Millennium Services Group Limited
Appendix 4D
Half Year Report

1. Company details

Name of entity:	Millennium Services Group Limited
ABN:	11 607 926 787
Reporting period:	For the six months ended 31 December 2019
Previous period:	For the six months ended 31 December 2018

2. Results for announcement to the market

			$'000
Revenues from ordinary activities for the period	Declined	12.1% to	135,087
Profit / (loss) from ordinary activities after tax, for the period, attributable to the owners of Millennium Services Group Limited	Improved	96.5% to	(823)
Profit / (loss) for the period attributable to the owners of Millennium Services Group Limited	Improved	96.5% to	(823)

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the 2018 financial year	-	-
Interim dividend for the 2019 financial year	-	-
Final dividend for the 2019 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 ($823,000); (31 December 2018 loss: $23,242,000).

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	(102.70)	(76.33)

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

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6. Dividends

Current period

	Amount per security Cents	Franked amount per security Cents
Final dividend for 2019 financial year	-	-
No interim dividend has been declared for the current period	-	-
Previous period		
Final dividend for 2018 financial year	-	-
Interim dividend for 2019 financial year	-	-

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7. Dividend reinvestment plans

Not applicable.

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8. Details of associates and joint venture entities

Not applicable.

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9. Foreign entities

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

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

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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, with an emphasis of matter in relation to going concern.

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11. Attachments

Details of attachments (if any):

The Consolidated Financial Statements of Millennium Services Group Limited for the half year ended 31 December 2019 are attached.

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12. Signed

Signed ____________________________ Date: 18 February 2020

Roger Smeed
Chairman

Millennium Services Group Limited

ABN 11 607 926 787

Half Year Financial Report - 31 December 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 period ended 31 December 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
Darren Boyd – Chief Executive Officer and Managing Director
Royce Galea – Executive Director

Principal activities

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

Dividends

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

	Consolidated	
	December 2019 $'000	December 2018 $'000
No dividend declared or payable in respect of the reporting year ended 30 June 2018.	-	-
	-	-

No interim dividend has been declared for the current period.

Review of operations

Revenue for the six months ending 31 December 2019 declined 12.1% to $135.1 million (December 2018 $153.7m) due to the Group being focused on tendering for contracts at market competitive rates, exiting low margin contracts and substantially due to the Group not retaining a number of large contracts with AMP Capital within the Cleaning segment as announced in the prior financial year. The Group recorded a loss after income tax of $0.8m. This is a $22.4m improvement in profit after income tax from the prior comparative period (December 2018 $23.2m loss). The loss in the prior corresponding period included $14.6m of non-cash impairments and $3.5m of non-recurring costs.

Earnings/(losses) before interest, tax, depreciation and amortisation (EBITDA) improved by $9.2m to $3.3m in earnings compared to a loss of $5.9m in the prior corresponding period. EBITDA improvements in the current period were driven by an increase in gross margin of $4.0m and a 27.1% decrease in overhead expenditure amounting to $5.1m. EBITDA in the current period included a $1.1m reversal of a prior year provision in relation to employee instruments (discussed further below), and $0.2m of non-recurring advisory fees.

The Cleaning segment revenue declined by 11.2% over the previous corresponding period to $111.4m from $125.4m, however there was a significant improvement in gross margin from $10.5m to $13.9m; the gross margin percentage improved from 8.4% to 12.4%. The Security segment revenue declined by 16.4% over the previous corresponding period to $23.7m from $28.4m, however gross margin increased from $2.5m to $3.2m; the gross margin percentage improved from 8.7% to 13.4%.

As previously announced, the new Board, appointed in October 2018, became aware of a significant reduction in the Group's profitability in FY2019 and promptly commenced a strategic review of the business with the assistance of external advisors. As a result of the review, a comprehensive Business Improvement Plan was approved, and a range of initiatives immediately 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 FY2019 and have crystallised into significant gross margin improvements and overhead reductions in the first half of FY2020.

The gross margin growth in the current period, despite the decline in revenue, stems from the Group's renewed focus on winning quality new contracts and retaining contracts at a market competitive gross margin. There have already been a number of new contract wins using these criteria. As noted before, part of the revenue reduction was due to the Group not retaining a number of large contracts with AMP Capital in the prior financial year. It is important to note that some of this lost revenue has already been recovered through new or increased contracts.

The Company completed its review of the application of its employment instruments. Payments totalling $4.4m were made during the period which was less than previously provisioned for. The excess of $1.1m was returned to the profit and loss.

The Board and Executives will continue to focus on continuing with the Business Improvement Plan, targeting contract performance and retaining contracts at market competitive rates, which will lead to a natural refresh of the contract book. The Company is also focused on a growth strategy that includes diversification into new sectors including commercial, education, government and health, thereby de-risking the business base of the Company.

The Company received confirmation from the ANZ Bank in December 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 31 October 2020. Further, in February 2020, the Group's line of credit with the existing trade finance facility increased by $1.0m to $13.0m.

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 February 2020, the Group's line of credit with the existing trade finance facility effectively increased by $1.0m to $13.0m.

No other matter or circumstance has arisen since 31 December 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.

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

18 February 2020

MOORE STEPHENS

Moore Stephens Audit (Vic)

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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 2019, 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

18 February 2020

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 18 February 2020. The directors have the power to amend and reissue the financial statements.

Millennium Services Group Limited
Statement of Profit or Loss and Other Comprehensive Income
For the period ended 31 December 2019

	Note	Consolidated December 2019 $'000	Consolidated December 2018 $'000
Revenue		135,087	153,738
Other income		-	13
Expenses			
Raw materials and consumables used		(17,636)	(24,497)
Employee benefits expense		(108,708)	(126,332)
Depreciation	4	(2,410)	(2,490)
Amortisation of intangibles	4	-	(1,764)
Impairment of goodwill and other intangibles	4	-	(14,604)
Other expenses		(5,482)	(8,812)
Finance costs	4	(1,674)	(1,099)
Loss before income tax expense for the half year		(823)	(25,847)
Income tax benefit / (expense)	5	-	2,605
Loss after income tax expense for the half year attributable to the owners of Millennium Services Group Limited		(823)	(23,242)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		41	32
Other comprehensive income/(loss) for the half year, net of tax		41	32
Total comprehensive loss for the half year attributable to the owners of Millennium Services Group Limited		(782)	(23,210)
		Cents	Cents
Basic earnings / (loss) per share		(1.79)	(50.61)
Diluted earnings / (loss) per share		(1.79)	(50.61)

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

Millennium Services Group Limited
Statement of Financial Position
As at 31 December 2019

	Note	Consolidated 31 December 2019 $'000	Consolidated 30 June 2019 $'000
Assets			
Current assets			
Cash and cash equivalents	6	1,852	2,687
Trade and other receivables		21,842	19,528
Inventories		828	815
Income tax refundable		409	409
Other		1,901	810
Total current assets		26,832	24,249
Non-current assets			
Property, plant and equipment		10,657	11,355
Intangibles	7	7,470	7,470
Deferred tax	8	148	232
Right-of-use assets	11	2,540	-
Other		137	89
Total non-current assets		20,952	19,146
Total assets		47,784	43,395
Liabilities			
Current liabilities			
Trade and other payables		20,735	22,155
Borrowings*	9	38,683	29,766
Provisions	10	21,285	26,063
Lease liabilities	11	746	-
Total current liabilities		81,449	77,984
Non-current liabilities			
Deferred tax		148	232
Provisions	10	1,489	1,557
Lease liabilities	11	1,858	-
Total non-current liabilities		3,495	1,789
Total liabilities		84,944	79,773
Net deficiency		(37,160)	(36,378)
Equity			
Issued capital		18,967	18,967
Reserves		(8,372)	(8,413)
Accumulated losses		(47,755)	(46,932)
Total deficiency		(37,160)	(36,378)

**Refer to note 9 on the classification of borrowings as current liabilities.*

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

Millennium Services Group Limited
Statement of Changes in Equity
For the period ended 31 December 2019

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity/ (deficiency) $'000
Balance at 1 July 2018	18,967	(8,252)	(1,382)	9,333
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 for the period	-	32	(23,242)	(23,210)
Share based payments	-	(182)	-	(182)
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	-	-
Balance at 31 December 2018	18,967	(8,402)	(24,624)	(14,059)

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total deficiency $'000
Balance at 1 July 2019	18,967	(8,413)	(46,932)	(36,378)
Loss after income tax expense for the period	-	-	(823)	(823)
Other comprehensive income for the period, net of tax	-	41	-	41
Total comprehensive income/(loss) for the year	-	41	(823)	(782)
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	-	-
Balance at 31 December 2019	18,967	(8,372)	(47,755)	(37,160)

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

	Note	Consolidated December 2019 $'000	December 2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		146,705	163,702
Payments to suppliers and employees (inclusive of GST)		(150,751)	(165,027)
		(4,046)	(1,325)
Interest received		-	9
Interest and other finance costs paid		(1,695)	(1,133)
Income taxes paid		-	(1,283)
Net cash used in operating activities		(5,741)	(3,732)
Cash flows from investing activities			
Payments for property, plant and equipment		(1,180)	(798)
Proceeds from disposal of property, plant and equipment		26	3
Net cash used in investing activities		(1,154)	(795)
Cash flows from financing activities			
Proceeds from trade finance facility	9	7,201	-
Repayments of equipment finance	9	(914)	(1,508)
Repayment of borrowings	9	(1,750)	(3,769)
Repayments of principal on lease liabilities	11	(385)	-
Net cash from / (used in) financing activities		4,152	(5,277)
Net decrease in cash and cash equivalents		(2,743)	(9,804)
Cash and cash equivalents at the beginning of the financial period		(4,489)	3,948
Effects of exchange rate changes on cash and cash equivalents		2	6
Cash and cash equivalents at the end of the financial period, less overdraft facility utilised		(7,230)	(5,850)

Cash on hand and overdraft utilisation	Note	Consolidated December 2019 $'000	June 2019 $'000	December 2018 $'000
Cash and cash equivalents at the end of the financial period	6	1,852	2,687	2,038
Overdraft facility utilised at the end of the financial period	9	(9,082)	(7,176)	(7,888)
Cash and cash equivalents at the end of the financial period, less overdraft facility utilised		(7,230)	(4,489)	(5,850)

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 2019, 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 2019 annual financial report for the financial year ended 30 June 2019, except for the adoption of the new accounting standard AASB 16 *Leases* from 1 July 2019, see note 11.

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 2019:

AASB 16 *Leases;*
AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015-2017; and*
AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*

Refer to note 11 for the impacts of adopting AASB 16 on the Group.

The adoption of all other amending standards above did not have any impact on the disclosures or amounts recognised in the financial statements for the half year ended 31 December 2019.

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 2019, the Group incurred a net loss after tax of $823,000 (December 2018: loss of $23,242,000) and at that date, the Group's current liabilities exceeded its current assets by $54,617,000. The Group's net deficiency amounted to $37,160,000 as at 31 December 2019 (30 June 2019: net deficiency $36,378,000). The results for the current period were impacted by $264,000 of non-recurring expenses. The net cash used in operating activities was $5,741,000 for the current period compared to $3,732,000 of net cash used in the previous comparative period. There were once off cash outflows of $4,418,000 in the current period that related to wages owing to employees due to historical errors in the application of employee instruments (refer to note 10).

Note 1. Significant accounting policies (continued)

Going concern (continued)

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 October 2020 and the Company is currently in discussions with its existing debt provider and exploring a number of alternative funding strategies;
- $14.1 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 9);
- 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 Board has developed and implemented a Profit Improvement Plan in FY2019; the outcome of which can be noted in the improvements in the current period profitability, gross margins and reduced overhead costs compared to the prior corresponding period;
- The considerable improvement in the Group's current operating results compared to the prior corresponding period, is primarily due to the strategic initiatives formulated and implemented by the new Board and the Senior Management team; and
- The Group suspending or adjusting the amount of dividends paid to shareholders.

The Groups 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 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 2019	Cleaning $'000	Security $'000	Head Office $'000	Total $'000
Revenue				
Sales to external customers	111,364	23,723	-	135,087
Other income	-	-	-	-
Total revenue and other income	111,364	23,723	-	135,087
Gross margin	13,864	3,178	-	17,042
Overheads			(13,781)	(13,781)
EBITDA				3,261
Depreciation				(2,410)
Finance costs				(1,674)
Loss before income tax expense				(823)
Income tax benefit				-
Loss after income tax expense				(823)
Segment assets	39,551	7,289	944	47,784
Segment liabilities	34,275	6,793	43,876	84,944
Net Assets / (Liabilities)	5,276	496	(42,932)	(37,160)

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 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				(2,490)
Amortisation of intangibles				(1,764)
Impairment of goodwill and other intangibles				(14,604)
Interest revenue				9
Finance costs				(1,099)
Loss before income tax expense				(25,847)
Income tax benefit				2,605
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 4. Expenses

	Consolidated December 2019 $'000	Consolidated December 2018 $'000
Profit before income tax includes the following specific expenses:		
Impairment		
Impairment of receivables	149	968
Impairment of goodwill	-	11,014
Impairment of customer contracts	-	3,590
Finance costs		
Interest expense - borrowings	1,567	1,099
Interest expense – lease liabilities	107	-
	1,674	1,099
Depreciation and amortisation		
Amortisation (note 7)	-	1,764
Depreciation – property, plant and equipment	1,961	2,490
Depreciation – right-of-use assets	449	-
Total depreciation	2,410	2,490
Total depreciation and amortisation	2,410	4,254

Note 5. Income tax expense

	Consolidated December 2019 $'000	Consolidated December 2018 $'000
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit / (loss) before income tax expense	(823)	(25,847)
Income tax / (benefit) at the statutory tax rate of 30%	(247)	(7,754)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Other permanent differences	33	187
Deferred tax asset not recognised in relation to unused tax losses and temporary differences	233	1,732
Impairment - Goodwill	-	3,304
Black hole deduction from equity	(19)	(19)
Employee share scheme	-	(55)
Income tax expense / (benefit)	-	(2,605)
The applicable weighted average effective tax rates are as follows:	0.0%	10.0%

Note 6. Current assets - cash and cash equivalents

	Consolidated December 2019 $'000	Consolidated June 2019 $'000
Cash at bank	1,852	2,687

Note 7. Non-current assets – intangibles

	Consolidated December 2019 $'000	Consolidated June 2019 $'000
Goodwill - at cost, less impairments	7,470	7,470
Patents and trademarks - at cost, less impairments	734	734
Less: Accumulated amortisation	(734)	(734)
	-	-
Customer contracts - at cost, less impairments	6,274	6,274
Less: Accumulated amortisation	(6,274)	(6,274)
	-	-
	7,470	7,470

Reconciliations

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

Consolidated	Customer contracts $'000	Goodwill $'000	Patents and trademarks $'000	Total $'000
Balance at 1 July 2019	-	7,470	-	7,470
Amortisation expense	-	-	-	-
Balance at 31 December 2019	-	7,470	-	7,470

Impairment testing of Goodwill

Goodwill is not amortised and is tested at least annually for impairment. 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:

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

	Consolidated	
	December 2019 $'000	June 2019 $'000
Goodwill allocation to CGUs		
Cleaning CGU	7,470	7,470
Security CGU	-	-
	7,470	7,470

Calculation Methodology

The recoverable amount of a CGU is the higher of its fair value less costs of disposal and its value in use. Impairment testing is undertaken at least annually, to assess if the carrying amounts of the CGUs are support by their recoverable amounts.

Cleaning CGU

Impairment testing was undertaken on the Cleaning CGU by comparing its recoverable amount to its carrying amount as at 31 December 2019. Management 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 indicate impairment of goodwill as at 31 December 2019. 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.

Management has based its cash flow projections on the following key assumptions:

• 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 2019: 0.8% to 1.0%) for years 1 to 5;

• Conservative terminal growth rates of 1.0% (30 June 2019: 1.0%); and

• Pre-tax discount rate of 17.0% (30 June 2019: 17.0%) which approximates the CGUs' weighted average cost of capital (pre-tax).

Security CGU

All goodwill and intangibles within the Security CGU were impaired within the financial year ending 30 June 2019.

Note 8. Non-current assets - deferred tax

	Consolidated December 2019 $'000	Consolidated June 2019 $'000
Deferred tax asset comprises:		
Temporary differences	148	232
Unused tax losses	-	-
Deferred tax asset	148	232

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 $12,908,000; comprising $4,181,000 and $8,727,000 in relation to unused tax losses and temporary differences respectively; were not recognised as at 31 December 2019. Total deferred tax assets of $12,675,000 were not recognised as at 30 June 2019.

Note 9. Current liabilities - borrowings

	Consolidated December 2019 $'000	Consolidated June 2019 $'000
ANZ interchangeable loan facility	18,137	18,137
Trade finance facility	7,201	-
Hire purchase	3,114	3,945
Bank overdraft utilised	9,082	7,176
Other borrowings	1,149	508
	38,683	29,766

Borrowings have been classified as current liabilities as at 31 December 2019

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 2019, the Group had total debt obligations of $31,265,000 (30 June 2019: 30,123,000) owing to the ANZ Bank (the 'Lender'). The Group's obligations with respect to financing covenants for the September 2019 quarter were waived by the lender. The Lender streamlined the financing covenants commencing from the December 2019 quarter and the Group met the required covenants for the December 2019 quarter. The Lender has waived the scheduled quarterly principal repayments due in January 2020 and April 2020.

The current debt facilities are due to be refinanced in October 2020 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 2019 reporting date. Hence borrowings have been classified as current liabilities as at 31 December 2019.

If the refinancing was effective on 31 December 2019 and the Group had an unconditional right to defer settlement of its loans for at least 12 months after that date; $14,083,000 of the ANZ inter-changeable and hire purchase borrowings would have been classified as non-current borrowings.

The borrowings above are secured liabilities. The loan facility drawdowns and repayments that occurred during the current period are summarised below.

Consolidated	ANZ inter-changeable loan facility $'000	Trade finance facility $'000	Hire purchase $'000	Bank Overdraft $'000	Other borrowings $'000	Total $'000
Balance at 1 July 2019	18,137	-	3,945	7,176	508	29,766
Drawdown for working capital requirements	-	7,201	-	1,906	2,391	11,498
Equipment financing	-	-	83	-	-	83
Repayments of borrowings	-	-	(914)	-	(1,750)	(2,664)
Balance at 31 December 2019	18,137	7,201	3,114	9,082	1,149	38,683

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 2019 $'000	June 2019 $'000
Total facilities		
Interchangeable loan facility	18,137	19,136
Asset finance facility (hire purchase)	2,788	4,000
Overdraft facility	10,000	10,000
Trade finance facility	12,000	10,000
Standby letter of credit and guarantee facility	1,169	1,200
Electronic payway facility	500	500
Commercial card facility	325	325
	44,919	45,161
Used at the reporting date		
Interchangeable loan facility	18,137	18,137
Asset finance facility (hire purchase)	2,788	3,515
Overdraft facility	9,082	7,176
Trade finance facility	7,201	-
Standby letter of credit and guarantee facility	1,169	1,172
Electronic payway facility	-	-
Commercial card facility	89	123
	38,466	30,123
Unused at the reporting date		
Interchangeable loan facility	-	999
Asset finance facility (hire purchase)	-	485
Overdraft facility	918	2,824
Trade finance facility	4,799	10,000
Standby letter of credit and guarantee facility	-	28
Electronic payway facility	500	500
Commercial card facility	236	202
	6,453	15,038

Note 10. Provisions

	Consolidated	
	December 2019 $'000	June 2019 $'000
Annual leave and long service leave	20,041	18,961
Other provisions	286	294
Employee entitlements provision	185	5,708
Provision for public liability claims	2,262	2,657
	22,774	27,620
Current	21,285	26,063
Non-current	1,489	1,557
	22,774	27,620

Consolidated	Annual leave and long service leave $'000	Public liability claims $'000	Employee entitlement provision $'000	Other $'000	Total $'000
Balance at 1 July 2019	18,961	2,657	5,708	294	27,620
Arising / (reversed) during the period	6,587	257	(1,105)	-	5,739
Utilised / paid during the period	(5,507)	(652)	(4,418)	(8)	(10,585)
Balance at 31 December 2019	20,041	2,262	185	286	22,774
Current	18,785	2,262	185	53	21,285
Non-current	1,256	-	-	233	1,489

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 2018 financial year; of the application of employment instruments indicated possible errors in payments of employee entitlements dating back to November 2015. Professional advisors were engaged to confirm and quantify errors in payments. Management provided for the entitlements and the provision amounted to $5,708,000 as at 30 June 2019. The Group commenced payment of wages and entitlements owing to employees in July 2019; resulting with a provision of $185,000 as at 31 December 2019.

Note 11. Impact of new accounting standard – AASB 16 *Leases*

(a) Adoption of AASB 16 *Leases* from 1 July 2019

The Group has adopted AASB 16 *Leases* with a date of initial application of 1 July 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' (ROU) asset has been 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 ROU asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease has been 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 is 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.

The Group has applied the simplified transition approach when transitioning to the new standard. Under this approach, the Group has not restated comparative reporting periods prior to first adoption. All the ROU assets are measured at the amount of the lease liability on adoption (after adjustments for any prepaid or accrued lease expenses).

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The adoption of AASB 16 affected the following Balance Sheet items on 1 July 2019:

Consolidated	As reported 30 June 2019 $'000	AASB 16 impact $'000	Opening balance 1 July 2019 $'000
Right-of-use assets	-	2,805	2,805
Total assets impact		**2,805**	**2,805**
Lease liabilities - current	-	777	777
Lease liabilities – non-current	-	2,028	2,028
Total liabilities impact		**2,805**	**2,805**
Accumulated losses	(46,932)	-	(46,932)
Total equity impact		-	-

Note 11. Impact of new accounting standard – AASB 16 Leases (continued)

(b) Lease liabilities

On adoption of AASB 16, the Group has recognised lease liabilities for leases previously classified as operating leases. These leases were measured at the present value of remaining lease payments discounted using the Group's incremental borrowing rate of 7.5% as at 1 July 2019.

The Group's commitments previously classified as non-cancellable operating leases predominately relate to office premises across Australia and New Zealand, ranging in lease terms from 1 to 5 years. The Group's leases may have extension options to manage operational flexibility. These options are exercisable only by the Group and not the respective lessor. The lease agreements are negotiated individually and do not impose any covenants on the Group. In assessing the lease term for calculating the present value of the lease payments, options are only included in the lease term if the lease is reasonably certain to be extended.

Lease liabilities recognised in the Balance Sheet on 1 July 2019 reconcile back to operating lease commitments as disclosed at 30 June 2019 as follows:

Consolidated	**$'000**
Operating lease commitments disclosed at 30 June 2019	3,396
Discounted using incremental borrowing rate of 7.5% at date of initial application	(591)
Lease liability at 1 July 2019	**2,805**
Lease liabilities - current	**777**
Lease liabilities – non-current	**2,028**

The movement in lease liabilities from 1 July 2019 to the half year 30 December 2019 is presented below:

Consolidated	**$'000**
Lease liability at 1 July 2019	2,805
Additions, exercise of lease extension option	184
Interest expense	107
Payments on lease liabilities	(492)
Lease liability at 31 December 2019	**2,604**
Lease liabilities - current	**746**
Lease liabilities – non-current	**1,858**

(c) Lease assets

The associated ROU assets have been measured at the initial lease liability amount, as if the standard had been applied from the commencement date of the leases. The recognised ROU assets relate to the following assets:

Consolidated	**Land and Buildings $'000**
Right-of-use assets at 1 July 2019	2,805
Additions, exercise of lease extension option	184
Depreciation	(449)
Right-of-use assets at 31 December 2019	**2,540**

Note 11. Impact of new accounting standard – AASB 16 Leases (continued)

(d) Impact on earnings and statement of cash flows

Following the adoption of AASB 16, EBITDA, finance costs and depreciation have increased by $492,000, $107,000 and $449,000 respectively for the half year to December 2019. The Group's net profit after tax was lower by $64,000 for the same period.

The repayment of the principal portion of the lease liabilities has been classified as cash flows from financing activities, thus increasing operating cash flows and decreasing financing cash flows by $385,000.

The Head Office segment was affected by the change in policy during the half year.

Consolidated	Head Office Segment $'000
Impact on EBITDA	492
Depreciation	(449)
Finance costs	(107)
Loss before income tax expense	(64)
Income tax benefit, (deferred tax asset not recognised, see note 8)	-
Loss after tax	(64)

Note 12. Events after the reporting period

In February 2020, the Group's line of credit with the existing trade finance facility effectively increased by $1.0m to $13.0m.

No other matter or circumstance has arisen since 31 December 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.

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 2019 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

18 February 2020

MOORE STEPHENS

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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 2019, 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 2019 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 2019 the Group incurred a loss after income tax expense of $823,000 and that the Group's current liabilities exceed its current assets by $54.62m. 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.

MOORE STEPHENS

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 2019 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

18 February 2020