-	(692)	-	-	-	(692)
Foreign exchange adjustments	3	-	-	-	-	3
Net debt as at 30 June 2019	2,687	(3,945)	-	(25,821)	-	(27,079)

### Note 19. Income Tax

	Consolidated	
	2019 \$'000	2018 \$'000
Income tax refundable / (provision for income tax)	409	(762)

### Note 20. Provisions

	Consolidated	
	2019 \$'000	2018 \$'000
Annual leave and long service leave	18,961	17,931
Other provisions	294	287
Employee entitlements provision	5,708	4,058
Provision for public liability claims	2,657	2,320
	27,620	24,596
Current	26,063	22,760
Non-current	1,557	1,836
	27,620	24,596

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 20. Provisions (continued)

Consolidated	Annual leave and long service leave \$'000	Public liability claims \$'000	Employee entitlement provision \$'000	Other \$'000	Total \$'000
Balance at 1 July 2018	17,931	2,320	4,058	287	24,596
Arising during the year	12,090	1,783	1,650	7	15,530
Utilised / paid during the year	(11,060)	(1,446)	-	-	(12,506)
Balance at 30 June 2019	18,961	2,657	5,708	294	27,620
Current	17,698	2,657	5,708		26,063
Non-current	1,263			294	1,557

#### *Provision for public liability claims*

Companies within the Group had at the end of the reporting period a number of public liability claims made against it in relation to incidents occurring at facilities cleaned by the company. These claims are part of normal business activity for companies of this nature. The Group recognises a provision for public liability claims based on the best estimate of the expenditure required to settle the claims at the end of the reporting period. The estimates of the amounts required to settle claims are determined by the judgement of the management of the Group, supplemented by experience of similar transactions. The evidence considered includes any additional evidence provided by events after the reporting period.

#### *Employee entitlements provision*

An internal payroll review; which commenced in the prior reporting period; of the application of employment instruments indicated possible errors in payments of employee entitlements dating back to November 2015. Professional advisors have been engaged to confirm and quantify errors in payments. Management has provided for the entitlements and the provision amounted to \$5,708,000 as at 30 June 2019 (June 2018: \$4,058,000). The Group commenced payment of wages owing to employees in July 2019.

### Note 21. Non-current liabilities - borrowings

	Consolidated	
	2019 \$'000	2018 \$'000
ANZ interchangeable loan facility	-	-
Hire purchase	-	-
	-	-

*Borrowings classified as current liabilities as at 30 June 2019 and 30 June 2018, refer to note 18.*

If the refinancing was effective on 30 June 2019 and if the due diligence review in the prior year was completed by 30 June 2018; and the Group had an unconditional right to defer settlement of its loans for at least 12 months after the relevant reporting dates; the non-current borrowings would have been presented as follows:

	Consolidated	
	2019 \$'000	2018 \$'000
ANZ interchangeable loan facility	12,309	14,765
Hire purchase	2,247	3,372
	14,556	18,137

Refer to note 26 for further information on financial instruments.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 21. Non-current liabilities - borrowings (continued)

#### Total secured liabilities

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

	Consolidated	
	2019	2018
	\$'000	\$'000
ANZ interchangeable loan facility	18,137	20,593
Hire purchase	3,945	5,990
Bank overdraft utilised	7,176	-
	<u>29,258</u>	<u>26,583</u>

#### Details of security

Facilities are held through a corporate guarantee and indemnity, a general security agreement and a security sharing deed between each of the following entities and the ANZ Bank and trade finance provider.

- Millennium Hi-Tech Group Pty Limited
- Millennium Cleaning (Qld) Pty Limited
- Millennium Cleaning (Vic) Pty Limited
- Millennium Cleaning (NSW) Pty Limited
- Millennium Group (NZ) Pty Limited
- Millennium Hi-Tech Holdings Pty Limited
- Millennium Hi-Tech (SA) Pty Limited
- Millennium Services Group Limited
- Millennium Services Group Operations Pty Limited
- Millennium Management Services (Aust) Pty Limited
- Millennium Security Specialist Services Pty Limited
- Millennium Cleaning Specialist Services Pty Limited
- Millennium Cleaning (TAS) Pty Limited
- Airlite Cleaning Pty Limited
- Airlite Management Services Pty Limited

#### Assets pledged as security

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated	
	2019	2018
	\$'000	\$'000
Equipment and motor vehicles	<u>11,269</u>	<u>14,720</u>

## NOTES TO THE FINANCIAL STATEMENTS

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### Note 22. Non-current liabilities - deferred tax

	Consolidated	
	2019 \$'000	2018 \$'000
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Property, plant and equipment	232	434
Intangibles	-	5,665
Deferred tax liability	232	6,099
<i>Movements:</i>		
Opening balance	6,099	7,251
Charged/(credited) to profit or loss (note 8)	(5,867)	(1,152)
Closing balance	232	6,099

### Note 23. Equity - issued capital

	2019 Shares	Consolidated		
		2018 Shares	2019 \$'000	2018 \$'000
Ordinary shares - fully paid	45,928,259	45,928,259	18,967	18,967
<i>Movements in ordinary share capital</i>				
Details	Date	Shares	Issue price	\$'000
Balance	30 June 2018	45,928,259		18,967
Balance	30 June 2019	45,928,259		18,967

#### 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. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

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.

#### Share buy-back

There is no current on-market share buy-back.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 23. Equity - issued capital (continued)

#### Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as market capitalisation plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. The Group monitors capital using gearing ratio among other metrics. In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

	Consolidated	
	2019 \$'000	2018 \$'000
Interest bearing loans and borrowings	29,766	28,243
Less: cash and short-term deposits	(2,687)	(3,948)
Net debt	27,079	24,295
Market capitalisation (share price \$0.17/share on 30/06/2019 & \$0.93 on 30/06/2018)	7,808	42,713
Capital, (market capitalisation plus net debt)	34,887	67,008
Gearing ratio	78%	36%

The consolidated entity is subject to certain financing arrangements and meeting these is given priority in all capital risk management decisions. As at 30 June 2019, the Group had total debt obligations of \$30,123,000 owing to the ANZ Bank (the 'Lender'). The Group's obligations with respect to financing covenants for the December 2018, March 2019 and June 2019 quarters were waived by the lender, subject to conditions, with no additional restrictions to the access of available financing.

The current debt facilities are due to be refinanced in November 2019 and the consolidated entity is currently in discussions with its existing debt provider and exploring a number of alternative funding strategies; and as a consequence, the Group does not have an unconditional right to defer settlement of its loans for at least 12 months after the 30 June 2019 reporting date. Hence borrowings have been classified as current liabilities as at 30 June 2019. The Group's unrestricted access to total financial facilities is disclosed at note 18. Refer to note 35 for events after the reporting period.

### Note 24. Equity - reserves

	Consolidated	
	2019 \$'000	2018 \$'000
Foreign currency reserve	7	(15)
Share-based payments reserve	102	285
Pre-restructure accumulated losses	(8,522)	(8,522)
	(8,413)	(8,252)

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 24. Equity - reserves (continued)

#### *Foreign currency reserve*

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

#### *Share-based payments reserve*

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

#### *Pre-restructure accumulated losses*

In November 2015, the Group restructured under the newly created entity Millennium Services Group Limited ("MIL"), and the pre-structure accumulated losses have been recognised in this reserve.

#### *Movements in reserves*

Movements in each class of reserve during the current and previous financial period are set out below:

Consolidated	Pre-restructure losses \$'000	Share based payments \$'000	Foreign currency \$'000	Total \$'000
Balance at 1 July 2017	(8,522)	181	11	(8,330)
Share based payments	-	104	-	104
Foreign currency translation	-	-	(26)	(26)
Balance at 30 June 2018	(8,522)	285	(15)	(8,252)
Share based payments	-	(183)	-	(183)
Foreign currency translation	-	-	22	22
Balance at 30 June 2019	(8,522)	102	7	(8,413)

### Note 25. Equity - dividends

Dividends paid during the financial period were as follows:

	Consolidated	
	2019 \$'000	2018 \$'000
Final dividend of \$0.054 per share (fully franked) was paid in respect of the reporting period ended 30 June 2017.	-	2,480
No dividend declared or payable in respect of the reporting period ended 30 June 2018.	-	-
	-	2,480

## NOTES TO THE FINANCIAL STATEMENTS

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### Note 26. Financial risk management

#### *Financial risk management objectives*

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance reports to the Board on a monthly basis.

#### *Market risk*

##### *Foreign currency risk*

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The consolidated entity's exposure is limited to its operations in New Zealand.

The carrying amount of the consolidated entity's foreign currency denominated assets and liabilities at the reporting date were as follows:

Consolidated	Assets		Liabilities	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
New Zealand dollars	3,319	2,001	3,927	1,958

The below table summarises the consolidated entity's exposure to fluctuations in exchange rates.

Consolidated - 2019	% change	AUD strengthened Effect on profit before tax	Effect on equity	% change	AUD weakened Effect on profit before tax	Effect on equity
New Zealand dollar	25%	-	152	25%	-	(152)

Consolidated - 2018	% change	AUD strengthened Effect on profit before tax	Effect on equity	% change	AUD weakened Effect on profit before tax	Effect on equity
New Zealand dollar	25%	-	(11)	25%	-	11

##### *Price risk*

The consolidated entity is not exposed to any significant price risk.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 26. Financial risk management (continued)

#### Interest rate risk

The consolidated entity's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the consolidated entity to interest rate risk. Borrowings obtained at fixed rates expose the consolidated entity to fair value interest rate risk.

As at the reporting date, the consolidated entity had the following variable rate borrowings outstanding:

Consolidated	Weighted average interest rate %	2019	Weighted average interest rate %	2018
		Balance \$'000		Balance \$'000
ANZ interchangeable loan facility	4.80%	18,137	4.95%	20,593
Net exposure to cash flow interest rate risk		18,137		20,593

An analysis by remaining contractual maturities in shown is 'liquidity and interest rate risk management' below.

Consolidated - 2019	Basis points change	Basis points increase		Basis points decrease		
		Effect on profit before tax	Effect on equity, net of tax	Basis points change	Effect on profit before tax	Effect on equity, net of tax
ANZ Facility	100	(181)	(127)	100	181	127

Consolidated - 2018	Basis points change	Basis points increase		Basis points decrease		
		Effect on profit before tax	Effect on equity, net of tax	Basis points change	Effect on profit before tax	Effect on equity, net of tax
ANZ Facility	100	(206)	(144)	100	206	144

#### Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL), favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

#### Risk management

Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and regions.

#### Impairment of financial assets

The Group's material financial assets that are subject to the expected credit loss model are:

- Trade receivables from the provision of cleaning and security services.

While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 26. Financial risk management (continued)

#### Trade receivables

The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Contract assets relating to unbilled, satisfied performance obligations in relation to cleaning and security services were immaterial as at 30 June 2019 and 30 June 2018.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 24 months before 30 June 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified that Australian GDP and unemployment rate as relevant factors that impact the Group's large retail shopping centre customers, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 30 June 2019 was determined as follows for trade receivables:

30 June 2019 \$'000	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total
Expected loss rate	1%	3%	5%	50%	75%	
Gross carrying amount – trade receivables	17,251	1,608	242	264	422	19,787
Loss allowance	165	48	12	132	317	674

The closing loss allowances for trade receivables as at 30 June 2019 reconcile to the opening loss allowances as follows:

	Consolidated Trade Receivables	
	2019 \$'000	2018 \$'000
	calculated under AASB 9 loss allowance	calculated under AASB 139, provision for impairment
Balance at beginning of financial year	383	149
Receivables written off during the year as uncollectable	(513)	(450)
Increase in provision for impairment – AASB 139	-	684
Increase in loss allowance recognised in profit or loss during the year –AASB 9	804	-
Balance at end of financial year	674	383

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 26. Financial risk management (continued)

#### Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

#### Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2019 \$'000	2018 \$'000
Interchangeable loan facility	999	2,457
Asset finance facility (hire purchase)	485	3,305
Overdraft facility	2,824	10,000
Trade finance facility	10,000	-
Standby letter of credit and guarantee facility	28	145
Electronic payway facility	500	500
Commercial card facility	202	162
	15,038	16,569

#### Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturities for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2019	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	22,155	-	-	-	22,155
<i>Interest-bearing - fixed</i>						
Other short-term borrowings	2.85%	515	-	-	-	515
<i>Interest-bearing - variable</i>						
Hire purchase	6.25%	4,150	-	-	-	4,150
Bank overdraft	7.90%	7,223	-	-	-	7,223
ANZ loan facility	4.80%	19,008	-	-	-	19,008
Total non-derivatives		53,051	-	-	-	53,051

Borrowings have been classified as current liabilities as at 30 June 2019 (refer to note 18)

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 26. Financial risk management (continued)

The current debt facilities with the ANZ Bank are due to be refinanced in November 2019 and the consolidated entity is currently in discussions with its existing debt provider and exploring a number of alternative funding strategies (refer to note 35 for events after the reporting period); and as a consequence, the Group does not have an unconditional right to defer settlement of its loans for at least 12 months after the 30 June 2019 reporting date. Hence borrowings have been classified as current liabilities as at 30 June 2019. If the refinancing was effective on 30 June 2019 and the Group had an unconditional right to defer settlement of its loans for at least 12 months after the reporting date; the remaining contractual maturities would have been presented as follows:

Consolidated - 2019	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	22,155	-	-	-	22,155
<i>Interest-bearing - fixed</i>						
Other short-term borrowings	2.85%	515	-	-	-	515
<i>Interest-bearing - variable</i>						
Hire purchase	6.25%	1,892	1,497	900	-	4,289
Bank overdraft	7.90%	7,223	-	-	-	7,223
ANZ loan facility	4.80%	6,559	6,279	6,792	-	19,630
Total non-derivatives		38,344	7,776	7,692	-	53,812
<b>Consolidated - 2018</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	24,383	-	-	-	24,383
Current tax payable	-	762	-	-	-	762
<i>Interest-bearing - fixed</i>						
Other short-term borrowings	1.53%	1,683	-	-	-	1,683
<i>Interest-bearing - variable</i>						
Hire purchase	6.23%	6,282	-	-	-	6,282
ANZ loan facility	4.95%	21,468	-	-	-	21,468
Total non-derivatives		54,578	-	-	-	54,578

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

#### Fair value of financial instruments

The fair values of cash, receivables, trade payables, other payables and current tax payables approximate their carrying amounts as a result of their short-term maturity.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 27. Key management personnel disclosures

#### Directors

The following persons were directors of Millennium Services Group Limited during the financial period:

Roger Smeed	(appointed as Non-Executive Director effective 27 September 2018; appointed as Chairman on 3 October 2018)
Darren Boyd	(appointed 7 February 2019)
Royce Galea	(appointed 27 September 2018)
Neil Cathie	(appointed 16 October 2018, resigned 7 March 2019)
Peter Anderson	(resigned 3 October 2018)
Gregory McCormack	(resigned 26 September 2018)
Stephen Williams	(resigned 3 October 2018)
Ross Gavranich	(resigned 26 September 2018)
Craig Hanley	(resigned 21 November 2018)
Sally McCutchan	(resigned 3 October 2018)

#### Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial period:

Michael Constable	(appointed as Chief Financial Officer effective 15 October 2018)
Paul Smith	(contractor agreement ended October 2018)

#### Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2019	2018
Short-term employee benefits	1,837,115	2,122,918
Post-employment benefits	92,665	113,026
Long-term benefits	6,182	17,252
Share-based payments	-	104,132
	1,935,962	2,357,328

### Note 28. Remuneration of auditors

During the financial period the following fees were paid or payable for services provided by Moore Stephens Audit (Vic), the auditor of the company, and its network firms:

	Consolidated	
	2019	2018
<i>Audit services - Moore Stephens Audit (Vic)</i>		
Audit or review of the financial statements	150,000	134,750
<i>Other services - Moore Stephens</i>		
Taxation services	45,000	48,340
Other services	15,575	6,010
	60,575	54,350

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 29. Contingent assets

Millennium Services Group Limited is entitled to an indemnity from vendors of the Airlite Group of entities (Airlite) for the quantum of remuneration and obligations under employment instruments owed to employees up to the date Airlite was acquired by Millennium Services Group Limited in November 2016. A corresponding contingent liability, of this amount, has been disclosed in Note 30 of these financial statements.

### Note 30. Contingent liabilities

An internal payroll review; which commenced in the prior reporting period; of the application of employment instruments indicated possible errors in payments of employee entitlements. Management has provided for the entitlements and the provision amounted to \$5,708,000 as at 30 June 2019 (June 2018: \$4,058,000) (note 20).

As at June 2019, the Group cannot measure, with sufficient reliability, the possible errors in payments of employee entitlements prior to the acquisition of the Airlite Group in November 2016. The Group is entitled to an indemnity from the vendors of Airlite for the quantum of remuneration and obligations under employment instruments owed to employees up to the date Airlite was acquired and accordingly, a contingent asset in relation to the indemnity from the vendors of Airlite Group is disclosed at note 29.

### Note 31. Commitments

	Consolidated	
	2019 \$'000	2018 \$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	945	2,163
Between one to five years	1,633	2,093
Over five years	818	-
	3,396	4,256

Lease commitments are predominately related to office premises and storage agreements.

#### Finance leases

	Consolidated			
	2019 \$'000	Present value	2018 \$'000	Present value
Within one year	4,150	3,945	6,282	5,990
After one year but not less than five years	-	-	-	-
More than five years	-	-	-	-
Total minimum lease payments	4,150	3,945	6,282	5,990
Less amounts representing finance charges	(205)	-	(292)	-
Present value of minimum lease payments	3,945	3,945	5,990	5,990

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 31. Commitments (continued)

The Group has finance leases and hire purchase contracts for various items of plant and equipment. The Group's obligations under finance leases are secured by the lessors' title to the leased assets. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments are disclosed above.

Borrowings have been classified as current liabilities as at 30 June 2019 and June 2018 (refer to note 18)

If the refinancing was effective on 30 June 2019 and if the due diligence review in the prior year was completed by 30 June 2018; and the Group had an unconditional right to defer settlement of its loans for at least 12 months after the relevant reporting dates; the finance leases would have been presented as follows:

#### Finance leases

	Consolidated			
	2019 \$'000	Present value	2018 \$'000	Present value
Minimum payment				
Within one year	1,892	1,698	2,910	2,618
After one year but not more than five years	2,397	2,247	3,572	3,372
More than five years	-	-	-	-
Total minimum lease payments	4,289	3,945	6,482	5,990
Less amounts representing finance charges	(344)	-	(492)	-
Present value of minimum lease payments	3,945	3,945	5,990	5,990

### Note 32. Related party transactions

#### Parent entity

Millennium Services Group Limited is the parent entity.

#### Subsidiaries

Interests in subsidiaries are set out in note 34.

Disclosures relating to key management personnel are set out in note 27 and the remuneration report included in the directors' report.

#### Transactions with related parties

Wages and other benefits of \$256,952 were paid to Mr Stephen Lidbury, a substantial shareholder of the company, for the year ended 30 June 2019 (2018: \$269,746). Office rent of \$39,315 was paid in the current financial year on normal commercial terms to an entity related to Mr Stephen Lidbury (2018: \$39,316).

Consulting fees of \$210,563 were paid to Tomi-Sasha Holdings Pty Limited, a substantial shareholder of the company for the year ended 30 June 2019 (2018: \$371,044).

Wages and other benefits of \$91,633 were paid to close family members of the controller of Tomi-Sasha Holdings Pty Limited, in their capacity as employees of the Group, for the year ended 30 June 2019 (2018: \$89,908).

#### Receivables from Related Parties

No amounts were receivable from related parties as at 30 June 2019.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 32. Related party transactions (continued)

The following were receivable in the prior period as at 30 June 2018:

(a) June 2018: Reimbursements for legal expenses paid by the company on behalf of the prior owners of the restructured group of companies (see note 3: Accounting for restructuring):

Wayne Crewes	\$177,599
Stephen Lidbury	\$177,599
Royce Galea	\$177,599
Total	\$532,797

(b) June 2018: Indemnity from related parties for payroll taxes (NSW) related to the 2011 to 2015 tax years: \$1,028,223.

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 Limited. 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 Limited. An in-principle settlement was agreed between Millennium Hi-Tech Group Pty Limited and the OSR in July 2018. Under the settlement, Millennium Hi-Tech Group Pty Limited was liable to pay \$1.028 million in payroll taxes for the tax years ended 30 June 2011 to 30 June 2015 (inclusive). The Group recognised a liability of \$1.028 million as at 30 June 2018. Millennium Services Group Limited, was entitled to an indemnity from certain vendor shareholders and accordingly a receivable of \$1.028 million from vendor shareholders was recognised as at 30 June 2018. The liability to the OSR was settled in the current financial year and in the same period, the Group received the indemnity payments from prior vendors.

### Note 33. Parent entity information

Set out below is the supplementary information about the parent entity, Millennium Services Group Limited. The majority of the profit or loss of the parent entity comprises Group overheads, corporate head office costs and dividends from subsidiaries.

*Statement of profit or loss and other comprehensive income*

	Parent	
	2019 \$'000	2018 \$'000
Profit / (loss) after income tax	(33,349)	2,341
Total comprehensive profit / (loss)	(33,349)	2,341

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 33. Parent entity information (continued)

#### Statement of financial position

	Parent	
	2019	2018
	\$'000	\$'000
Total current assets	18,783	26,458
Total assets	27,949	52,619
Total current liabilities	51,375	37,743
Total liabilities	52,932	43,887
Equity		
Issued capital	18,967	18,967
Share-based payments reserve	102	285
Accumulated losses, net of dividends paid	(44,052)	(10,520)
Total equity/(deficiency)	(24,983)	8,732

#### Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

A deed of cross guarantee between Millennium Services Group Limited and its subsidiaries in Note 34 (except Millennium Group (NZ) Pty Limited) was enacted in the 2016 financial year. The deed was updated in the 2017 financial year to include the Airlite Group and further updated in the 2019 financial year to include the small proprietary companies incorporated in the 2018 financial year. The Group is relieved from preparing financial statements for the subsidiaries under ASIC Class Order 98/1418. Under the deed, Millennium Services Group Limited guarantees to support the liabilities and obligations of each entity listed in Note 34 Interest in Subsidiaries, other than Millennium Group (NZ) Pty Limited. As Millennium Group (NZ) Pty Limited is not material, the aggregate totals for each category, relieved under the deed for the Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position approximate the level of support guaranteed.

#### Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

#### Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

#### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

#### Parent Company Investment in Subsidiary Companies

Over the 2018 and 2019 financial years, changes in competitive conditions and other factors directly and negatively impacted the growth rate for the Group. As a consequence, management reassessed the carrying amount of the parent entity's investment in its subsidiaries and determined an impairment charge of \$30,200,000. The carrying value of the parent company's investment in subsidiaries as at 30 June 2019 after the impairment was \$7,486,000.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 34. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business /Country of incorporation	Ownership interest	
		2019 %	2018 %
Millennium Group (NZ) Pty Limited	New Zealand	100.00%	100.00%
Millennium Hi-Tech Group Pty Limited (a)	Australia	100.00%	100.00%
Millennium Hi-Tech Holdings Pty Limited (a)	Australia	100.00%	100.00%
Millennium Hi-Tech (SA) Pty Limited (a)	Australia	100.00%	100.00%
Millennium Cleaning (Qld) Pty Limited (a)	Australia	100.00%	100.00%
Millennium Cleaning (Vic) Pty Limited (a)	Australia	100.00%	100.00%
Millennium Services Group Operations Pty Limited (a)	Australia	100.00%	100.00%
Airlite Cleaning Pty Limited (a)	Australia	100.00%	100.00%
Airlite Management Services Pty Limited (a)	Australia	100.00%	100.00%
Millennium Management Services (Aust) Pty Limited (b)	Australia	100.00%	100.00%
Millennium Security Specialist Services Pty Limited (b)	Australia	100.00%	100.00%
Millennium Cleaning Specialist Services Pty Limited (b)	Australia	100.00%	100.00%
Millennium Cleaning (TAS) Pty Limited (b)	Australia	100.00%	100.00%
Millennium Cleaning (NSW) Pty Limited (b)	Australia	100.00%	100.00%

(a) These wholly-owned companies are subject to a deed of cross guarantee as at 30 June 2019 and 30 June 2018.

(b) These wholly-owned companies are subject to a deed of cross guarantee as at 30 June 2019. These companies were incorporated in the 2018 financial year; the revenue and gross assets of these companies individually and in aggregate were not material in the prior period.

### Note 35. Events after the reporting period

In August 2019, the ANZ Bank extended its facilities to the Group to 1 September 2020, subject to certain conditions. Further, in August 2019, the Group's line of credit with the existing trade finance facility increased by \$2.0m to \$12.0m.

No other matter or circumstance has arisen since 30 June 2019 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.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2019

### Note 36. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2019 \$'000	2018 \$'000
Loss after income tax expense for the period	(45,550)	(747)
Adjustments for:		
Depreciation, amortisation and impairment of intangibles	35,571	7,703
Net loss/(gain) on disposal of property, plant and equipment	21	(4)
Share-based payments	(183)	104
Net foreign exchange differences	22	(22)
Change in operating assets and liabilities:		
Decrease/(increase) in inventories	747	(738)
Decrease/(increase) in net deferred tax assets	3,469	(3,635)
Increase in trade and other payables	1,168	8,969
Decrease in provision for income tax	(1,171)	(2,252)
Increase in employee benefits and provisions	1,030	6,139
Decrease/(increase) in receivables and prepayments	4,092	(7,167)
Net cash from / (used in) operating activities	(784)	8,350

### Note 37. Earnings per share

	Consolidated	
	2019 \$'000	2018 \$'000
Profit after income tax attributable to the owners of Millennium Services Group Limited	(45,550)	(747)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	45,928,529	45,928,529
Weighted average number of ordinary shares used in calculating diluted earnings per share	45,928,529	45,928,529
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(99.18)	(1.63)
Diluted earnings per share	(99.18)	(1.63)

The options have not been included in calculation of diluted earnings per share because the exercise price of the options materially exceeds the market price at 30 June 2019.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

### Note 38. Share-based payments

The Board has adopted a Long Term Incentive Plan ("LTIP") through which it will determine appropriate long-term incentive mechanisms for employees, including directors and senior management of the consolidated entity.

Set out below are summaries of performance rights and options granted under the plan:

2019							
Options	Vesting date (lapse if leaves office)	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
Grant date							
19/11/2015	18/11/2017	\$2.93	800,000	-	-	800,000	-
19/11/2015	18/11/2018	\$3.38	800,000	-	-	800,000	-
19/11/2015	19/11/2019	\$3.71	800,000	-	-	800,000	-
<b>Total Options</b>			2,400,000	-	-	2,400,000	-

The weighted average remaining contractual life of options outstanding at the end of the financial year was nil years (2018: 0.89 years.)

Performance Rights	Exercise Price	Balance at the start of the period	Number of performance rights granted	Total value of performance rights on grant date \$	Valuation of each performance right on grant date \$	End of performance period
Grant date						
27/11/2017	nil	185,024	-	\$278,000	\$1.50	30 June 2018

The vesting of rights granted in the 2018 financial year was subject to the company meeting Earnings per Share (EPS) and Return on Capital Employed (ROCE) performance hurdles. Based on the company's EPS and ROCE for the 2018 financial year, the conditions for the vesting of the performance rights were not met.

2018							
Options	Vesting date (lapse if leaves office)	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of period
Grant date							
19/11/2015	18/11/2017	\$2.93	800,000	-	-	-	800,000
19/11/2015	18/11/2018	\$3.38	800,000	-	-	-	800,000
19/11/2015	19/11/2019	\$3.71	800,000	-	-	-	800,000
<b>Total Options</b>			2,400,000	-	-	-	2,400,000

# DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Millennium Services Group Limited, the Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 27 to 77, and the remuneration report on pages 18 to 24 in the Directors' report are in accordance with the Corporations Act 2001 and:
  - a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; comply with Corporations Regulations 2001, and
  - b. give a true and fair view of the financial position as at 30 June 2019 and of the performance for the year ended on that date of the consolidated Group;
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
3. The Directors have been given the declarations required by s 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer.

At the date of this declaration, the Company and its wholly owned Australian subsidiaries, as detailed in Note 34 to the financial statements, have entered into a deed of cross guarantee. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees the debts of each other. In the directors' opinion, there are reasonable grounds to believe that the Company and the subsidiaries to which the deed of cross guarantee applies, as detailed in Note 34 to the financial statements will, as a Group, be able to meet any liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee.

On behalf of the Directors,

A handwritten signature in black ink, appearing to read 'Roger Smeed', is written over a horizontal line. The signature is stylized and cursive.

**Roger Smeed**  
Chairman

29 August 2019

# INDEPENDENT AUDITOR'S REPORT

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### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MILLENNIUM SERVICES GROUP LIMITED & CONTROLLED ENTITIES

#### Report on the Audit of the Financial Report

##### Opinion

We have audited the financial report of Millennium Services Group Limited and controlled entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

- a) the accompanying financial report of the Millennium Services Group Limited and controlled entities is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

##### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Material Uncertainty Related to Going Concern

We draw attention to Note 1 'Going Concern' in the financial statements, which identifies that during the year ended 30 June 2019 the Group incurred a loss after income tax expense of \$45.550m (2018 : loss of \$0.747m) and that the Group's current liabilities exceed its current assets by \$53.735m. As stated in Note 1 'Going Concern', these events or conditions indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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# INDEPENDENT AUDITOR'S REPORT

## MOORE STEPHENS

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### KEY AUDIT MATTER 1 – Net Current Asset Deficiency and Going Concern

Refer to Note 1 'Going Concern' and Note 18 'Current Liabilities – Borrowings'

The Group has a net current asset deficiency of \$53.735m as at 30 June 2019 which is primarily due to \$29.766m of borrowings being classified as current liabilities, \$23.406m of employee benefits classified as current liabilities and a number of other matters as described in Note 1 *Going Concern*.

We focused on this area due to the significance of the net current asset deficiency as at 30 June 2019, the nature of the factors causing the net current asset deficiency, including the operating loss, the current status of the Group's borrowing facility, and the possible impact on the group's ability to continue as a going concern these factors may have.

Our procedures included, amongst others:

- We obtained and reviewed management's cash flow forecast to assess whether the Group's current asset levels and future forecasted cash levels could sustain operations of the Group for at least 12 months.
- We challenged and tested the assumptions used by management in its cash flow forecast, analysing the impact on cash by performing sensitivity analysis on projected growth rates, timing of cash outflows and the accuracy of the forecasts.
- We reviewed the current status of the Group's borrowing facility to assess its adequacy in meeting the Group's funding requirements.

#### KEY AUDIT MATTER 2 – Goodwill and Intangible Assets

Refer to Note 14 "Non-Current Assets - Intangibles"

As at 30 June 2019 the Group has total Intangible Assets of \$7.470m.

Australian Accounting Standards state that goodwill and other intangible assets that have an indefinite useful life are required to be tested at least annually for impairment.

During the financial year the Group impaired \$26.819m of intangible assets in relation to goodwill, customer contracts and trademarks across various business segments.

Due to the Directors' assessment of the value in use of the Group's CGU's and other intangible assets requiring significant judgements about the future results of the Group, the discount rates applied to future cash flows being inherently uncertain and the size of the balance, we have focused on this area.

Our procedures included, amongst others:

- Evaluating management's cash flow forecasts. This included testing the integrity and mathematical accuracy of the underlying calculations and ensuring that they were consistent with the latest board approved budgets.
- We challenged:
  1. Management's key assumptions for growth rates used in the forecasts by comparing them to historical results.
  2. The discount rate used in the model by assessing the cost of capital for the Group by comparing it to market data and industry research.
- We tested the assumptions used by management, analysing the impact on the value in use calculation by performing sensitivity analysis on the EBITDA growth rate, WACC and terminal value growth rate used within a reasonably foreseeable range and the impact it had on the impairment loss of \$26.819m for the year.
- Assessed the appropriateness of the amortisation rates for finite intangible assets.
- We assessed the adequacy of the Group's disclosure of the assumptions used in respect to the value in use calculations.

# INDEPENDENT AUDITOR'S REPORT

**MOORE STEPHENS**

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**KEY AUDIT MATTER 3 – Recoverability of Deferred Tax Assets**  
**Refer to Note 15 'Non-Current Assets – Deferred Tax Assets'**

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As at 30 June 2019 the Group has a recorded deferred tax asset of \$0.232m. The recoverability of this deferred tax asset is dependent on the generation of sufficient future taxable profits to utilise the deferred tax asset. Significant judgement is required in forecasting future taxable profits.

Total deferred tax assets of \$12.675m comprising of \$2.532m of unused tax losses and \$10.143m in relation to temporary differences were not recognised as at 30 June 2019.

We have assessed and challenged management's judgements relating to the forecast of future taxable profits.

We evaluated the reasonableness of the assumptions underlying the preparation of these forecasts including the consistency of the assumptions used to evaluate the recoverable amount of the Group's cash generating units and other intangible assets where relevant.

We have also assessed the appropriateness of the disclosures included in Notes 8 and 15 of the financial report in respect of current and deferred tax balances.

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**KEY AUDIT MATTER 4 – Employee Entitlements Provision**  
**Refer to Note 20 'Current Liabilities – Other', Note 29 'Contingent Assets' and Note 30 'Contingent Liabilities'**

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An internal payroll review of the application of employment instruments indicated possible errors in payments of employee entitlements dating back a number of prior financial periods. The review commenced in the prior reporting period. The Group has provided for the entitlements and the provision amounted to \$5.708m as at 30 June 2019 (2018: \$4.058m).

In addition to the provision raised in the financial statements, the Group has disclosed a contingent liability for any liability relating to pre-acquisition periods and a corresponding contingent asset has been disclosed as such liabilities are believed to be covered by specific vendor indemnities.

Due to the estimation and judgement involved and the potential material impact on the financial report, we have focused on this area.

Our procedures included, amongst others:

- We have evaluated supporting documentation used by management and the Board to support the provision raised and the contingent asset and liability recognised.
- We have assessed the documentation to support the existence and nature of the indemnity which forms the basis of the contingent asset disclosed.
- Where applicable, we have traced post year end payments in relation to satisfying the liability to post year end bank statements.
- We have reviewed correspondence from legal advisors in relation to the matters.
- Assessed the adequacy of the Group's disclosures in respect of the provision and contingent liability and asset.

# INDEPENDENT AUDITOR'S REPORT

**MOORE STEPHENS**

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located on the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

# INDEPENDENT AUDITOR'S REPORT

**MOORE STEPHENS**

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 24 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Millennium Services Group Limited and controlled entities, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of the Group are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



**MOORE STEPHENS AUDIT (VIC)**

ABN 16 847 721 257



**GEORGE S. DAKIS**

**Partner**

**Audit & Assurance Services**

Melbourne, Victoria

29 August 2019



# SHAREHOLDER INFORMATION



# SHAREHOLDER INFORMATION

## Additional Securities Exchange Information

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 7 October 2019 (Reporting Date).

## Corporate Governance Statement

The Company's Directors and management are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (Third Edition) (Recommendations) to the extent appropriate to the size and nature of the Group's operations.

The Company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations (Corporate Governance Statement).

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement will be available for review on Millennium's website (<http://millenniumsg.com/investor/governance/>) and will be lodged together with an Appendix 4G with ASX at the same time that this Annual Report is lodged with ASX.

The Appendix 4G will particularise each Recommendation that needs to be reported against by Millennium and will provide shareholders with information as to where relevant governance disclosures can be found.

The Company's corporate governance policies and charters are all available on Millennium's website (<http://millenniumsg.com/investor/governance/>).

## Substantial shareholders

As at the Reporting Date, the names of the substantial holders of the Company and the number of equity securities in which those substantial holders and their associates have a relevant interest, as disclosed in substantial holding notices given to the Company, are as follows:

Holder of Equity Securities	Class of Equity Securities	Number of Equity Securities held	% of total issued securities capital in relevant class
STEPHEN LIDBURY PTY LTD AND ASSOCIATED ENTITIES	Fully Paid Ordinary Shares	6,863,768	14.94%
ROYCE GALEA PTY LTD AND ASSOCIATED ENTITIES	Fully Paid Ordinary Shares	6,820,362	14.85%
TOMI-SASHA HOLDINGS PTY LTD AND ASSOCIATED ENTITIES	Fully Paid Ordinary Shares	6,385,757	13.90%

# SHAREHOLDER INFORMATION

## Number of holders

As at the Reporting Date, the number of holders in each class of equity securities is as follows:

Class of Equity Securities	Number of Equity Securities	Number of holders
Fully paid ordinary shares	45,928,259	1,365

## Voting rights of equity securities

The only class of equity securities on issue in the Company which carries voting rights is ordinary shares.

As at the Reporting Date, there were 1,365 holders of a total of 45,928,259 ordinary shares of the Company.

At a general meeting of the Company, every holder of ordinary shares present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each ordinary share held. On a poll, every member (or his or her proxy, attorney or representative) is entitled to vote for each fully paid share held and in respect of each partly paid share, is entitled to a fraction of a vote equivalent to the proportion which the amount paid up (not credited) on that partly paid share bears to the total amounts paid and payable (excluding amounts credited) on that share. Amounts paid in advance of a call are ignored when calculating the proportion

## Distribution of holders of equity securities

The distribution of holders of equity securities on issue in the Company as at the Reporting Date is as follows:

### Distribution of ordinary shareholders

Holdings Ranges	Holders	Total Units	%
1 – 1,000	821	261,469	0.57
1,001 – 5,000	154	487,182	1.06
5,001 – 10,000	119	967,700	2.11
10,001 – 100,000	219	7,262,087	15.81
100,001 – 999,999,999	52	36,947,821	80.45
Totals	1,365	45,928,259	100.00

## Less than marketable parcels of ordinary shares (UMP Shares)

The number of holders of less than a marketable parcel of ordinary shares based on the closing market price at the Reporting Date is as follows:

Total Shares	UMP Shares	UMP Holders	% of issued shares held by UMP holders
45,928,259	295,050	847	0.64

# SHAREHOLDER INFORMATION

## Twenty largest shareholders

The Company only has one class of quoted securities, being ordinary shares. The names of the 20 largest holders of ordinary shares, and the number of ordinary shares and percentage of capital held by each holder is as follows:

Rank	Holders Name	Balance as at Reporting Date	%
1	MR STEPHEN MICHAEL LIDBURY + MRS JOANNE LIDBURY <LIDBURY FAMILY S/FUND A/C>	6,863,768	14.94
2	ROYCE GALEA PTY LTD	4,592,837	10.00
3	MR WAYNE ANDREW LESLIE CREWES MRS EILEEN FRANCIS CREWES <W & E CREWES FAMILY S/F A/C>	4,514,000	9.83
4	MR ROYCE JOSEPH GALEA + MS LEANNE MARGARET BUTLIN <GALEA SUPER FUND A/C>	2,227,525	4.85
5	MR PETER MCKENZIE ANDERSON + MRS LAURA CASTEEL ANDERSON <STRATEGIC VISION S/F A/C>	1,788,000	3.89
6	TOMI-SASHA HOLDINGS PTY LTD <THE NATIONAL PROPERTY A/C>	1,550,213	3.38
7	MR WILLIAM DAVID COPLAND + MRS SUSAN MARY COPLAND <DAVID COPLAND SUPER FUND A/C>	1,500,060	3.27
8	MR PETER MARK LEWIS	1,000,000	2.18
9	ROGER SMEED & ASSOCIATES PTY LIMITED <R F INVESTMENT A/C>	911,728	1.99
10	MR JOHN DAVID WHEELER + MR GLEN ROBERT WHEELER <WHEELSUP S/F A/C>	900,000	1.96
11	M J SECURITIES PTY LTD <THE MJS SUPER FUND A/C>	850,712	1.85
12	TRYGELA PTY LTD	828,664	1.80
13	STRATEGIC VISION EQUITIES PTY LTD <STRATEGIC VISION EQ UNIT AC>	502,000	1.09
14	MRS SUSAN HADDEN + MRS ABBY FALLA <HADDUP SUPER FUND A/C>	500,000	1.09
15	JR MICAH PTY LTD <JR MICAH SUPER FUND A/C>	500,000	1.09
16	HOLLOWAY COVE PTY LTD <HOLLOWAY COVE S/F A/C>	420,665	0.92
17	MR STEPHEN BRIAN CREWES + MRS SARAH LOUISE CREWES <S & S CREWES FAMILY S/F A/C>	413,468	0.90
18	MR SCOTT MICHAEL ANDERSON + MS SALLY LOUISE BROWN <ABETHA HOLDINGS S/FUND A/C>	400,000	0.87
19	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	398,138	0.87
20	RUMINATOR PTY LTD	340,000	0.74
<b>Total number of shares of Top 20 Holders</b>		<b>31,001,778</b>	<b>67.50</b>
<b>Total Remaining Holders Balance</b>		<b>14,926,481</b>	<b>32.50</b>

# SHAREHOLDER INFORMATION

## Company Secretary

The Company's Secretary is Ms Jo-Anne Dal Santo who was appointed to the role on the 12 October 2018.

## Registered Office

The address and telephone number of the Company's registered office are:

Street Address: Level 1, 205-211 Forster Road  
Mount Waverley Victoria 3149

Telephone: +61 (0)3 9296 2095

## Share Registry

The address and telephone number of the Company's share registry, Computershare Investor Services, are:

Street Address: Yarra Falls, 452 Johnston Street  
Abbotsford Victoria 3000

Telephone: 1300 787 272

## Stock Exchange Listing

The Company's ordinary shares are quoted on the Australian Securities Exchange (ASX). The Company was admitted to the official list of the ASX on 19 November 2015 (ASX issuer code: MIL).

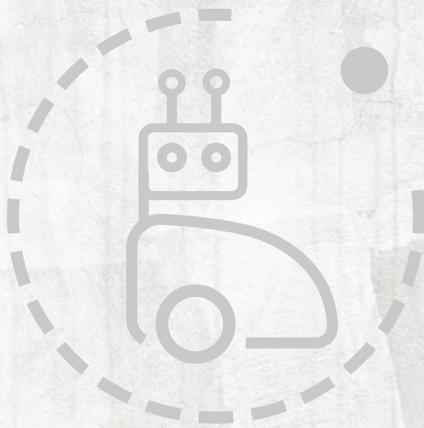
## Other Information

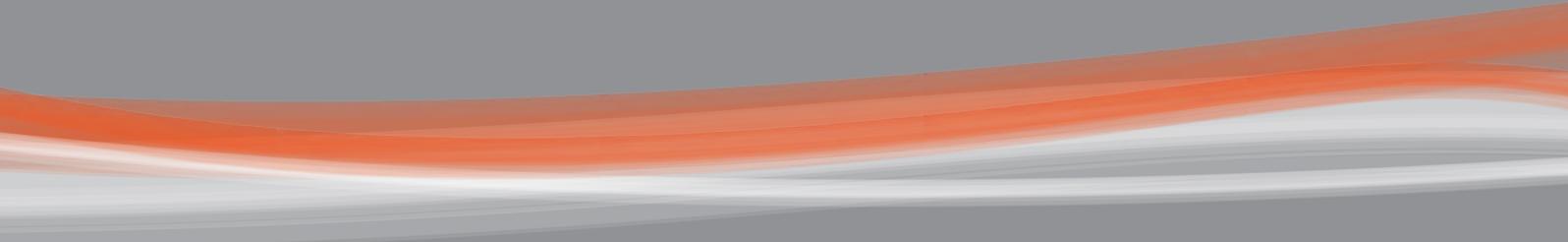
The Company is not currently conducting an on-market buy-back.

There are no issues of securities approved for the purposes of item 7 of section 611 of the Corporations Act which have not yet been completed.

No securities were purchased on-market during the reporting period under or for the purposes of an employee incentive scheme or to satisfy the entitlements of the holders of options or other rights to acquire securities granted under an employee incentive scheme.







**millennium**  
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