Millennium Services Group Ltd
Appendix 4D
Half year report

1. Company details

Name of entity:	Millennium Services Group Ltd
ABN:	11 607 926 787
Reporting period:	For the six months ended 31 December 2018
Previous period:	For the six months ended 31 December 2017

---

2. Results for announcement to the market

				$'000
Revenues from ordinary activities for the period	up	12.8%	to	153,738
Profit / (loss) from ordinary activities after tax, for the period, attributable to the owners of Millennium Services Group Ltd	decline	(2,562%)	to	(23,242)
Profit / (loss) for the period attributable to the owners of Millennium Services Group Ltd	decline	(2,562%)	to	(23,242)

Dividends

	Amount per security Cents	**Franked amount per security Cents**
Final dividend for the 2017 financial year	5.4	5.4
Interim dividend for the 2018 financial year	-	-
Final dividend for the 2018 financial year	-	-

No interim dividend has been declared for the current period.

Comments
The loss for the consolidated entity after providing for income tax amounted to ($23,242,000); (31 December 2017 profit: $944,000).

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

---

3. Net tangible assets

	Reporting period Cents	**Previous period Cents**
Net tangible assets per ordinary security	(76.33)	(54.67)

---

4. Control gained over entities

Not applicable.

---

5. Loss of control over entities

Not applicable.

---

6. Dividends

Current period

	Amount per security Cents	Franked amount per security Cents
Final dividend for 2018 financial year	-	-
No interim dividend has been declared for the current period	-	-

Previous period

Final dividend for 2017 financial year	5.4	5.4
Interim dividend for 2018 financial year	-	-

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

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

10. Audit qualification or review

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

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

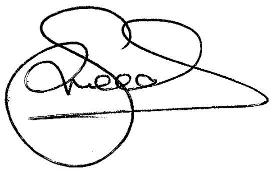
11. Attachments

Details of attachments (if any):

The half year Consolidated Financial Statements of Millennium Services Group Ltd for the half year ended 31 December 2018 are attached.

Millennium Services Group Ltd
Appendix 4D
Half year report

12. Signed



Signed ____________________________ Date: 27 February 2019

Roger Smeed
Chairman

Millennium Services Group Ltd

ABN 11 607 926 787

Half Year Financial Report - 31 December 2018

Millennium Services Group Ltd
Directors' report
31 December 2018

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 Ltd (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 31 December 2018.

Directors

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

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)
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 current half year and the previous corresponding period were as follows:

	Consolidated	
	December 2018 $'000	**December 2017 $'000**
Final dividend of $0.054 per share (fully franked) was paid in respect of the reporting period ended 30 June 2017.	-	2,480
	-	2,480

No interim dividend has been declared for the current period.

Review of operations

Revenue for the six months ending 31 December 2018 was up 12.8% to $153.7 million (2017 $136.3m) and the Group recorded a loss after income tax of $23.2m (after $14.6m of non-cash impairments and $6.2m of non-recurring and catch up costs which are explained later in the review). This is a $24.2m reduction in profit after income tax from the prior comparative period (2017 $0.9m profit).

Earnings/(losses) before interest, tax, depreciation and amortisation (EBITDA) declined by $12.1m to a $5.9m loss compared to the prior corresponding period. EBITDA in the current period was impacted by a decline in gross margin of $8.4m and a 23.6% increase in overhead expenditure amounting to $3.6m. The EBITDA for the current period includes $6.2m of non-recurring and catch up costs which include employment related costs $3.1m; increase in provision for doubtful debts $0.9m; increase in public liability claim provisioning $0.5m; a contingent liability at 30 June 2018 to the ATO for $0.5m recognised in the current period and a number of other accounting adjustments for costs now prudently recognised.

The Cleaning segment increased revenue by 6% over the previous corresponding period to $125.4m from $118.2m, however there was a significant reduction in gross margin from $18.7m to $10.5m. The Security segment increased revenue by 56% over the previous corresponding period to $28.4m from $18.1m however gross margin declined from $2.8m to $2.5m.

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. In the context of continual rollover of contracts, the company has lost some previously existing higher margin contracts that have accentuated margin declines.

Given the continuing poor financial performance, the Board has reassessed the carrying value of assets in the business and determined to make non-cash impairments to Goodwill of $11.0m and to Customer Contracts of $3.6m, a total non-cash impairment of $14.6m.

As previously announced, the New Board in October 2018 became aware of a significant reduction in the Group's profitability and promptly commenced a strategic review of the business with the assistance of external advisors. As a result, a Profit Improvement Plan has been approved and a range of initiatives commenced in order to return the Group to sustainable profitable growth. 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 all our plans are geared to getting these locked in such that a measurable and material improvement is achieved in the 2H19 with the full impact expected in FY20.

As the new Board and Executive continues to focus on the profit improvement plan targeting contract performance and retaining contracts at market competitive rates, this will lead to a natural refresh of the contract base. Following a competitive tender process, AMP Capital has recently advised the Group that it has not been successful in retaining the cleaning and security contracts in a number of retail centres on the east coast of Australia and New Zealand. These contracts were due for re-tender under the normal AMP contract renewal process and are due to expire at the end of March 2019. The contract loss will result in an annualised reduction in revenue to Millennium in the order of 6% however we expect to minimise the EBITDA impact as part of the cost reduction strategies embodied in the Profit Improvement Plan. The Company continues to win new contracts and the growth strategy will ensure we retain business and win new business at a market competitive gross margin.

Since its appointment four 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 Profit Improvement Plan. The benefits of the Profit Improvement Plan are expected to be realised in part in 2H19 and FY20.

The Company's 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 other alternative funding strategies.

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

The consolidated entity is subject to certain financing arrangements with the ANZ Bank (the 'lender') and meeting these is given priority in all capital risk management decisions. The lender has waived the debt facility covenants, subject to conditions, for period ending 31 December 2018 and agreed to defer the scheduled January 2019 principal repayment. 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. The Group's unrestricted access to total financial facilities is disclosed at note 9.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years

Likely developments and expected results of operations

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

Rounding of amounts

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

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

On behalf of the directors

Roger Smeed
Chairman

27 February 2019

MOORE STEPHENS

Moore Stephens Audit (Vic)

Level 18, 530 Collins Street
Melbourne Victoria 3000
+61 (0)3 9608 0100

Level 1, 219 Ryrie Street
Geelong Victoria 3220
+61 (0)3 5215 6800

victoria@moorestephens.com.au

www.moorestephens.com.au

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

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2018, there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

Moore Stephens

MOORE STEPHENS AUDIT (VIC)
ABN 16 847 721 257

GEORGE S. DAKIS
Partner
Audit & Assurance Services

Melbourne, Victoria

27 February 2019

General information

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

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2019. The directors have the power to amend and reissue the financial statements.

Millennium Services Group Ltd
Statement of profit or loss and other comprehensive income
For the period ended 31 December 2018

	Note	Consolidated December 2018 $'000	Consolidated December 2017 $'000
Revenue		153,738	136,284
Other income		13	17
Expenses			
Raw materials and consumables used		(24,497)	(19,895)
Employee benefits expense		(126,332)	(103,598)
Depreciation and amortisation expense	4	(4,254)	(3,683)
Impairment of goodwill and other intangibles	4	(14,604)	-
Transaction expenses		-	(122)
Other expenses		(8,812)	(6,522)
Finance costs		(1,099)	(1,108)
Profit / (loss) before income tax expense		(25,847)	1,373
Income tax benefit / (expense)	5	2,605	(429)
Profit / (loss) after income tax expense for the year attributable to the owners of Millennium Services Group Ltd		(23,242)	944
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		32	(33)
Other comprehensive income/(loss) for the year, net of tax		32	(33)
Total comprehensive income/(loss) for the year attributable to the owners of Millennium Services Group Ltd		(23,210)	911
		Cents	**Cents**
Basic earnings / (loss) per share		(50.61)	2.06
Diluted earnings / (loss) per share		(50.61)	2.05

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

Millennium Services Group Ltd
Statement of financial position
As at 31 December 2018

	Note	Consolidated 31 December 2018 $'000	Consolidated 30 June 2018 $'000
Assets			
Current assets			
Cash and cash equivalents	6	2,038	3,948
Trade and other receivables		28,652	23,213
Inventories		1,194	1,562
Income tax refundable		846	-
Other		1,713	2,480
Total current assets		34,443	31,203
Non-current assets			
Property, plant and equipment		14,019	14,998
Intangibles	7	20,999	37,367
Deferred tax	8	10,242	9,568
Other		102	280
Total non-current assets		45,362	62,213
Total assets		79,805	93,416
Liabilities			
Current liabilities			
Trade and other payables		31,365	24,383
Borrowings	9	31,527	28,243
Income tax payable		-	762
Provisions	10	24,259	22,760
Total current liabilities		87,151	76,148
Non-current liabilities			
Borrowings		-	-
Deferred tax		4,493	6,099
Provisions	10	2,220	1,836
Total non-current liabilities		6,713	7,935
Total liabilities		93,864	84,083
Net assets / (deficiency)		(14,059)	9,333
Equity			
Issued capital		18,967	18,967
Reserves		(8,402)	(8,252)
Retained profits / (accumulated losses)		(24,624)	(1,382)
Total equity / (deficiency)		(14,059)	9,333

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

Millennium Services Group Ltd
Statement of changes in equity
For the period ended 31 December 2018

Consolidated	**Issued capital $'000**	**Reserves $'000**	**Retained profits $'000**	**Total equity $'000**
Balance at 1 July 2017	18,967	(8,330)	1,845	12,482
Profit after income tax expense for the period	-	-	944	944
Other comprehensive income for the period, net of tax	-	(33)	-	(33)
Total comprehensive income for the period	-	(33)	944	911
Share based payments	-	50	-	50
Transactions with owners in their capacity as owners:				
Dividends paid (note 11)	-	-	(2,480)	(2,480)
Balance at 31 December 2017	18,967	(8,313)	309	10,963

Consolidated	**Issued capital $'000**	**Reserves $'000**	**Retained profits/(accumulated losses) $'000**	**Total equity $'000**
Balance at 1 July 2018	18,967	(8,252)	(1,382)	9,333
Profit/(loss) after income tax expense for the period	-	-	(23,242)	(23,242)
Other comprehensive income for the period, net of tax	-	32	-	32
Total comprehensive income/(loss) for the year	-	32	(23,242)	(23,210)
Share based payments	-	(182)	-	(182)
Transactions with owners in their capacity as owners:				
Dividends paid (note 11)	-	-	-	-
Balance at 31 December 2018	18,967	(8,402)	(24,624)	(14,059)

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

Millennium Services Group Ltd
Statement of cash flows
For the period ended 31 December 2018

	Note	Consolidated December 2018 $'000	Consolidated December 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		163,702	146,309
Payments to suppliers and employees (inclusive of GST)		(165,027)	(137,225)
		(1,325)	9,084
Interest received		9	13
Interest and other finance costs paid		(1,133)	(1,108)
Income taxes paid		(1,283)	(4,433)
Net cash from operating activities		(3,732)	3,556
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired		-	(1,450)
Payments for property, plant and equipment		(798)	(2,528)
Proceeds from disposal of property, plant and equipment		3	4
Net cash used in investing activities		(795)	(3,974)
Cash flows from financing activities			
Proceeds from borrowings		-	1,300
Repayments of equipment finance	9	(1,508)	(1,186)
Dividends paid	11	-	(2,480)
Repayment of borrowings	9	(3,769)	(2,222)
Net cash from / (used in) financing activities		(5,277)	(4,588)
Net increase / (decrease) in cash and cash equivalents		(9,804)	(5,006)
Cash and cash equivalents at the beginning of the financial period		3,948	8,064
Effects of exchange rate changes on cash and cash equivalents		6	(9)
Cash and cash equivalents at the end of the financial period, less overdraft facility utilised		(5,850)	3,049

	Note	Consolidated December 2018 $'000	Consolidated December 2017 $'000
Cash on hand and overdraft utilisation			
Cash and cash equivalents at the end of the financial period	6	2,038	3,049
Overdraft facility utilised at the end of the financial period	9	(7,888)	-
Cash and cash equivalents at the end of the financial period, less overdraft facility utilised		(5,850)	3,049

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

Note 1. Significant accounting policies

Statement of compliance

The half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. This interim financial report is intended to provide users with an update on the latest annual financial statements of the company and its controlled entities (referred to as “the Group”). As such, it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2018, together with any public announcements made during the following half year.

Basis of preparation

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

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

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the company’s 2018 annual financial report for the financial year ended 30 June 2018.

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

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 period ended 31 December 2018, the Group incurred a net loss after tax of $23,242,000 and at that date, the Group’s current liabilities exceeded its current assets by $52,708,000.

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

- 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;
- The Group’s cash flow forecasts and budgets for the next 12 months showing improving operating cash flows and an improvement in profitability. 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.

Note 1. Significant accounting policies (continued)

New Accounting Standards
The adoption of new Australian Accounting Standards most relevant to the consolidated entity, are set out below.

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.

AASB 15 Revenue from Contracts with Customers
The Group has adopted *AASB 15 Revenue from Contracts with Customers* from 1 July 2018 which 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 are completed. The existing accounting for revenue is materially in line with the AASB 15 requirement that revenue be recognised over the time period contractual performance obligations are satisfied. 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.

Note 2. 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 within the next financial year are discussed below.

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. 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.

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.

Note 3. 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.

Operating segment information

Consolidated – 31 December 2018	Cleaning $'000	Security $'000	Head Office $'000	Total $'000
Revenue				
Sales to external customers	125,376	28,362	-	153,738
Other income	-	-	4	4
Total revenue and other income	125,376	28,362	4	153,742
Gross margin	10,529	2,470	-	12,999
Other income	-	-	4	4
Overheads			(18,902)	(18,902)
EBITDA				(5,899)
Depreciation and amortisation				(4,254)
Impairment of goodwill and other intangibles				(14,604)
Interest revenue				9
Finance costs				(1,099)
Profit/(loss) before income tax expense				(25,847)
Income tax benefit				2,605
Profit/(loss) after income tax expense				(23,242)
Segment assets	58,669	8,521	12,615	79,805
Segment liabilities	42,344	9,341	42,179	93,864
Net Assets / (Liabilities)	16,325	(820)	(29,564)	(14,059)

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

Note 3. Operating segments (continued)

Consolidated – 31 December 2017	Cleaning $'000	Security $'000	Head Office $'000	Total $'000
Revenue				
Sales to external customers	118,153	18,131	-	136,284
Other income	-	-	4	4
Total revenue and other income	118,153	18,131	4	136,288
Gross margin	18,665	2,772	-	21,437
Other income	-	-	4	4
Overheads			(15,290)	(15,290)
EBITDA				6,151
Depreciation and amortisation				(3,683)
Interest revenue				13
Finance costs				(1,108)
Profit before income tax expense				1,373
Income tax expense				(429)
Profit after income tax expense				944
Segment assets	72,606	7,761	7,426	87,793
Segment liabilities	38,082	5,103	30,955	74,140
Net Assets / (Liabilities)	34,524	2,658	(23,529)	13,653

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

Note 4. Expenses

	Consolidated	
	December 2018 $'000	**December 2017 $'000**
Profit before income tax includes the following specific expenses:		
Impairment		
Impairment of receivables	968	171
Impairment of goodwill (note 7)	11,014	-
Impairment of customer contracts (note 7)	3,590	-
Amortisation (note 7)	1,764	1,764
Depreciation	2,490	1,919
Total amortisation and depreciation	4,254	3,683

Note 5. Income tax expense

	Consolidated	
	December 2018 $'000	**December 2017 $'000**
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit / (loss) before income tax expense	(25,847)	1,373
Income tax / (benefit) at the statutory tax rate of 30%	(7,754)	412
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Other permanent differences	187	21
Deferred tax asset not recognised in relation to unused tax losses	1,732	-
Impairment - Goodwill	3,304	-
Black hole deduction from equity	(19)	(19)
Employee share scheme	(55)	15
Income tax expense / (benefit)	(2,605)	429
The applicable weighted average effective tax rates are as follows:	10.1%	31.2%

Note 6. Current assets - cash and cash equivalents

	Consolidated	
	December 2018 $'000	**June 2018 $'000**
Cash at bank	2,038	3,948

Note 7. Non-current assets – intangibles

	Consolidated	
	December 2018 $'000	**June 2018 $'000**
Goodwill - at cost, less impairments	7,470	18,484
Patents and trademarks - at cost	2,734	2,734
Less: Accumulated amortisation	(596)	(458)
	2,138	2,276
Customer contracts - at cost, less impairments	16,489	22,791
Less: Accumulated amortisation	(5,098)	(6,184)
	11,391	16,607
	20,999	37,367

Note 7. 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 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 – Customer contracts	(3,590)			(3,590)
Amortisation expense	(1,626)	-	(138)	(1,764)
Balance at 31 December 2018	11,391	7,470	2,138	20,999

Impairment of other intangible assets – Customer Contracts

During the period, the carrying value of certain intangible assets (customer contracts) were assessed to be impaired and written down accordingly. The assessment took into account, among other variables, the declining gross profit margins from the relevant customer groups.

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	
	December 2018 $'000	**June 2018 $'000**
Goodwill allocation to CGUs		
Cleaning CGU	7,470	16,646
Security CGU	-	1,838
	7,470	18,484

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

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 has been impacted by margin compression in the industry, competitive tendering at lower margins and national wage increases that have not been fully recovered from customers. This has led to the revision of EBITDA forecasts for the 2019 and 2020 financial years, resulting in significantly lower cash flow forecasts used in the discounted cash flow models for impairment testing.

Note 7. Non-current assets - intangibles (continued)

Cleaning CGU

The Cleaning CGU recoverable amount is based on fair value less costs to sell. In assessing the fair value, management considered the potential sale value of customer contracts and trademarks that generate relatively higher gross profit margins from cleaning operations and require lower overhead expenditure to support their functions. Due to changes in trading conditions noted above, the fair value less costs calculation does not fully support the carrying amount of the Cleaning CGU goodwill of $16,646,000 and this goodwill has been partially impaired by $9,176,000 in the current half year period; resulting with a carrying amount of $7,470,000 of goodwill.

The key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill are:

• 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.

Security CGU

The recoverable amount of the Security CGU is based on value in use. 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 utilises cash flow forecasts and extrapolations based on revised financial and EBITDA forecasts for the 2019 and 2020 financial years that have been reviewed by management and the Board. Due to changes in trading conditions noted above, the value in use calculation does not support the carrying amount of the Security CGU goodwill of $1,838,000 and this goodwill has been impaired in the current half year period.

The key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill are:

• 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 have been 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 8. Non-current assets - deferred tax

	Consolidated	
	December 2018 $'000	**June 2018 $'000**
Deferred tax asset comprises:		
Temporary differences	10,242	9,568
Unused tax losses	-	-
Deferred tax asset	10,242	9,568

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. A deferred tax asset of $1,732,000 in relation to $5,773,000 of unused tax losses was not recognised as at 31 December 2018.

Note 9. Current liabilities - borrowings

	Consolidated	
	December 2018 $'000	**June 2018 $'000**
ANZ interchangeable loan facility	18,137	20,593
Hire purchase	5,155	5,990
Bank overdraft utilised	7,888	-
Other borrowings	347	1,660
	31,527	28,243

Borrowings have been classified as current liabilities as at 31 December 2018

The consolidated entity is subject to certain financing arrangements and meeting these is given priority in all capital risk management decisions. As at 31 December 2018, the Group had total debt obligations of $30,759,000 (30 June 2018: 25,951,000) owing to the ANZ Bank (the 'Lender'). The Group's obligations with respect to financing covenants for the December 2018 quarter 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 31 December 2018 reporting date. Hence borrowings have been classified as current liabilities as at 31 December 2018.

The borrowings above are secured liabilities. 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	-	-	7,888	-	7,888
Equipment financing	-	673	-	-	673
Repayments of borrowings	(2,456)	(1,508)	-	(1,313)	(5,277)
Balance at 31 December 2018	18,137	5,155	7,888	347	31,527

Note 9. Current liabilities - borrowings (continued)

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

	Consolidated	
	December 2018 $'000	June 2018 $'000
Total facilities		
Interchangeable loan facility	19,136	23,050
Asset finance facility (hire purchase)	5,000	8,500
Overdraft facility	10,000	10,000
Standby letter of credit and guarantee facility	1,200	1,200
Electronic payway facility	500	500
Commercial card facility	325	325
	36,161	43,575
Used at the reporting date		
Interchangeable loan facility	18,137	20,593
Asset finance facility (hire purchase)	4,409	5,195
Overdraft facility	7,888	-
Standby letter of credit and guarantee facility	1,055	1,055
Electronic payway facility	-	-
Commercial card facility	325	163
	31,814	27,006
Unused at the reporting date		
Interchangeable loan facility	999	2,457
Asset finance facility (hire purchase)	591	3,305
Overdraft facility	2,112	10,000
Standby letter of credit and guarantee facility	145	145
Electronic payway facility	500	500
Commercial card facility	-	162
	4,347	16,569

Note 10. Provisions

	Consolidated	
	December 2018 $'000	June 2018 $'000
Annual leave and long service leave	18,943	17,931
Other provisions	287	287
Employee entitlements provision	4,958	4,058
Provision for public liability claims	2,291	2,320
	26,479	24,596
Current	24,259	22,760
Non-current	2,220	1,836
	26,479	24,596

Note 10. 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 (restated*)	17,931	2,320	4,058	287	24,596
Arising during the year	5,750	1,085	900	-	7,735
Utilised / paid during the year	(4,738)	(1,114)	-	-	(5,852)
Balance at 31 December 2018	18,943	2,291	4,958	287	26,479
Current	17,010	2,291	4,958	-	24,259
Non-current	1,933	-	-	287	2,220

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 of the application of employment instruments has indicated possible errors in payments of employee entitlements in a segment of the Group dating back to November 2015. Professional advisors have been engaged to confirm and quantify any errors in payments which has not been completed. Management has undertaken an interim review to provide for the entitlements in the accounts.

Note 11. Equity - dividends

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

	Consolidated December 2018 $'000	Consolidated December 2017 $'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

Note 12. Related party transactions

Receivables from Related Parties

The following amounts were receivable as at 31 December 2018:

Indemnity from related parties for payroll taxes (NSW) related to 2011 to 2015 tax years: $1,018,223; (30 June 2018: $1,028,223).

Note 13. Events after the reporting period

The consolidated entity is subject to certain financing arrangements with the ANZ Bank (the ‘lender’) and meeting these is given priority in all capital risk management decisions. The lender has waived the debt facility covenants, subject to conditions, for period ending 31 December 2018 and agreed to defer the scheduled January 2019 principal repayment. 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. The Group’s unrestricted access to total financial facilities is disclosed at note 9.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Millennium Services Group Ltd
Directors' declaration
31 December 2018

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

1. The attached financial statements and notes are in accordance with the *Corporations Act 2001* and:

    a. comply with Australian Accounting Standard AASB 134 'Interim Financial Reporting', the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

    b. give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial period ended on that date; and

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

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

On behalf of the Directors

Roger Smeed
Chairman

27 February 2019

MOORE STEPHENS

Moore Stephens Audit (Vic)

Level 18, 530 Collins Street
Melbourne Victoria 3000
+61 (0)3 9608 0100

Level 1, 219 Ryrie Street
Geelong Victoria 3220
+61 (0)3 5215 6800

victoria@moorestephens.com.au

www.moorestephens.com.au

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF MILLENNIUM SERVICES GROUP LIMITED AND CONTROLLED ENTITIES

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Millennium Services Group Limited and Controlled Entities (**the group**), which comprises the condensed statement of financial position as at 31 December 2018, the condensed statement of profit or loss and other comprehensive income, condensed statement of changes in equity, the condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

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

a. giving a true and fair view of the group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which identifies that during the period ended 31 December 2018 the Group incurred a loss after income tax expense of $23.24m and that the Group's current liabilities exceed its current assets by $52.71m. As stated in Note 1, 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.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standards on Review Engagements ASRE 2410: *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including:

a. giving a true and fair view of the group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and

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

As the auditor of the group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the group, would be in the same terms if provided to the directors as at the time of this auditor's review report.

Moore Stephens

MOORE STEPHENS AUDIT (VIC)
ABN 16 847 721 257

GEORGE S. DAKIS
Partner
Audit & Assurance Services

Melbourne, Victoria

27 February 2019