

**Millennium Services Group Ltd**  
**Appendix 4E**  
**Preliminary final report**

**1. Company details**

Name of entity:	Millennium Services Group Ltd
ABN:	11 607 926 787
Reporting period:	For the year ended 30 June 2018
Previous period:	For the year ended 30 June 2017

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**2. Results for announcement to the market**

			<b>\$'000</b>
Revenues from ordinary activities	up	24.1% to	282,066
Profit / (loss) from ordinary activities after tax attributable to the owners of Millennium Services Group Ltd	decline	(114.8%) to	(747)
Profit / (loss) for the period attributable to the owners of Millennium Services Group Ltd	decline	(114.8%) to	(747)

*Dividends*

	<b>Amount per security Cents</b>	<b>Franked amount per security Cents</b>
Interim dividend for the 2017 financial year	3.5	3.5
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 final dividend has been declared for the period.

*Comments*

The profit / (loss) for the consolidated entity after providing for income tax amounted to (\$747,000): (30 June 2017 profit restated: \$5,045,000).

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**3. Net tangible assets**

	<b>Reporting period Cents</b>	<b>Previous period Cents (restated)</b>
Net tangible assets per ordinary security	<u>(61.04)</u>	<u>(60.96)</u>

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**4. Control gained over entities**

Not applicable.

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**5. Loss of control over entities**

Not applicable.

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**6. Dividends**

*Current period*

	<b>Amount per security Cents</b>	<b>Franked amount per security Cents</b>
Final dividend for 2018 financial year	-	-
Interim dividend for 2018 financial year	-	-
<i>Previous period</i>		
Final dividend for 2017 financial year	5.4	5.4
Interim dividend for 2017 financial year	3.5	3.5

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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:*

Not applicable.

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**10. Audit qualification or review**

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

The financial statements have been audited and an unqualified opinion has been issued.

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**11. Attachments**

*Details of attachments (if any):*

The Consolidated Financial Statements of Millennium Services Group Ltd for the year ended 30 June 2018 are attached.

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**12. Signed**

A handwritten signature in black ink, appearing to read 'Craig Hanley', enclosed within a thin black rectangular border.

Signed \_\_\_\_\_

Date: 31 August 2018

Craig Hanley  
Director

# **Millennium Services Group Ltd**

**ABN 11 607 926 787**

**Consolidated Financial Statements - 30 June 2018**

**Millennium Services Group Ltd**  
**Corporate directory**  
**30 June 2018**

Directors	Peter Anderson – Independent, Non-Executive Chairman Craig Hanley – Executive Director and Chief Executive Officer Stephen Williams – Independent, Non-Executive Director Greg McCormack – Independent, Non-Executive Director Sally McCutchan – Independent, Non-Executive Director Ross Gavranich - Executive Director & Organisational Excellence Leader – Airlite
Company secretary	Paul Smith
Registered office	Millennium Services Group Limited Level 1, 205-211 Forster Road Mount Waverley, Victoria 3149
Principal place of business	Millennium Services Group Limited Level 1, 205-211 Forster Road Mount Waverley, Victoria 3149
Share register	Computershare Investor Services Pty Limited Level 4 60 Carrington Street Sydney NSW 2000 Australia
Auditor	Moore Stephens Audit (Vic) Level 18, 530 Collins Street Melbourne, VIC, 3000
Stock exchange listing	Millennium Service Group Ltd shares are listed on the Australian Securities Exchange (ASX code: MIL)
Website	<a href="http://www.millenniumsg.com">http://www.millenniumsg.com</a>
Corporate Governance Statement	Refer to <a href="http://millenniumsg.com/investor/governance/">http://millenniumsg.com/investor/governance/</a>

**Millennium Services Group Ltd**  
**Directors' report**  
**30 June 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 year ended 30 June 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:

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

**Principal activities**

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

**Dividends**

Dividends paid during the financial period were as follows:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Final dividend of \$0.054 per share (fully franked) was paid in respect of the reporting period ended 30 June 2017.	2,480	-
Interim dividend of \$0.035 per share (fully franked) was paid in respect of the reporting year ended 30 June 2017.	-	1,607
Final dividend of \$0.044 per share (fully franked) was paid in respect of the reporting period ended 30 June 2016.	-	2,021
	<u>2,480</u>	<u>3,628</u>

The Board has determined not to pay a final dividend for the financial year so as to support the increasing growth of the Group's business.

**Review of operations**

Revenue increased 24.1% to \$282,066,000 compared to the previous corresponding period. The statutory revenue for the period included the full twelve months of revenue from the Airlite business acquired in November 2016 compared to only eight months of Airlite revenue in the prior period.

Earnings before interest, tax, depreciation and amortisation (EBITDA) of \$8,794,000 were 37.6% lower than the prior period. EBITDA in the current period was impacted by a 30.4% increase in overhead expenditure of \$7,858,000 and \$3,330,000 of non-recurring increases in provisions.

**Millennium Services Group Ltd**  
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The \$7,858,000 increase in overheads included:

- \$2,068,000 associated with a full 12 months of overheads from Airlite;
- \$3,495,000 related to investments in key personnel for new contract revenue and information technologies to further improve forecasting and operational management capability;
- \$772,000 of increase in the provision for estimated employee entitlements owing due to an internal review of the application of employment instruments; and
- \$1,523,000 of non-recurring expenses in relation to the NSW payroll taxes for the 2011 to 2015 financial years (note 30) and associated legal costs. Correspondingly, \$1,523,000 of other income has been recognised in the current financial year as indemnities and reimbursements from prior vendor shareholders.

Depreciation and amortisation expense of \$7,703,000 increased \$2,066,000 or 36.7% compared with the prior period partly due to amortisation and depreciation related to the intangibles and plant and equipment recognised on the acquisition of the Airlite Group in November 2016. Investment in capitalised equipment of robotics, and plant and equipment to service the growth in the cleaning segment also contributed to the increase.

Finance costs of \$2,105,000 were \$510,000 higher than the prior period due to the full twelve months of interest expense incurred in the current period in relation to the financing of the Airlite Group acquisition in November 2016.

The loss before income tax expense of (\$989,000) was \$7,863,000 lower compared to the prior period mostly due to the higher overheads, amortisation, and depreciation and finance costs noted above. This was partly offset by higher gross margin. The loss before income tax expense was also impacted by non-recurring increases in provisions of \$3,330,000.

Income tax benefit of \$242,000 (effective income tax rate of 24.5%) was lower compared to \$1,829,000 (effective income tax rate of 26.6%) in the prior financial year, in line with the lower profit before income tax expense. The effective income tax rate in the prior year was impacted by deferred tax benefits and tax exemptions relating to certain once-off transactions associated with the ACS business and Airlite Group acquisitions.

The loss after income tax benefit for the consolidated entity amounted to (\$747,000); (30 June 2017: restated profit \$5,045,000).

### **Significant changes in the state of affairs**

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

### **Matters subsequent to the end of the financial period**

An in-principle settlement was agreed between Millennium Hi-Tech Group Pty Ltd, a wholly-owned subsidiary, and the NSW Office of State Revenue (OSR) in July 2018. Under the settlement, Millennium Hi-Tech Group Pty Ltd is liable to pay \$1.028 million in payroll taxes for the tax years ended 30 June 2011 to 30 June 2015 (inclusive). The Group has recognised a liability of \$1.028 million as at 30 June 2018. Millennium Services Group Ltd is entitled to an indemnity from certain vendor shareholders and accordingly a receivable of \$1.028 million from vendor shareholders has been recognised as at 30 June 2018 (refer to note 30).

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 conducted a due diligence review over the reporting period which was completed on 26 July 2018. The terms of the loans payable were renegotiated in August 2018 with minimal variation in the loan terms. The Group's unrestricted access to total financial facilities is disclosed at note 18.

No other matter or circumstance has arisen since 30 June 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' report**  
**30 June 2018**

**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.

**Environmental regulation**

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

**Information on directors**

Name: Peter Anderson  
Title: Chairman, Independent Non-Executive Director  
Qualifications: Peter holds a Post Graduate Diploma of Finance and a Bachelor of Commerce from the University of Melbourne.  
Experience and expertise: Peter currently serves as Executive Chairman of advisory firm McGrathNicol and brings to Millennium over 25 years of experience as a chartered accountant specialising in corporate restructuring. Publicly listed projects Peter has worked on include Slater & Gordon, Billabong, McAleese, Babcock & Brown and Centro Properties Group. Peter is an Official Liquidator and a member of the Institute of Chartered Accountants in Australia, the Australian Restructuring, Insolvency and Turnaround Association and the Australian Institute of Company Directors.

Other current directorships: Nil  
Former directorships (last 3 years): Nil  
Interests in shares: 2,290,000 fully paid ordinary shares  
Interests in options: 1,200,000 options

Name: Craig Hanley  
Title: Chief Executive Officer  
Qualifications: Craig holds a Graduate Diploma in Applied Science (Innovation & Service Management) R.M.I.T along with a Diploma of Management.  
Experience and expertise: Mr. Hanley was appointed to the position of Chief Executive Officer in June 2017 having joined Millennium Services Group Ltd in February 2017 as Chief Operating Officer following a fifteen-year career within the Australian and New Zealand Integrated Services Industry. Craig has achieved an enviable reputation over that period leading triple digit strategic profitable growth during tenure as Chief Executive Office from 2011 and Managing Director in 2016 at SECUREcorp. Since joining Millennium, Craig has focused on strategy review and subsequent structural and systems positioning to lead Millennium into the future. Craig was previously principle of consulting firm, TKBMS Pty Ltd., which he established following a twenty-year career with Philip Morris Ltd, where he held management roles in Finance, Marketing and Manufacturing.

Other current directorships: Nil  
Former directorships (last 3 years): Nil  
Interests in shares: Nil  
Interests in performance rights: 185,024



**Millennium Services Group Ltd  
Directors' report  
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Name: Greg McCormack  
Title: Independent Non-Executive Director  
Qualifications: Greg holds a Bachelor of Business from Swinburne University.  
Experience and expertise: Greg brings to Millennium extensive expertise in finance and accounting. During his 37-year career, Greg previously held senior executive management positions in primary industry in Australia. Greg currently serves as the Non-Executive Chairman of Midway Ltd, Chairman of Directors for the Midway Group of Companies, Chairman of Queensland Commodity Exports. Greg is currently President of the Australian Forest Products Association.

Other current directorships: Nil  
Former directorships (last 3 years): Nil  
Interests in shares: 640,000 fully paid ordinary shares  
Interests in options: 600,000 options

Name: Stephen Williams  
Title: Independent Non-Executive Director  
Qualifications: Stephen holds a Bachelor of Laws from Sydney University.  
Experience and expertise: Stephen joined Millennium as a Non-Executive Director with over 35 years legal practice experience in corporate, commercial and property law and as a retired partner of Kemp Strang Lawyers. Stephen served as a Non-Executive Director and Chairman of Coffey International Limited and Non-Executive Director of PrimeAg Australia Limited.

Other current directorships: Nil  
Former directorships (last 3 years): Axiom Mining Limited (AVQ), Australian Career Network Limited (Administrators appointed) (ACO)  
Interests in shares: 22,222 fully paid ordinary shares  
Interests in options: 600,000 options

Name: Stephen Lidbury  
Title: Executive Director & Organisational Excellence Leader – Security (resigned as Executive Director effective 25 October 2017; Stephen retains his role as Organisational Excellence Leader – Security until the conclusion of his contract in November 2018).

Qualifications: Stephen holds Millennium's Security Master Licence in all locations of the Company's operations.

Experience and expertise: Stephen established Millennium in 2003 providing security guard and patrol services to the commercial and government sectors, subsequently expanding the scope of the business to include security and concierge services to retail shopping centres. Stephen has over 25 years' experience in the security industry and as a former Wallaby, has established key contacts across the finance and property industries in Australia and New Zealand. Stephen is a former board member of the Pacific Restaurant Group, former Forwards Coach to the NSW Waratahs and remains heavily involved in junior rugby in NSW.

Other current directorships: Nil  
Former directorships (last 3 years): Nil  
Interests in shares: 7,137,741 fully paid ordinary shares

Name: Ross Gavranich  
Title: Executive Director & Organisational Excellence Leader – Airlite  
Experience and expertise: Ross is a veteran of the facility services industry with over 30 years of experience in the industry. Ross has been Executive Chairman of the Airlite Group since 2012 and has been instrumental in the strategic direction of the business. Prior to that time, he has held various senior management roles at Airlite in operations and marketing. Ross has a strong reputation for his commitment to excellence.

Other current directorships: Nil  
Former directorships (last 3 years): Nil  
Interests in shares: Nil  
Interests in options: Nil

**Millennium Services Group Ltd  
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Name: Sally McCutchan  
 Title: Independent Non-Executive Director (appointed 25 October 2017)  
 Qualifications: Sally is a Certified Practising Accountant and a Graduate of the Australian Institute of Company Directors. She holds a Graduate Diploma in Accounting and Finance and a Bachelor of Economics from Monash University.  
 Experience and expertise: Sally is the CEO and an Executive Director of Impact Investing Australia. She has extensive experience in finance, funds management and strategy, and has spent many years working in and understanding Asia Pacific markets.

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

Other current directorships: Nil  
 Former directorships (last 3 years): Nil  
 Interests in shares: 104,400  
 Interests in options: Nil

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

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

**Company secretary**

Paul Smith

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

Damien Gray (resigned from position as Chief Financial Officer and Company Secretary effective 2 May 2018)

Damien brought to Millennium more than 20 years' experience as a finance executive gained domestically and internationally. Damien has extensive corporate experience including strategic planning, M&A, business integration and commercial negotiation. Prior to joining Millennium Damien was General Manager of Financial Performance at Orica Limited, based in Melbourne. Damien holds a Bachelor of Commerce from the University of Tasmania and is a qualified Chartered Accountant. Damien is a Member of the Institute of Chartered Accountants in Australia (ICAA) and is a graduate of the Australian Institute of Company Directors (AICD).

**Meetings of directors**

The number of meetings (including meetings of committees of directors) of the company's Board of Directors ('the Board') held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Attended	Held*	Attended	Held*	Attended	Held*
Peter Anderson	14	14	3	3	2	2
Craig Hanley	14	14	3	3	2	2
Stephen Williams	14	14	3	3	2	2
Greg McCormack	14	14	3	3	2	2
Sally McCutchan	10	10	2	2	1	1
Stephen Lidbury	4	4	0	0	0	0
Ross Gavanich	14	14	0	0	0	0

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

**Remuneration report (audited)**

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

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

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

For the purposes of this report the term 'Senior Executive' encompasses the Chief Executive Officer, Organisational Excellence Leader – Integrated Services, the Executive Director & Organisational Excellence Leader - Security, and the Chief Financial Officer and Company Secretary.

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

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

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

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

The Board has appointed a Remuneration and Nomination Committee consisting of three independent non-executive directors (NEDs). The responsibilities of the Remuneration and Nomination Committee include:

- assisting the Board as required in relation to the performance evaluation of the Board, its committees and individual directors, and in developing and implementing plans for identifying, assessing and enhancing director competencies;
- reviewing and recommending remuneration arrangements for the Chairman, CEO and other members of senior executive and directors;
- reviewing and making recommendations in relation to the Group's remuneration practices; and
- evaluating the performance of senior executives of the Group.

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

*Use of remuneration consultants*

The Company engaged a remuneration consultant during the 2018 financial year for general advice for total compensation of \$57,000 (2017: nil).

**Short Term Incentive Scheme**

The Remuneration and Nomination Committee developed a Short Term Incentive Scheme ("Scheme") for eligible employees for the 2018 financial year.

The Scheme, subject to the achievement of Board approved performance metrics (including financial performance delivery against a Board approved Budget), is designed to deliver cash incentives ranging from 5% to 50% (inclusive of superannuation) of relevant employees' base salary. Approximately 60 employees were eligible to participate in the Scheme. As the organisation's performance metrics were not achieved in the financial year, no incentives were accrued under the scheme.

### ***Long Term Incentive Scheme***

The Board has previously adopted an "Omnibus Equity Plan" ("Plan") through which it will determine appropriate long-term incentive mechanisms for employees, including directors and senior management of the Group. The Board has developed the Plan into a formal Long Term Incentive Plan.

The Board considers that the Long Term Incentive Plan ("LTIP") is an integral part of the Group's overall approach to performance and reward.

The purpose of the LTIP is twofold (i.e. 2 phases). In the initial phase (i.e. Phase 1), the objective is to facilitate senior management executives building a meaningful shareholding position in the Group (subject to appropriate performance hurdles being met) so that they are aligned with the interests of shareholders generally. The longer-term objective (i.e. Phase 2) is to provide incentive for the sustainable and maintained long term financial performance and growth to enhance shareholder value in the Group.

Phase 1 of the LTIP is expected to run for approximately 3 - 5 years. LTIP allocations would be granted in overlapping annual cycles over Phase 1 allowing for the LTIP holding to be built up over time, retaining the retention value of the allocations which would vest progressively subject to the vesting hurdles being met.

Phase 2 will commence once the Board is of the view that a majority of eligible senior executives are holding shares of the Group equivalent to their respective base salaries. LTIP awards under Phase 2 would be granted annually in the form of Rights, with each yearly award grant ('LTI Award Grant') covering a three (3) year performance cycle. Each Right, subject to meeting the relevant performance hurdle to Vest, would on exercise convert to a number of shares in the Group once LTIP awards Vest at the end of each 3-year cycle (the number of shares vesting being subject to meeting relevant performance hurdles).

The following is a summary of the key terms of the LTIP:

- a) Awards will be granted under, and subject to, the rules of the LTIP, the Constitution and applicable Listing Rules.
- b) For the duration of Phase 1, each Award Target entitles eligible participants to shares, as determined in the Invitation, subject to the satisfaction of the Performance Hurdles and Vesting conditions determined by the Board in its discretion. Shares allocated on the Vesting of Award Targets will rank equally with all other Shares of the same class for the time being on issue.
- c) For the duration of Phase 2, each Right entitles eligible participants to shares, as determined in the Invitation, subject to the satisfaction of the Performance Hurdles and vesting conditions determined by the Board in its discretion. Shares allocated on the Vesting of Rights will rank equally with all other Shares of the same class for the time being on issue.
- d) Shares allocated on vesting of an Award Target or Right will be subject to restriction on sale or disposal during any relevant Restriction Period, determined by the Board.
- e) Subject to further Shareholder approval, the total number of Awards or Rights to be granted to all Participants in any year will not exceed 5% of the total issued Shares of the Company at the date of Invitation (including the potential results of offers under the LTIP made over any previous three years).
- f) The size of each individual Award Target or Right grant will be determined by the Board and will comply with the relevant ASX Listing Rules.
- g) On Vesting of the Award Target or Right, new Shares may be issued or existing Shares transferred by a third party to the Participant, or both. The Shares will be allocated and may be subject to a holding lock during any applicable Restriction Period.
- h) A Participant may only exercise an Award Target or Right on or after a date determined by the Board on completion of the applicable Performance Hurdle being satisfied, or any earlier date on which the Participant becomes entitled to exercise the Award Target or Right following death or other cessation of employment, or as a result of a takeover or scheme of arrangement.
- i) If a Participant ceases employment as a result of retirement, redundancy, total or permanent disablement, death or any other circumstances as determined by the Board, then the Awards will not automatically lapse and the Board will have discretion as to the date upon which Awards may be exercised.
- j) If, in the opinion of the Board, the employment of an Eligible Participant ceases because of termination for cause, any Awards granted to the Eligible Participant whether vested or not and remaining unexercised shall lapse as at the date of termination for cause.
- k) Participants will not be able to sell any vested shares until they hold Shares with a minimum value of 1 times their base salary within 5 years of the LTIP commencement date, and also agree to maintain a minimum holding of Shares equivalent at 1 times their base salary in each 5 year period, based on the value of the Shares at their respective grant dates. Participants will be restricted from selling Shares until they achieve this agreed level of shareholding and each tranche of Shares must be held by Participants for a minimum period of 2 years from the date of Vesting.

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The following definitions apply in relation to the Plan:

<b>Award</b>	means an Award Target, a Right, or a Share, as applicable.
<b>Award Target</b>	means a right, subject to certain conditions, to be allocated one ordinary Share in the Company.
<b>Eligible Participant</b>	means an Employee of the Millennium Group who is declared by the Board to receive an invitation under the LTIP.
<b>Employee</b>	means any employee (including any director holding salaried office or employment) of a Group Company, or any other person so designated by the Board for the purposes of the LTIP.
<b>Invitations</b>	means the invitations provided to Eligible Participants to participate in the Plan subject to various conditions.
<b>Participant</b>	means an Employee to whom a Grant Letter has been sent and whose acceptance of the Award granted to him or her has been received by the Board.
<b>Performance Hurdles</b>	means the performance based criteria, which may include service conditions, set out in the Invitation where an Award becomes eligible to vest if those performance conditions are satisfied.
<b>Share</b>	means a Share subject to Performance Hurdles
<b>Restriction Period</b>	means the period set out in the Invitation during which Shares allocated on vesting of Awards cannot be sold or transferred.
<b>Right</b>	means a right, subject to certain conditions, to be allocated one ordinary Share in the Company.
<b>Vest or Vesting</b>	means a Participant becoming entitled to have the Shares underlying his or her Rights allocated to him or her subject to the Rules of the LTIP (and Vested or Vesting shall be construed accordingly).

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

*Use of remuneration consultants*

The Company engaged a remuneration consultant during the 2018 financial year for general advice for total compensation of \$57,000 (2017: nil).

***Voting and comments made at the company's 27 November 2017 Annual General Meeting ('AGM')***

At the 27 November 2017 AGM, 99.51% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2017. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

**B Details of remuneration**

*Amounts of remuneration*

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

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

(1) Fees were paid to Strategic Vision Australia Pty Ltd, a company associated with Mr. Anderson.

(2) Fees were paid to G & S Strategic Consulting Pty Ltd, a company associated with Ms. McCutchan.

(3) Mr. Lidbury resigned as Executive Director effective 25 October 2017; Mr. Lidbury retains his role as Organisational Excellence Leader – Security.

(4) Mr. Gray resigned as Chief Financial Officer and Company Secretary effective 2 May 2018.

(5) Mr. Smith assumed the role of Chief Financial Officer and Company Secretary in an interim capacity effective 5 February 2018; and was previously General Manager Strategic Development since April 2017. Fees were paid to Backbone Management Services Pty Ltd, a company associated with Mr. Smith.

	Short-term benefits		Post-employment benefits	Long-term employment benefits	Share-based payments	Total
	Cash salary and fees	Other	Super-annuation	LSL	Equity-settled	
<b>2017</b>	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>						
Peter Anderson (1)	120,000	-	-	-	52,156	172,156
Gregory McCormack	73,059	-	6,941	-	26,078	106,078
Stephen Williams	73,059	-	6,941	-	26,078	106,078
<i>Executive Directors:</i>						
Mark Baldwin (3)	306,875	12,000	29,153	5,887	-	353,915
Stephen Lidbury	197,999	48,000	23,370	6,600	-	275,969
Craig Hanley (2)	133,333	12,500	10,446	2,431	-	158,710
Ross Gavranich (4)	148,077	13,461	14,067	2,049	-	177,654
<i>Other Key Management Personnel:</i>						
Royce Galea	197,999	48,000	23,370	6,600	-	275,969
Damien Gray	319,634	-	30,208	5,329	-	355,171
	<u>1,570,035</u>	<u>133,961</u>	<u>144,496</u>	<u>28,896</u>	<u>104,312</u>	<u>1,981,700</u>

- (1) Fees were paid to Strategic Vision Australia Pty Ltd, a company associated with Mr. Anderson.
- (2) Mr. Hanley was appointed as COO on 1 February 2017 and appointed as CEO and a Director on 26 June 2017.
- (3) Mr. Baldwin resigned as a Director effective 26 June 2017.
- (4) Mr. Gavranich was appointed as a Director on 25 October 2016.

## **C Executive Employment Agreements**

The Executive Directors and the senior management of the Group noted above have entered into independent executive employment agreements with the Company.

There are variations between each of the respective executive employment agreements in relation to, for example, remuneration and leave entitlements. However, the following terms below are uniform between each of the executive agreements:

- 1) The executive employee must perform their duties to the best of their ability and knowledge; during ordinary business hours and at other times reasonably necessary to fulfil their duties.
- 2) The executive employee is eligible to participate in a 'Short Term Incentive Plan' and the 'Long Term Incentive Plan', on terms to be determined by the Company from time to time.
- 3) The Company may terminate the employment of the executive employee by providing, in general, 3 months written notice, except in the case of Craig Hanley (Executive Director and Chief Executive Officer), Stephen Lidbury (Executive Director & Organisational Excellence Leader - Security) and Royce Galea (Organisational Excellence Leader – Integrated Services), which each require a notice period of 1 year.
- 4) The executive employee is subject to a 12 month restraint period in acting for a competitor, on standard terms, from the point in time their employment with the Company ceases.

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

**Millennium Services Group Ltd**  
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**30 June 2018**

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

Name: Craig Hanley  
Title: Chief Executive Officer (formerly Chief Operating Officer)  
Agreement commenced: 26 June 2017 (as Chief Executive Officer), 1 February 2017 (as Chief Operating Officer)  
Details: Mr C Hanley is the Company's Chief Executive Officer (formerly Chief Operating Officer) under a contract of employment which commenced on 1 February 2017. Under the contract Mr Hanley is entitled to \$350,000 per annum plus statutory superannuation and a \$30,000 car allowance, along with related minor benefits. No payments or retirement benefits are payable on termination.

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

Name: Mark Baldwin  
Title: Managing Director (resigned 26 June 2017)  
Agreement commenced: 28 August 2016  
Details: Mr M Baldwin is the Company's Executive Managing Director under a contract of employment which commenced on 28 August 2015. Under the contract Mr Baldwin is entitled to \$300,000 per annum plus statutory superannuation and a \$12,000 car allowance, along with related minor benefits. Mr Baldwin resigned effective 26 June 2017. No payments or retirement benefits are payable on termination.

Name: Stephen Lidbury  
Title: Executive Director & Organisational Excellence Leader - Security  
Agreement commenced: 19 November 2015  
Details: Mr S Lidbury is the Company's Executive Director & Organisational Excellence Leader - Security under a contract of employment which commenced on 19 November 2015. Under the contract Mr Lidbury is entitled to \$250,000 per annum plus statutory superannuation and a \$48,000 car allowance, along with related minor benefits (full time equivalent basis). The contract has a fixed term of 3 years from the commencement date and may be terminated by the Company or Mr Lidbury with one year's notice. No payments or retirement benefits are payable on termination.

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



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

Name: Paul Smith  
Title: Chief Financial Officer and Company Director (appointed 5 February 2018)  
Agreement commenced: 1 April 2017  
Details: Mr P Smith is the Company's interim Chief Financial Officer and Company Secretary under a contractor agreement which commenced April 2017. Under the contract Mr Smith is entitled to \$30,000 per month. No payments or retirement benefits are payable at the conclusion of the contractor agreement.

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

**D Share-based compensation**

*Issue of shares*

There were no ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2018.

*Options*

During the financial year, there were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2018.

**Additional information**

The earnings of the consolidated entity for the year to 30 June 2018 and the prior period to 30 June 2017 are summarised below:

	2018 \$'000	2017 (restated*) \$'000
Sales revenue	282,066	227,312
EBITDA	8,794	14,085
EBIT	1,091	8,448
Profit/(loss) after income tax	(747)	5,045

\*The Group has restated certain comparative information in relation to prior period financial statements; refer to note 3.

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

	2018	2017
Share price at financial year end (\$)	0.93	1.65
Basic earnings/(loss) per share (cents per share)	(1.63)	10.98
Diluted earnings/(loss) per share (cents per share)	(1.63)	10.98

**E Additional disclosures relating to key management personnel**

*Shareholding*

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

	Balance at the start of the period	Received as part of remuneration	Acquired	Disposals/ other	Balance at the end of the period
<i>Ordinary shares</i>					
Peter Anderson	2,290,000	-	-	-	2,290,000
Stephen Williams	22,222	-	-	-	22,222
Greg McCormack	480,000	-	160,000	-	640,000
Sally McCutchan	-	-	104,400	-	104,400
Stephen Lidbury *	7,027,741	-	110,000	-	7,137,741
Royce Galea	6,892,837	-	-	-	6,892,837
	<u>16,712,800</u>	<u>-</u>	<u>374,400</u>	<u>-</u>	<u>17,087,200</u>

\* Resigned as Director during the financial year; however, a continuing member of the key management personnel team.

*Option holding*

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

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

***This concludes the remuneration report, which has been audited.***

**Shares under option**

Unissued ordinary shares of Millennium Services Group Ltd under option at the date of this report are as follows:

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

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

**Shares issued on the exercise of options**

There were no ordinary shares of Millennium Services Group Ltd issued on the exercise of options during the year ended 30 June 2018 and up to the date of this report.

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

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

**Shares issued on the exercise of options**

There were no ordinary shares of Millennium Services Group Ltd issued on the exercise of options during the year ended 30 June 2018 and up to the date of this report.

**Indemnity and insurance of officers**

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

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

**Indemnity and insurance of auditor**

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

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

**Proceedings on behalf of the company**

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

**Non-audit services**

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

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

**Officers of the company who are former partners of Moore Stephens Audit (Vic)**

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

**Rounding of amounts**

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

**Millennium Services Group Ltd**  
**Directors' report**  
**30 June 2018**

**Auditor's independence declaration**

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

**Auditor**

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

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

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Craig Hanley', is written over a light grey rectangular background.

---

Craig Hanley  
Director

31 August 2018

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 & CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2018, there have been no contraventions of:

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



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



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

Melbourne, Victoria

31 August 2018

## **Millennium Services Group Ltd**

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### **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 31 August 2018. The directors have the power to amend and reissue the financial statements.

**Millennium Services Group Ltd**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2018**

	Note	Consolidated 2018 \$'000	2017 \$'000 Restated*
<b>Revenue</b>	5	282,066	227,312
Other income	6	1,552	1,166
<b>Expenses</b>			
Raw materials and consumables used		(42,477)	(37,119)
Employee benefits expense		(219,416)	(165,468)
Depreciation and amortisation expense	7	(7,703)	(5,637)
Transaction expenses		(19)	(1,010)
Other expenses		(12,887)	(10,775)
Finance costs		(2,105)	(1,595)
<b>Profit / (loss) before income tax expense</b>		(989)	6,874
Income tax benefit / (expense)	8	242	(1,829)
<b>Profit / (loss) after income tax expense for the year attributable to the owners of Millennium Services Group Ltd</b>		(747)	5,045
<b>Other comprehensive income/(loss)</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(26)	(2)
Other comprehensive income/(loss) for the year, net of tax		(26)	(2)
<b>Total comprehensive income/(loss) for the year attributable to the owners of Millennium Services Group Ltd</b>		(773)	5,043
		<b>Cents</b>	<b>Cents</b>
Basic earnings / (loss) per share	38	(1.63)	10.98
Diluted earnings / (loss) per share	38	(1.63)	10.98

\*The Group has restated certain comparative information in relation to the prior period financial statements; refer to note 3.

*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 30 June 2018**

	Note	Consolidated 30 June 2018 \$'000	30 June 2017 \$'000 Restated*	1 July 2016 \$'000 Restated
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	9	3,948	8,064	6,723
Trade and other receivables	10	23,213	17,057	8,178
Inventories	11	1,562	824	770
Other	12	2,480	1,623	885
Total current assets		<u>31,203</u>	<u>27,568</u>	<u>16,556</u>
<b>Non-current assets</b>				
Property, plant and equipment	13	14,998	11,331	8,273
Intangibles	14	37,367	40,479	15,578
Deferred tax	15	9,568	7,085	4,314
Other	16	280	126	59
Total non-current assets		<u>62,213</u>	<u>59,021</u>	<u>28,224</u>
<b>Total assets</b>		<u>93,416</u>	<u>86,589</u>	<u>44,780</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	17	24,383	15,884	10,384
Borrowings	18	28,243	7,016	1,807
Income tax	19	762	3,014	1,100
Provisions	20	22,760	15,880	14,035
Total current liabilities		<u>76,148</u>	<u>41,794</u>	<u>27,326</u>
<b>Non-current liabilities</b>				
Borrowings	21	-	21,872	3,001
Deferred tax	22	6,099	7,251	2,182
Provisions	20	1,836	3,190	1,315
Total non-current liabilities		<u>7,935</u>	<u>32,313</u>	<u>6,498</u>
<b>Total liabilities</b>		<u>84,083</u>	<u>74,107</u>	<u>33,824</u>
<b>Net assets</b>		<u>9,333</u>	<u>12,482</u>	<u>10,956</u>
<b>Equity</b>				
Issued capital	23	18,967	18,967	18,967
Reserves	24	(8,252)	(8,330)	(8,439)
Retained profits / (accumulated losses)		<u>(1,382)</u>	<u>1,845</u>	<u>428</u>
<b>Total equity</b>		<u>9,333</u>	<u>12,482</u>	<u>10,956</u>

\*The Group has restated certain comparative information in relation to prior period financial statements; refer to note 3. Refer to note 18 on the classification of borrowings as current liabilities as at 30 June 2018.

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





**Millennium Services Group Ltd**  
**Statement of cash flows**  
**For the year ended 30 June 2018**

	Note	Consolidated 2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		305,179	248,657
Payments to suppliers and employees (inclusive of GST)		<u>(289,322)</u>	<u>(233,603)</u>
		15,857	15,054
Interest received		25	21
Interest and other finance costs paid		(1,887)	(1,461)
Income taxes paid		<u>(5,645)</u>	<u>(2,741)</u>
Net cash from operating activities	37	<u>8,350</u>	<u>10,873</u>
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired	20	(1,450)	(22,582)
Payments for property, plant and equipment	13	(3,806)	(1,574)
Proceeds from disposal of property, plant and equipment		<u>4</u>	<u>8</u>
Net cash used in investing activities		<u>(5,252)</u>	<u>(24,148)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		3,873	25,086
Repayments of equipment finance		(2,541)	(1,704)
Dividends paid	25	(2,480)	(3,628)
Repayment of borrowings		(6,064)	(5,490)
Proceeds from related parties		<u>-</u>	<u>349</u>
Net cash from / (used in) financing activities		<u>(7,212)</u>	<u>14,613</u>
Net increase / (decrease) in cash and cash equivalents		(4,114)	1,338
Cash and cash equivalents at the beginning of the financial period		8,064	6,723
Effects of exchange rate changes on cash and cash equivalents		<u>(2)</u>	<u>3</u>
Cash and cash equivalents at the end of the financial period	9	<u><u>3,948</u></u>	<u><u>8,064</u></u>

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

## **Note 1. Significant accounting policies**

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

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

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

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

### **Reporting period**

The reporting period is for the year ended 30 June 2018, and the comparative information covers the year ended 30 June 2017.

### **Basis of preparation**

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

#### *Historical cost convention*

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

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

### **Going concern**

The consolidated financial statements have been prepared on a going concern basis, which assumes the continuity of normal business activities and the settlement of liabilities in the normal course of business. During the year ended 30 June 2018, the Group incurred a net loss after tax of \$747,000 (2017: profit of \$5,045,000) and at that date, the Group's current liabilities exceeded its current assets by \$44,945,000. The results for the year were impacted by non-recurring increases in provisions of \$3,330,000.

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

- Fact that \$18.1 million of the Group's borrowings were reclassified from non-current liabilities to current liabilities (refer to Note 18);
- The group successfully renegotiated the terms of its borrowings payable in August 2018 (refer to Note 36);
- Certain employee benefit provisions classed as current liabilities are not expected to be settled within the next 12 months;
- The Group has positive net cash inflows from operating activities;
- The Group's cash flow forecasts and budgets for the next 12 months show positive operating cash flows and an improvement in profitability; 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.

### **Parent entity information**

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

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

**Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Millennium Services Group Ltd ('company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Millennium Services Group Ltd and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

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

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

**Operating segments**

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

**Foreign currency translation**

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

*Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

*Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

*Sale of goods*

Revenue is recognised on transfer of goods to the customer as this is deemed to be the point in time when risks and rewards are transferred and there is no longer any ownership or effective control over the goods.

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

*Rendering of services*

Revenue is recognised dependent on whether the outcome of services rendered can be measured reliably. If the outcome of services rendered can be measured reliably then the stage of completion of the services rendered is used to determine the appropriate level of revenue to be recognised in the period. If the outcome of services rendered cannot be measured reliably then revenue is recognised to the extent of expenses recognised that are recoverable.

*Interest*

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

*Other revenue*

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

**Income tax**

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

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

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

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

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

**Tax consolidation**

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

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

**Current and non-current classification**

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

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

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

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

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

**Cash and cash equivalents**

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

**Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables.

Other receivables are recognised at amortised cost, less any provision for impairment.

**Inventories**

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

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

**Investments and other financial assets**

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

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

*Loans and receivables*

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

*Impairment of financial assets*

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

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

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

**Property, plant and equipment**

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

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

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

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

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

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

**Leases**

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

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

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

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

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

**Intangible assets**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

*Goodwill*

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

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

*Patents and trademarks*

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

*Customer contracts*

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

**Impairment of non-financial assets**

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

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

**Trade and other payables**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**Borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

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

**Employee benefits**

*Short-term employee benefits*

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

*Other long-term employee benefits*

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

*Share-based payments*

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

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



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

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

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

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

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

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

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

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

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

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

**Issued capital**

Ordinary shares are classified as equity.

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

**Dividends**

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

**Business combinations**

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

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

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

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

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

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

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

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

**Earnings per share**

*Basic earnings per share*

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

*Diluted earnings per share*

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

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

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

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

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

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

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

**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.

**New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

*AASB 9 Financial Instruments*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is not expected to be material.

*AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the 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. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be 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 entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is not expected to be material as the consolidated entity currently recognises revenue from the provision of services over the period the contractually agreed tasks are completed. The current 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.

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

*AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 and the impact of its adoption is currently being assessed by management.

**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 (refer to the respective notes) within the next financial year are discussed below.

*Share-based payment transactions*

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

*Provision for impairment of receivables*

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

*Estimation of useful lives of assets*

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

*Goodwill and other indefinite life intangible assets*

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

**Note 2. Critical accounting judgements, estimates and assumptions (continued)**

*Income tax*

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

*Recovery of deferred tax assets*

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

*Employee benefits provision*

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

*Employee entitlements provision*

An internal payroll review 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. It is estimated that employee entitlements were understated by \$250,000 in the 2016 financial year and understated by \$1,537,000 in the 2017 financial year (see note 3).

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

*Business combinations*

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

*Accounting for restructuring*

On 17 November 2015, the Group restructured under the newly created entity Millennium Services Group Ltd ("MSG") and listed on the stock exchange on 19 November 2015. The parties who controlled the acquired entities pre-restructure, also now control MSG post restructure and listing. As a result, this transaction is scoped out of AASB 3: Business Combinations as a combination of entities or businesses under common control. Therefore, no goodwill has been recognised on MSG's acquisition of the Millennium entities.

While this situation is not covered specifically by Australian Accounting Standards, the directors have chosen to apply the pooling of interests method (rather than the acquisition method) as this provides the most relevant and reliable information to users of the financial statements. As such, these financial statements recognise the assets and liabilities of all the Group entities immediately after the restructure on 17 November 2015 at existing book values.

**Note 3. Restatement of Comparatives**

*Provision for public liability claims*

As discussed in note 2, on 17 November 2015, the Group restructured under the newly created entity Millennium Services Group Ltd ("MSG") and listed on the stock exchange on 19 November 2015. As part of the accounting of the restructure, there was an error in the application of *AASB 137 Provisions, Contingent Liabilities and Contingent Assets* with respect to the recognition of public liability claims made against the Group in relation to incidents occurring at facilities cleaned by the Group. Instead of recognising a provision for public liability claims due to pre-existing incidents that had occurred at facilities cleaned; claims were expensed as pay-outs were processed after the restructure date. As at the date of the Group's restructure in November 2015, a provision for public liability of \$1,770,000 for incidents that occurred prior to the date of restructure was not recognised in error. Under the pooling of interests method, the correction of the error would result in the recognition of the provision for public liability with an adjustment against pre-restructure losses within equity (tax-effected).

*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. It is estimated that employee entitlements were understated by \$250,000 in the 2016 financial year and understated by \$1,537,000 in the 2017 financial year.

*Other adjustments*

Other prior period adjustments include estimated payroll taxes payable to the NSW Office of State Revenue (OSR) for the amount of \$148,000 for the 2016 financial year and \$137,000 for the 2017 financial year (see note 30).

*Statement of profit or loss and other comprehensive income*

When there is a restatement of comparatives, it is mandatory to provide an adjusted statement of profit or loss and other comprehensive income for the period ended 30 June 2017.

*Statement of financial position at the beginning of the earliest comparative period*

When there is a restatement of comparatives, it is mandatory to provide a third statement of financial position at the beginning of the earliest comparative period, being 1 July 2016.

*Statement of cash flows*

The change did not have any impact on the cash flows in relation to the operating, investing and financing activities of the Group.

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**Millennium Services Group Ltd**  
**Notes to the financial statements**  
**30 June 2018**

**Note 3. Restatement of comparatives (continued)**

*Statement of financial position – opening balance for the earliest prior period presented*

	1 July 2016 \$'000 Reported	Consolidated \$'000 Adjustments	1 July 2016 \$'000 Restated
<i>Extract of relevant balance sheet items impacted</i>			
<b>Assets</b>			
<b>Non-current assets</b>			
Deferred tax asset	3,664	650	4,314
Total non-current assets	<u>27,574</u>	<u>650</u>	<u>28,224</u>
<b>Total assets</b>	<u>44,130</u>	<u>650</u>	<u>44,780</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	10,236	148	10,384
Provisions	12,015	2,020	14,035
Total current liabilities	<u>25,158</u>	<u>2,168</u>	<u>27,326</u>
<b>Total liabilities</b>	<u>31,656</u>	<u>2,168</u>	<u>33,824</u>
<b>Net assets</b>	<u>12,474</u>	<u>(1,518)</u>	<u>10,956</u>
<b>Equity</b>			
Reserves	(7,200)	(1,239)	(8,439)
Retained profits	707	(279)	428
<b>Total equity</b>	<u>12,474</u>	<u>(1,518)</u>	<u>10,956</u>

	30 June 2017 \$'000 Reported	Consolidated \$'000 Adjustments	30 June 2017 \$'000 Restated
<i>Extract of relevant balance sheet items impacted</i>			
<b>Assets</b>			
<b>Non-current assets</b>			
Deferred tax asset	5,933	1,152	7,085
Total non-current assets	<u>57,869</u>	<u>1,152</u>	<u>59,021</u>
<b>Total assets</b>	<u>85,437</u>	<u>1,152</u>	<u>86,589</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15,599	285	15,884
Provisions	12,323	3,557	15,880
Total current liabilities	<u>37,952</u>	<u>3,842</u>	<u>41,794</u>
<b>Total liabilities</b>	<u>70,265</u>	<u>3,842</u>	<u>74,107</u>
<b>Net assets</b>	<u>15,172</u>	<u>(2,690)</u>	<u>12,482</u>
<b>Equity</b>			
Reserves	(7,091)	(1,239)	(8,330)
Retained profits	3,296	(1,451)	1,845
<b>Total equity</b>	<u>15,172</u>	<u>(2,690)</u>	<u>12,482</u>

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**Note 3. Restatement of comparatives (continued)**

	Consolidated		
	\$'000 As previously Reported	\$'000 Adjustments	\$'000 Restated
<i>Extract of relevant statement of profit and loss and OCI – For the Year Ended 30 June 2017</i>			
Employee benefits expense	(163,794)	(1,674)	(165,468)
<b>Profit before income tax expense</b>	8,548	(1,674)	6,874
Income tax expense	(2,331)	502	(1,829)
<b>Profit after income tax expense</b>	<u>6,217</u>	<u>(1,172)</u>	<u>5,045</u>
<b>Total comprehensive income</b>	<u>6,215</u>	<u>(1,172)</u>	<u>5,043</u>
Basic earnings per share (cents/share)	13.54	(2.56)	10.98
Diluted earnings per share (cents/share)	13.54	(2.56)	10.98

**Note 4. Operating segments**

*Identification of reportable operating segments*

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

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

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

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

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.



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**Note 4. Operating segments (continued)**

*Operating segment information*

	Cleaning \$'000	Security \$'000	Head Office \$'000	Total \$'000
<b>Consolidated - 2018</b>				
<b>Revenue</b>				
Sales to external customers	242,221	39,845	-	282,066
Other income	-	-	1,527	1,527
<b>Total revenue and other income</b>	<b>242,221</b>	<b>39,845</b>	<b>1,527</b>	<b>283,593</b>
<b>Gross margin</b>				
Other income	-	-	1,527	1,527
Overheads			(33,722)	(33,722)
<b>EBITDA</b>	<b>35,442</b>	<b>5,547</b>	<b>-</b>	<b>40,989</b>
Depreciation and amortisation				(7,703)
Interest revenue				25
Finance costs				(2,105)
<b>Profit/(loss) before income tax expense</b>				<b>(989)</b>
Income tax benefit				242
<b>Profit/(loss) after income tax expense</b>				<b>(747)</b>
<b>Segment assets</b>	<b>74,734</b>	<b>8,778</b>	<b>9,904</b>	<b>93,416</b>
<b>Segment liabilities</b>	<b>42,691</b>	<b>5,900</b>	<b>35,492</b>	<b>84,083</b>
<b>Net Assets / (Liabilities)</b>	<b>32,043</b>	<b>2,878</b>	<b>(25,588)</b>	<b>9,333</b>

	Cleaning \$'000	Security \$'000	Head Office \$'000	Total \$'000
<b>Consolidated – 2017 (restated*)</b>				
<b>Revenue</b>				
Sales to external customers	197,420	29,892	-	227,312
Other income	-	-	1,145	1,145
<b>Total revenue and other income</b>	<b>197,420</b>	<b>29,892</b>	<b>1,145</b>	<b>228,457</b>
<b>Gross margin</b>				
Other income	-	-	1,145	1,145
Overheads			(25,864)	(25,864)
<b>EBITDA</b>	<b>34,135</b>	<b>4,669</b>	<b>-</b>	<b>38,804</b>
Depreciation and amortisation				(5,637)
Interest revenue				21
Finance costs				(1,595)
<b>Profit before income tax expense</b>				<b>6,874</b>
Income tax expense				(1,829)
<b>Profit after income tax expense</b>				<b>5,045</b>
<b>Segment assets</b>	<b>72,237</b>	<b>7,141</b>	<b>7,211</b>	<b>86,589</b>
<b>Segment liabilities</b>	<b>34,474</b>	<b>3,727</b>	<b>35,906</b>	<b>74,107</b>
<b>Net Assets / (Liabilities)</b>	<b>37,763</b>	<b>3,414</b>	<b>(28,695)</b>	<b>12,482</b>

\*The Group has restated certain comparative information in relation to the prior period; refer to note 3.

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**Note 5. Revenue**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Provision of services	282,066	227,312

**Note 6. Other income**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Net gain/(loss) on disposal of property, plant and equipment	4	(5)
Reimbursement from related parties for legal costs incurred by Group	495	-
Indemnity from related parties for payroll taxes (NSW) related to 2011 to 2015 financial years (note 32)	1,028	-
Net gain on settlement of contingent consideration**	-	1,150
Interest income	25	21
Other income	1,552	1,166

\*\*At November 2016, the probability of paying the earn-out and contingent consideration in relation to the ACS acquisition was assessed to be \$2.4 million instead of \$4.7million as assessed at acquisition date of November 2015. The reassessment of the original contingent consideration that existed at acquisition was applied against goodwill as a final adjustment to accounting for the business combination. Subsequent to November 2016, the final consideration settled with the vendor was \$1.25 million, resulting in a gain on settlement of \$1.15 million. The contingent consideration of \$1.25 million was settled on 4 August 2017.

**Note 7. Expenses**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit before income tax includes the following specific expenses:		
<i>Impairment</i>		
Impairment of receivables	450	122
Payroll taxes (NSW) for the 2011 to 2015 financial years (note 30)	1,028	-
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	4,004	3,088
Amortisation (note 14)	3,528	2,653
Depreciation (note 13)	4,175	2,984
Total amortisation and depreciation	7,703	5,637

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**Note 8. Income tax expense**

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
		<b>Restated</b>
		<b>(note 3)</b>
<i>Income tax expense</i>		
Deferred tax - origination and reversal of temporary differences	(3,674)	(1,908)
Current tax expense - Australia	3,369	3,839
Current tax expense /(revenue) - New Zealand	38	36
Under provision in prior year – current tax	25	-
Deferred tax benefit – related to intangible amortisation in prior year	-	(138)
	<u>(242)</u>	<u>1,829</u>
Aggregate income tax expense / (benefit)		
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets (note 15)	(2,522)	(1,348)
Increase/(decrease) in deferred tax liabilities (note 22)	(1,152)	(560)
	<u>(3,674)</u>	<u>(1,908)</u>
Deferred tax - origination and reversal of temporary differences		
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit / (loss) before income tax expense	(989)	6,874
Income tax / (benefit) at the statutory tax rate of 30%	(297)	2,062
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Step down in the value of PPE - Business acquisition	-	146
Deferred tax benefit – related to intangible amortisation in prior year	-	(138)
Other permanent differences	66	113
Black hole deduction from equity	(39)	(39)
Employee share scheme	31	33
Difference in tax rate in New Zealand	(3)	(3)
Gain on deferred settlement - not taxable	-	(345)
	<u>(242)</u>	<u>1,829</u>
Income tax expense / (benefit)		
The applicable weighted average effective tax rates are as follows:	24.5%	26.6%

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Amounts charged/(credited) directly to equity</i>		
Deferred tax assets (note 15)	39	39

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

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank	<u>3,948</u>	<u>8,064</u>

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	21,302	16,455
Less: Provision for impairment of receivables	(383)	(149)
	<u>20,919</u>	<u>16,306</u>
Other receivables	<u>2,294</u>	<u>751</u>
	<u><u>23,213</u></u>	<u><u>17,057</u></u>

Trade receivables from related parties amounted to \$533,000 as at 30 June 2018 (30 June 2017: nil), (note 32). Other receivables include \$1,028,000 from related parties as at 30 June 2018 (30 June 2017: nil) in relation to indemnities from certain vendor shareholders (note 32).

*Impairment of receivables*

The ageing of the impaired receivables provided for above are as follows:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
1 to 30 days	-	-
31 to 60 days	-	-
61 to 90 days	-	-
Over 90 days	383	149
	<u>383</u>	<u>149</u>
	<u><u>383</u></u>	<u><u>149</u></u>

*Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to \$6,781,000 as at 30 June 2018 (\$5,694,000 as at 30 June 2017).

The consolidated entity was assessed and there was considered to be no credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices. \$4,055,000 of these past due amounts were received in July and August 2018.

The ageing of the past due but not impaired receivables are as follows:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
1 to 30 days	5,652	2,514
31 to 60 days	293	1,391
61 to 90 days	125	292
Over 90 days	711	1,497
	<u>6,781</u>	<u>5,694</u>
	<u><u>6,781</u></u>	<u><u>5,694</u></u>

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**Note 11. Current assets - inventories**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Consumables - at cost	1,562	824
	<u>1,562</u>	<u>824</u>

**Note 12. Current assets - other**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Prepayments	2,480	1,623
	<u>2,480</u>	<u>1,623</u>

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Leasehold improvements - at cost	397	134
Less: Accumulated depreciation	(119)	(7)
	<u>278</u>	<u>127</u>
Plant and equipment - at cost	23,110	16,307
Less: Accumulated depreciation	(10,763)	(7,372)
	<u>12,347</u>	<u>8,935</u>
Motor vehicles - at cost	2,712	2,323
Less: Accumulated depreciation	(1,112)	(813)
	<u>1,600</u>	<u>1,510</u>
Computer equipment - at cost	1,423	1,053
Less: Accumulated depreciation	(831)	(512)
	<u>592</u>	<u>541</u>
Office equipment - at cost	399	382
Less: Accumulated depreciation	(218)	(164)
	<u>181</u>	<u>218</u>
	<u>14,998</u>	<u>11,331</u>

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

*Reconciliations*

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

<b>Consolidated</b>	Motor vehicles \$'000	Office equipment \$'000	Computer equipment \$'000	Plant & equipment \$'000	Leasehold improvements \$'000	Total \$'000
Balance at 1 July 2016	1,168	84	197	6,715	109	8,273
Additions	75	138	402	937	19	1,571
Additions through business combinations (note 34)	573	37	166	1,592	6	2,374
Disposals	(11)	-	-	-	-	(11)
Additions through hire purchase	-	-	-	2,109	-	2,109
Depreciation expense	(295)	(41)	(224)	(2,418)	(7)	(2,985)
Balance at 30 June 2017	1,510	218	541	8,935	127	11,331
Additions	102	17	370	3,054	263	3,806
Effect of movement in exchange rates	-	-	-	(3)	-	(3)
Disposals	-	-	-	-	-	-
Additions through hire purchase	287	-	-	3,752	-	4,039
Depreciation expense	(299)	(54)	(319)	(3,391)	(112)	(4,175)
Balance at 30 June 2018	<u>1,600</u>	<u>181</u>	<u>592</u>	<u>12,347</u>	<u>278</u>	<u>14,998</u>

During the 2018 financial year the Group acquired motor vehicles, plant and equipment with a carrying amount of \$4,039,000 (2017: \$2,109,000) via finance leases. The equipment financing transactions are non-cash transactions and excluded from the payments for property, plant and equipment within the Statement of Cash Flows.

The ANZ bank loan is secured over motor vehicles and equipment with a carrying value of \$14,720,000 (2017: \$11,204,000).

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Goodwill - at cost	18,484	18,068
Patents and trademarks - at cost	2,734	2,734
Less: Accumulated amortisation	(458)	(182)
	<u>2,276</u>	<u>2,552</u>
Customer contracts - at cost	22,791	22,791
Less: Accumulated amortisation	(6,184)	(2,932)
	<u>16,607</u>	<u>19,859</u>
	<u>37,367</u>	<u>40,479</u>

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

*Reconciliations*

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

<b>Consolidated</b>	Customer contracts \$'000	Goodwill \$'000	Trademarks \$'000	Total \$'000
Balance at 1 July 2016	5,841	9,737	-	15,578
Additions through business combinations (note 34)	16,490	10,631	2,734	29,855
Contingent consideration adjustment*	-	(2,300)	-	(2,300)
Amortisation expense	(2,472)	-	(182)	(2,654)
Balance at 1 July 2017	19,859	18,068	2,552	40,479
Additions through business combinations (note 34)	-	416	-	416
Amortisation expense	(3,252)	-	(276)	(3,528)
Balance at 30 June 2018	<u>16,607</u>	<u>18,484</u>	<u>2,276</u>	<u>37,367</u>

\* At November 2016, the probability of paying the earn-out and contingent consideration in relation to the ACS acquisition was assessed to be \$2.4 million instead of \$4.7million as assessed at acquisition date of 19 November 2015. The reassessment of the original contingent consideration that existed at acquisition has been applied against goodwill as a final adjustment to accounting for the business combination.

**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 year end is presented below:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Goodwill allocation to CGUs</b>		
Cleaning CGU	16,646	16,230
Security CGU	1,838	1,838
	<u>18,484</u>	<u>18,068</u>

*Calculation Methodology*

The recoverable amount of a CGU is determined 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, for each business segment. The model utilises cash flow forecasts and extrapolations based on budgets that have been reviewed by management and the Board.

Management has conducted sensitivity analysis using the value in use model and is of the view that there are no reasonably possible changes in variables that would cause an impairment.

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 each segment's budget for the 2019 financial year. Cash flows for a further four years have been extrapolated using consistent principles from the year one budget;

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

- The forecast compound annual growth rates (CAGR) of 1.0% for both the Cleaning and Security CGUs for years 1 to 5. The net cash inflow growth rate in the 2019 financial year budget compared to the 2018 financial year is greater than 1.0% for both the CGUs, however a conservative 1.0% growth rate was used for the value in use model;
- Conservative terminal growth rates of 1.0% (30 June 2017: 1.0%) for both CGUs; and
- Pre-tax discount rate of 14.0% (30 June 2017: 13.5%) which approximates the CGUs' weighted average cost of capital (pre-tax).

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
		<b>Restated*</b>
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Impairment of receivables	115	45
Employee benefits	6,668	4,787
Superannuation payable	1,324	884
Other accruals	202	76
Provisions	696	531
Blackhole expenditure - profit and loss	349	509
Investments	136	136
Blackhole expenditure - equity	78	117
	<u>9,568</u>	<u>7,085</u>
Deferred tax asset	<u>9,568</u>	<u>7,085</u>
<i>Movements:</i>		
Opening balance	7,085	4,314
Credited to profit or loss (note 8)	2,522	1,348
Credited/(charged) to equity (note 8)	(39)	(39)
Additions through business combinations (note 34)	-	1,462
	<u>9,568</u>	<u>7,085</u>
Closing balance	<u>9,568</u>	<u>7,085</u>

\* Refer to note 3 for further information on restatement of comparative information.

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Security deposits	86	126
Prepayments	194	-
	<u>280</u>	<u>126</u>



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

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
		<b>Restated*</b>
Trade payables	7,935	5,613
GST payable	2,013	1,609
Accrued expenses	6,849	4,019
Other payables	7,586	4,643
	<u>24,383</u>	<u>15,884</u>

\* Refer to note 3 for further information on restatement of comparative information.  
Refer to note 26 for further information on financial instruments.

**Note 18. Current liabilities - borrowings**

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
ANZ interchangeable loan facility	20,593	4,941
Hire purchase	5,990	2,075
Other borrowings	1,660	-
	<u>28,243</u>	<u>7,016</u>

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

The consolidated entity is subject to certain financing arrangements and meeting these is given priority in all capital risk management decisions. As at 30 June 2018, the Group had total debt obligations of \$27,006,000 owing to the ANZ Bank (the 'Lender'). The consolidated entity breached its financing covenants in relation to the March 2018 and June 2018 quarters. The breaches were waived by the lender with no additional restrictions to the access of available financing.

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

If the due diligence review was completed by 30 June 2018, and the Group had an unconditional right to defer settlement of its loans for at least 12 months after the reporting date; the current borrowings would have been presented as follows:

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
ANZ interchangeable loan facility	5,828	4,941
Hire purchase	2,618	2,075
Other borrowings	1,660	-
	<u>10,106</u>	<u>7,016</u>

Refer to note 26 for further information on financial instruments.

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

*Financing arrangements*

The Group updated its financing agreements with the ANZ Bank during the 2018 financial year to align the facilities with the Group's requirements for its continuing growth. Unrestricted access was available at the reporting date to the following lines of credit:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Total facilities		
Interchangeable loan facility	23,050	30,000
Asset finance facility (hire purchase)	8,500	4,700
Overdraft facility	10,000	5,500
Standby letter of credit and guarantee facility	1,200	1,200
Electronic payway facility	500	500
Commercial card facility	325	325
	<u>43,575</u>	<u>42,225</u>
Used at the reporting date		
Interchangeable loan facility	20,593	24,429
Asset finance facility (hire purchase)	5,195	3,639
Overdraft facility	-	-
Standby letter of credit and guarantee facility	1,055	851
Electronic payway facility	-	-
Commercial card facility	163	78
	<u>27,006</u>	<u>28,997</u>
Unused at the reporting date		
Interchangeable loan facility	2,457	5,571
Asset finance facility (hire purchase)	3,305	1,061
Overdraft facility	10,000	5,500
Standby letter of credit and guarantee facility	145	349
Electronic payway facility	500	500
Commercial card facility	162	247
	<u>16,569</u>	<u>13,228</u>

*Net debt reconciliation*

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents	3,948	8,064
Borrowings – repayable within one year	(28,243)	(7,016)
Borrowings – repayable after one year	-	(21,872)
Net debt	<u>(24,295)</u>	<u>(20,824)</u>
Cash and cash equivalents	3,948	8,064
Gross debt – fixed interest rates	(1,660)	-
Gross debt – variable interest rates	(26,583)	(28,888)
Net debt	<u>(24,295)</u>	<u>(20,824)</u>

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	Other assets		Liabilities from financing activities			Total
	Cash and cash equivalents \$'000	Finance leases due within 1 year \$'000	Finance leases due after 1 year \$'000	Borrowings due within 1 year \$'000	Borrowings due after 1 year \$'000	
Net debt as at 1 July 2017	8,064	(2,075)	(2,384)	(4,941)	(19,488)	(20,824)
Cash flows	(4,114)	2,508	-	3,476	(1,300)	570
Acquisitions –finance leases	-	(808)	(3,231)	-	-	(4,039)
Foreign exchange adjustments	(2)	-	-	-	-	(2)
Other non-cash reclassifications	-	(5,615)	5,615	(20,788)	20,788	-
Net debt as at 30 June 2018	3,948	(5,990)	-	(22,253)	-	(24,295)

**Note 19. Current liabilities - income tax**

	Consolidated	
	2018 \$'000	2017 \$'000
Provision for income tax	762	3,014

**Note 20. Provisions**

	Consolidated	
	2018 \$'000	2017 \$'000 Restated*
Contingent consideration	-	1,450
Annual leave and long service leave	17,931	14,063
Other provisions	287	-
Employee entitlements provision	4,058	1,787
Provision for public liability claims*	2,320	1,770
	<u>24,596</u>	<u>19,070</u>
Current	22,760	15,880
Non-current	1,836	3,190
	<u>24,596</u>	<u>19,070</u>

\* Refer to note 3 for further information on restatement of comparative information.

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**Note 20. Current liabilities - other (continued)**

<b>Consolidated</b>	Annual leave and long service leave \$'000	Public liability claims \$'000	Employee entitlement provision \$'000	Other \$'000	Contingent consideration \$'000	<b>Total</b> \$'000
Balance at 1 July 2017 (restated*)	14,063	1,770	1,787	-	1,450	19,070
Arising during the year	12,522	1,389	2,271	287	-	16,469
Acquisition of subsidiary (note 34)	-	350	-	-	-	350
Utilised / paid during the year	(8,654)	(1,189)	-	-	(1,450)	(11,293)
Balance at 30 June 2018	<u>17,931</u>	<u>2,320</u>	<u>4,058</u>	<u>287</u>	<u>-</u>	<u>24,596</u>
Current	16,382	2,320	4,058	-	-	22,760
Non-current	1,549	-	-	287	-	1,836

*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. It is estimated that employee entitlements were understated by \$250,000 in the 2016 financial year and understated by \$1,537,000 in the 2017 financial year (see note 3).

*Contingent consideration*

As at 30 June 2017, contingent consideration comprised \$200,000 for the Airlite acquisition (note 34) and \$1,250,000 for the ACS acquisition. The contingent consideration was settled during the 2018 financial year.

The fair value of the contingent consideration is classified as a Level 3 input as the calculation is based on unobservable inputs being the EBITDA forecast.

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
ANZ interchangeable loan facility	-	19,488
Hire purchase	-	2,384
	<u>-</u>	<u>21,872</u>

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

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

The consolidated entity is subject to certain financing arrangements and meeting these is given priority in all capital risk management decisions. As at 30 June 2018, the Group had total debt obligations of \$27,006,000 owing to the ANZ Bank (the 'Lender'). The consolidated entity breached its financing covenants in relation to the March 2018 and June 2018 quarters. The breaches were waived by the lender with no additional restrictions to the access of available financing.

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

If the due diligence review was completed by 30 June 2018, and the Group had an unconditional right to defer settlement of its loans for at least 12 months after the reporting date; the non-current borrowings would have been presented as follows:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
ANZ interchangeable loan facility	14,765	19,488
Hire purchase	3,372	2,384
	<u>18,137</u>	<u>21,872</u>

Refer to note 26 for further information on financial instruments.

*Total secured liabilities*

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
ANZ interchangeable loan facility	20,593	24,429
Hire purchase	5,990	4,459
	<u>26,583</u>	<u>28,888</u>

*Details of security*

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

- Millennium Hi-Tech Group Pty Ltd
- Millennium Cleaning (Qld) Pty Ltd
- Millennium Cleaning (Vic) Pty Ltd
- Millennium Cleaning (NSW) Pty Ltd
- Millennium Group (NZ) Pty Ltd
- Millennium Hi-Tech Holdings Pty Ltd
- Millennium Hi-Tech (SA) Pty Ltd
- Millennium Services Group Ltd
- Airlite Cleaning Pty Ltd
- Airlite Management Services Pty Ltd

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

*Assets pledged as security*

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Equipment and motor vehicles	14,720	11,204

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Property, plant and equipment	434	449
Prepaid insurance	-	79
Intangibles	5,665	6,723
Deferred tax liability	<u>6,099</u>	<u>7,251</u>
<i>Movements:</i>		
Opening balance	7,251	2,182
Charged/(credited) to profit or loss (note 8)	(1,152)	(560)
Additions through business combinations (note 34)	-	5,767
Deferred tax benefit related to intangible amortisation in prior year	-	(138)
Closing balance	<u>6,099</u>	<u>7,251</u>

**Note 23. Equity - issued capital**

	<b>Consolidated</b>			
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$'000</b>	<b>\$'000</b>
Ordinary shares - fully paid	<u>45,928,259</u>	<u>45,928,259</u>	<u>18,967</u>	<u>18,967</u>

*Movements in ordinary share capital*

<b>Details</b>	<b>Date</b>	<b>Shares</b>	<b>Issue price</b>	<b>\$'000</b>
Balance	30 June 2017	<u>45,928,259</u>		<u>18,967</u>
Balance	30 June 2018	<u>45,928,259</u>		<u>18,967</u>

*Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

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

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

*Share buy-back*

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

*Capital risk management*

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

Capital is regarded as market capitalisation plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. The Group monitors capital using gearing ratio among other metrics. The Group's policy is to maintain the gearing ratio between 20% and 45%. In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest bearing loans and borrowings	28,243	28,888
Less: cash and short-term deposits	(3,948)	(8,064)
<b>Net debt</b>	<b>24,295</b>	<b>20,824</b>
<b>Market capitalisation</b> (share price \$0.93/share on 30/06/2018 & \$1.64 on 30/06/2017)	<b>42,713</b>	<b>75,322</b>
<b>Capital, (market capitalisation plus net debt)</b>	<b>67,008</b>	<b>96,146</b>
Gearing ratio	36%	22%

The consolidated entity is subject to certain financing arrangements and meeting these is given priority in all capital risk management decisions. As at 30 June 2018, the Group had total debt obligations of \$27,006,000 owing to the ANZ Bank (the 'Lender'). The consolidated entity breached its financing covenants in relation to the March 2018 and June 2018 quarters. The breaches were waived by the lender with no additional restrictions to the access of available financing.

The lender conducted a due diligence review over the reporting period which was completed on 26 July 2018; however, as at 30 June 2018, the Group did not have an unconditional right to defer settlement of its loans for at least 12 months after the reporting date. Hence borrowings have been classified as current liabilities as at 30 June 2018. The terms of the loans payable were renegotiated in August 2018 with minimal variation in the loan terms. The Group's unrestricted access to total financial facilities is disclosed at note 18.

**Note 24. Equity - reserves**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
		<b>Restated*</b>
Foreign currency reserve	(15)	11
Share-based payments reserve	285	181
Pre-restructure accumulated losses	(8,522)	(8,522)
	<b>(8,252)</b>	<b>(8,330)</b>

\* Refer to note 3, for further information on restatement of comparative information.

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

*Foreign currency reserve*

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

*Share-based payments reserve*

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

*Pre-restructure accumulated losses*

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

*Movements in reserves*

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

<b>Consolidated</b>	Pre- restructure losses \$'000	Share based payments \$'000	Foreign currency \$'000	Total \$'000
Balance at 1 July 2016 (restated*)	(8,522)	70	13	(8,439)
Share based payments	-	111	-	111
Foreign currency translation	-	-	(2)	(2)
Balance at 30 June 2017 (restated*)	(8,522)	181	11	(8,330)
Share based payments	-	104	-	104
Foreign currency translation	-	-	(26)	(26)
Balance at 30 June 2018	<u>(8,522)</u>	<u>285</u>	<u>(15)</u>	<u>(8,252)</u>

**Note 25. Equity - dividends**

Dividends paid during the financial period were as follows:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Final dividend of \$0.054 per share (fully franked) was paid in respect of the reporting period ended 30 June 2017.	2,480	
Interim dividend of \$0.035 per share (fully franked) was paid in respect of the reporting period ended 30 June 2017.	-	1,607
Final dividend of \$0.044 per share (fully franked) was paid in respect of the reporting period ended 30 June 2016.	-	2,021
	<u>2,480</u>	<u>3,628</u>



**Note 26. Financial instruments**

**Financial risk management objectives**

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

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

**Market risk**

*Foreign currency risk*

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

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

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

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

	Assets		Liabilities	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Consolidated				
New Zealand dollars	2,001	1,165	1,958	602

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

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

  

Consolidated - 2017	% change	AUD strengthened Effect on profit before tax		% change	AUD weakened Effect on profit before tax	
		Effect on equity	Effect on equity			
New Zealand dollar	25%	-	(140)	25%	-	140

*Price risk*

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

*Interest rate risk*

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

**Note 26. Financial instruments (continued)**

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

Consolidated	2018		2017	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
ANZ Facility	4.95%	<u>20,593</u>	4.30%	<u>24,429</u>
Net exposure to cash flow interest rate risk		<u><u>20,593</u></u>		<u><u>24,429</u></u>

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

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

  

Consolidated - 2017	Basis points change	Basis points increase		Basis points decrease	
		Effect on profit before tax	Effect on equity, net of tax	Effect on profit before tax	Effect on equity, net of tax
ANZ Facility	100	<u>(244)</u>	<u>(171)</u>	100	<u>244</u> <u>171</u>

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits.

As at 30 June 2018, the consolidated entity recognised a provision for impairment of receivables of \$383,000 (2017: \$149,000).

**Liquidity risk**

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

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

**Financing arrangements**

Unused borrowing facilities at the reporting date:

	Consolidated	
	2018 \$'000	2017 \$'000
Interchangeable loan facility	2,457	5,571
Asset finance facility (hire purchase)	3,305	1,061
Overdraft facility	10,000	5,500
Standby letter of credit and guarantee facility	145	349
Electronic payway facility	500	500
Commercial card facility	<u>162</u>	<u>247</u>
	<u>16,569</u>	<u>13,228</u>

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**Note 26. Financial instruments (continued)**

*Remaining contractual maturities*

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

<b>Consolidated - 2018</b>	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	24,383	-	-	-	24,383
Current tax payable	-	762	-	-	-	762
<i>Interest-bearing - fixed</i>						
Other short-term borrowings	1.53%	1,683	-	-	-	1,683
<i>Interest-bearing - variable</i>						
Hire purchase	6.23%	6,282	-	-	-	6,282
ANZ loan facility	4.95%	21,468	-	-	-	21,468
Total non-derivatives		<u>54,578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,578</u>

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

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

If the due diligence review was completed by 30 June 2018, and the Group had an unconditional right to defer settlement of its loans for at least 12 months after the reporting date; the remaining contractual maturities would have been presented as follows:

<b>Consolidated - 2018</b>	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	24,383	-	-	-	24,383
Current tax payable	-	762	-	-	-	762
<i>Interest-bearing - fixed</i>						
Other short-term borrowings	1.53%	1,683	-	-	-	1,683
<i>Interest-bearing - variable</i>						
Hire purchase	6.23%	2,910	2,004	1,568	-	6,482
ANZ loan facility	4.95%	6,703	6,415	9,315	-	22,433
Total non-derivatives		<u>36,441</u>	<u>8,419</u>	<u>10,883</u>	<u>-</u>	<u>55,743</u>

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**Note 26. Financial instruments (continued)**

<b>Consolidated - 2017</b>	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	15,884	-	-	-	15,884
Current tax payable	-	3,014	-	-	-	3,014
<i>Interest-bearing - variable</i>						
Hire purchase	5.98%	2,299	1,792	718	-	4,809
ANZ loan facility	4.30%	5,892	6,286	14,668	-	26,846
<b>Total non-derivatives</b>		<b>27,089</b>	<b>8,078</b>	<b>15,386</b>	<b>-</b>	<b>50,553</b>

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

**Fair value of financial instruments**

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

**Note 27. Key management personnel disclosures**

*Directors*

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

Peter Anderson  
Gregory McCormack  
Stephen Williams  
Ross Gavranich  
Craig Hanley  
Sally McCutchan (appointed 25 October 2017)  
Stephen Lidbury (resigned as director on 25 October 2017, continuing as KMP)

*Other key management personnel*

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

Royce Galea  
Stephen Lidbury  
Paul Smith (appointed as interim Chief Financial Officer and Company Director on 5 February 2018)  
Damien Gray (resigned as Chief Financial Officer and Company Director on 2 May 2018)

*Compensation*

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	2,122,918	1,703,996
Post-employment benefits	113,026	144,495
Long-term benefits	17,252	28,896
Share-based payments	104,132	104,313
	<b>2,357,328</b>	<b>1,981,700</b>

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**Note 28. Remuneration of auditors**

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - Moore Stephens Audit (Vic)</i>		
Audit or review of the financial statements	134,750	158,250
<i>Other services - Moore Stephens</i>		
Taxation services	48,340	26,000
Other services	6,010	62,341
	<u>54,350</u>	<u>88,341</u>

**Note 29. Contingent assets**

(a) Millennium Services Group Ltd is entitled to an indemnity from certain vendor shareholder entities if their request for the full remission of penalties and interest, lodged with the NSW Office of State Revenue (OSR), is ultimately unsuccessful. This indemnity relates to the \$0.356 million of penalties and interest levied to Millennium Hi-Tech Group Pty Ltd, a wholly owned subsidiary of Millennium Services Group Ltd, by the NSW Office of State Revenue for payroll tax assessments in respect of the payroll tax years ended 30 June 2011 to 30 June 2015 (inclusive). A corresponding contingent liability, in excess of this amount, has been disclosed in Note 30 of these financial statements.

(b) During the financial year, the Australian Taxation Office (ATO) reviewed Millennium Cleaning (QLD) Pty Ltd's, a wholly owned subsidiary of the Company, pay as you go (PAYG) employee withholding payments to the ATO for the tax years 1 July 2014 to 30 June 2017 (inclusive). Based on the above review, the ATO raised an assessment of \$0.517 million against Millennium Cleaning (QLD) Pty Ltd for the 2015 tax year. A contingent liability has been disclosed at note 30 in relation to this matter.

Management has performed an internal review of Millennium Cleaning (QLD) Pty Ltd's tax obligations and payments to the ATO for tax years 1 July 2010 to 30 June 2016 (inclusive) and is of the view that the ATO has over accounted \$0.85 million of tax obligations due to the ATO covering the 2010 to 2016 tax years. Depending on the finalisation of the dispute with the ATO, a contingent asset is noted in these accounts in relation to the \$0.85 million of over accounting by the ATO.

**Note 30. Contingent liabilities**

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

An in-principle settlement was agreed between Millennium Hi-Tech Group Pty Ltd and the OSR in July 2018. Under the settlement, Millennium Hi-Tech Group Pty Ltd is liable to pay \$1.028 million in payroll taxes for the tax years ended 30 June 2011 to 30 June 2015 (inclusive). The Group has recognised a liability of \$1.028 million as at 30 June 2018. Millennium Services Group Ltd is entitled to an indemnity from certain vendor shareholders and accordingly a receivable of \$1.028 million from vendor shareholders has been recognised as at 30 June 2018.

Penalties and interest of \$0.356 million in relation to payroll tax assessments for the same period are still in dispute. Millennium Hi-Tech Group Pty Ltd is seeking the full remission of the penalties and interest. Should Millennium Hi-Tech Group Pty Ltd be ultimately unsuccessful in having the \$0.356 million in penalties and interest remitted, Millennium Services Group Ltd is entitled to an indemnity from the vendor shareholder entities in excess of the assessments levied. As such a contingent asset of \$0.356 million has also been disclosed in these financial statements.

**Millennium Services Group Ltd**  
**Notes to the financial statements**  
**30 June 2018**

**Note 30. Contingent liabilities (continued)**

Due to the in-principle settlement with the OSR, management has estimated that a further \$0.61 million (excluding penalties and interest) of payroll tax is payable in respect of the period since listing to 30 June 2018. The \$0.61 million estimate has been recognised as a liability in the financial statements (see note 3).

(b) During the financial year, the Australian Taxation Office (ATO) reviewed Millennium Cleaning (QLD) Pty Ltd's, a wholly owned subsidiary of the Company, pay as you go (PAYG) employee withholding payments to the ATO for the tax years 1 July 2014 to 30 June 2017 (inclusive). Based on the above review, the ATO raised an assessment of \$0.517 million against Millennium Cleaning (QLD) Pty Ltd for the 2015 tax year. Management has performed an internal review of Millennium Cleaning (QLD) Pty Ltd's tax obligations and payments to the ATO for tax years 1 July 2010 to 30 June 2016 (inclusive) and is of the view that the ATO has over accounted \$0.85 million of tax obligations due to the ATO covering the 2010 to 2016 tax years. Accordingly a contingent asset in relation to the \$0.85 million over accounting has been disclosed at note 29.

**Note 31. Commitments**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	2,163	3,243
One to five years	2,093	3,658
	4,256	6,901
	4,256	6,901

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

**Millennium Services Group Ltd**  
**Notes to the financial statements**  
**30 June 2018**

**Note 31. Commitments (continued)**

*Finance leases*

	<b>Consolidated</b>			
	<b>2018</b>		<b>2017</b>	
	<b>\$'000</b>		<b>\$'000</b>	
	<b>Minimum payment</b>	<b>Present value</b>	<b>Minimum payment</b>	<b>Present value</b>
Within one year	6,282	5,990	2,299	2,075
After one year but not more than five years	-	-	2,510	2,384
More than five years	-	-	-	-
Total minimum lease payments	<u>6,282</u>	<u>5,990</u>	<u>4,809</u>	<u>4,459</u>
Less amounts representing finance charges	(292)	-	(350)	-
Present value of minimum lease payments	<u>5,990</u>	<u>5,990</u>	<u>4,459</u>	<u>4,459</u>

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

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

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

If the due diligence review was completed by 30 June 2018, and the Group had an unconditional right to defer settlement of its loans for at least 12 months after the reporting date; the finance leases would have been presented as follows:

	<b>Consolidated</b>			
	<b>2018</b>		<b>2017</b>	
	<b>\$'000</b>		<b>\$'000</b>	
	<b>Minimum payment</b>	<b>Present value</b>	<b>Minimum payment</b>	<b>Present value</b>
Within one year	2,910	2,618	2,299	2,075
After one year but not more than five years	3,572	3,372	2,510	2,384
More than five years	-	-	-	-
Total minimum lease payments	<u>6,482</u>	<u>5,990</u>	<u>4,809</u>	<u>4,459</u>
Less amounts representing finance charges	(492)	-	(350)	-
Present value of minimum lease payments	<u>5,990</u>	<u>5,990</u>	<u>4,459</u>	<u>4,459</u>

**Note 32. Related party transactions**

*Parent entity*

Millennium Services Group Ltd is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 35.

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

**Millennium Services Group Ltd**  
**Notes to the financial statements**  
**30 June 2018**

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

*Key management personnel*

Wages and other benefits paid to a close family member of Royce Galea in their capacity as an employee of the Group amounted to \$nil for the year ended 30 June 2018 (2017: \$15,809).

All other disclosures relating to key management personnel are set out in note 27 and the remuneration report included in the director's report.

*Transactions with related parties*

Office rent of \$39,316 was paid on normal commercial terms to an entity related to Stephen Lidbury (2017: \$31,627).

Consulting fees of \$371,044 were paid to an entity related to Tomi-Sasha Holdings Pty Ltd a substantial shareholder of the company for the year ended 30 June 2018 (2017: \$205,119).

Wages and other benefits of \$89,908 were paid to close family members of the controller of Tomi-Sasha Holdings Pty Ltd, in their capacity as employees of the Group, for the year ended 30 June 2018 (2017: \$118,870).

*Receivables from Related Parties*

The following amounts were receivable as at 30 June 2018 (30 June 2017: nil):

(a) Reimbursements for legal expenses paid by the company on behalf of the prior owners of the restructured group of companies (see note 2: Accounting for restructuring):

Wayne Crewes	\$177,599
Stephen Lidbury	\$177,599
Royce Galea	<u>\$177,599</u>
Total	<u>\$532,797</u>

(b) Indemnity from related parties for payroll taxes (NSW) related to the 2011 to 2015 tax years: \$1,028,223 (note 30).

**Note 33. Parent entity information**

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

*Statement of profit or loss and other comprehensive income*

	<b>Parent</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit / (loss) after income tax	2,341	(2,632)
Total comprehensive profit / (loss)	2,341	(2,632)



**Millennium Services Group Ltd**  
**Notes to the financial statements**  
**30 June 2018**

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

*Statement of financial position*

	<b>Parent</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Total current assets	26,458	17,287
Total assets	52,619	40,682
Total current liabilities	37,743	6,564
Total liabilities	43,887	32,083
Equity		
Issued capital	18,967	18,967
Share-based payments reserve	285	181
Accumulated losses, net of dividends paid	(10,520)	(10,549)
Total equity	<u>8,732</u>	<u>8,599</u>

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

A deed of cross guarantee between Millennium Services Group Limited and its subsidiaries in Note 35 (except Millennium Group (NZ) Ltd and small proprietary companies incorporated in the 2018 financial year) was enacted in the 2016 financial year and updated in the 2017 financial year to include the Airlite Group. The Group is relieved from preparing financial statements for the subsidiaries under ASIC Class Order 98/1418. Under the deed, Millennium Services Group Ltd guarantees to support the liabilities and obligations of each entity listed in Note 35 Interest in Subsidiaries, other than Millennium Group (NZ) Ltd and small proprietary companies incorporated in the 2018 financial year. As Millennium Group (NZ) Ltd and the small proprietary companies incorporated in the 2018 financial year are not material, the aggregate totals for each category, relieved under the deed for the Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position approximate the level of support guaranteed.

*Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

*Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

*Significant accounting policies*

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

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

**Note 34. Business combinations**

*Acquisition of Airlite Group*

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

**Millennium Services Group Ltd**  
**Notes to the financial statements**  
**30 June 2018**

**Note 34. Business combinations (continued)**

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

	<b>Provisional Fair Value \$'000</b>	<b>Adjustments to Provisional Fair Value \$'000</b>	<b>Completed Fair value \$'000</b>
Cash and cash equivalents	3,505		3,505
Receivables and prepayments	8,088		8,088
Property plant and equipment	2,374		2,374
Trademarks	2,734		2,734
Customer contracts	16,490		16,490
Deferred tax asset	1,462		1,462
Payables and accruals	(5,000)	(350)	(5,350)
Provision for income tax	(860)		(860)
Deferred tax liability	(5,767)		(5,767)
Employee benefits	(4,290)	(66)	(4,356)
Borrowings	(4,081)		(4,081)
Net assets acquired	14,655	(416)	14,239
Goodwill	10,631	416	11,047
Acquisition-date fair value of the total consideration transferred	25,286	-	25,286
Representing:			
Cash paid or payable to vendor	25,086	-	25,086
Contingent consideration	200	-	200
	25,286	-	25,286

The \$416,000 adjustment to the fair value of net assets acquired has been recognised as an adjustment to goodwill in the current period as it has been deemed to be immaterial to require a restatement of the 30 June 2017 statement of financial position. \$200,000 in contingent consideration was paid in the current financial period.

**Millennium Services Group Ltd**  
**Notes to the financial statements**  
**30 June 2018**

**Note 35. Interests in subsidiaries**

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
Millennium Group (NZ) Ltd	New Zealand	100.00%	100.00%
Millennium Hi-Tech Group Pty Ltd (a)	Australia	100.00%	100.00%
Millennium Hi-Tech Holdings Pty Ltd (a)	Australia	100.00%	100.00%
Millennium Hi-Tech (SA) Pty Ltd (a)	Australia	100.00%	100.00%
Millennium Cleaning (Qld) Pty Ltd (a)	Australia	100.00%	100.00%
Millennium Cleaning (Vic) Pty Ltd (a)	Australia	100.00%	100.00%
Millennium Services Group Operations Pty Ltd (a)	Australia	100.00%	100.00%
Airlite Cleaning Pty Ltd (a)	Australia	100.00%	100.00%
Airlite Management Services Pty Ltd (a)	Australia	100.00%	100.00%
Millennium Management Services (Aust) Pty Ltd (b)	Australia	100.00%	-
Millennium Security Specialist Services Pty Ltd (b)	Australia	100.00%	-
Millennium Cleaning Specialist Services Pty Ltd (b)	Australia	100.00%	-
Millennium Cleaning (TAS) Pty Ltd (b)	Australia	100.00%	-
Millennium Cleaning (NSW) Pty Ltd (b)	Australia	100.00%	-

(a) These wholly-owned companies are subject to a deed of cross guarantee as at 30 June 2018 and 30 June 2017.

(b) These wholly-owned small proprietary companies were incorporated in the current financial year. The revenue and gross assets of these companies individually and in aggregate were not material in the current period.

**Note 36. Events after the reporting period**

An in-principle settlement was agreed between Millennium Hi-Tech Group Pty Ltd, a wholly-owned subsidiary, and the NSW Office of State Revenue (OSR) in July 2018. Under the settlement, Millennium Hi-Tech Group Pty Ltd is liable to pay \$1.028 million in payroll taxes for the tax years ended 30 June 2011 to 30 June 2015 (inclusive). The Group has recognised a liability of \$1.028 million as at 30 June 2018. Millennium Services Group Ltd is entitled to an indemnity from certain vendor shareholders and accordingly a receivable of \$1.028 million from vendor shareholders has been recognised as at 30 June 2018 (refer to note 30).

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 conducted a due diligence review over the reporting period which was completed on 26 July 2018. The terms of the loans payable were renegotiated in August 2018 with minimal variation in the loan terms. The Group's unrestricted access to total financial facilities is disclosed at note 18.

No other matter or circumstance has arisen since 30 June 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**  
**Notes to the financial statements**  
**30 June 2018**

**Note 37. Reconciliation of profit after income tax to net cash from operating activities**

	<b>Consolidated 2018 \$'000</b>	<b>2017 \$'000 Restated (note 3)</b>
Profit / (loss) after income tax expense for the period	(747)	5,045
Adjustments for:		
Depreciation and amortisation	7,703	5,637
Net loss/(gain) on disposal of property, plant and equipment	(4)	5
Share-based payments	104	111
Net foreign exchange differences	(22)	-
Gain on contingent consideration	-	(1,150)
Change in operating assets and liabilities:		
Increase in inventories	(738)	(55)
Increase in deferred tax assets	(3,635)	(1,965)
Increase/(decrease) in trade and other payables	8,969	450
Increase/(decrease) in provision for income tax	(2,252)	1,053
Increase in employee benefits and provisions	6,139	3,681
Increase in receivables and prepayments	(7,167)	(1,939)
Net cash from operating activities	<u>8,350</u>	<u>10,873</u>

**Note 38. Earnings per share**

	<b>Consolidated 2018 \$'000</b>	<b>2017 \$'000 Restated (note 3)</b>
Profit after income tax attributable to the owners of Millennium Services Group Ltd	<u>(747)</u>	<u>5,045</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>45,928,529</u>	<u>45,928,529</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>45,928,529</u>	<u>45,928,529</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(1.63)	10.98
Diluted earnings per share	(1.63)	10.98

The options have not been included in calculation of diluted earnings per share because the exercise price of the options materially exceeds the market price at 30 June 2018.

**Note 39. Share-based payments**

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

**Millennium Services Group Ltd**  
**Notes to the financial statements**  
**30 June 2018**

**Note 39. Share-based payments (continued)**

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

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

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

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

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

The weighted average remaining contractual life of options outstanding at the end of the financial year was 0.89 years (2017: 1.38 years.)

**Millennium Services Group Ltd**  
**Directors' declaration**  
**30 June 2018**

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

1. The financial statements and notes, as set out on pages 18 to 65, and the remuneration report on pages 7 to 14 in the Directors' report are in accordance with the *Corporations Act 2001* and:
  - a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and
  - b. give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the consolidated Group;
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
3. The Directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

At the date of this declaration, the Company and certain wholly owned subsidiaries, as detailed in Note 35 to the financial statements, have entered into a deed of cross guarantee. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees the debts of each other. In the directors' opinion, there are reasonable grounds to believe that the Company and the subsidiaries to which the deed of cross guarantee applies, as detailed in Note 35 to the financial statements will, as a Group, be able to meet any liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee.

On behalf of the Directors



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Craig Hanley  
Director

31 August 2018

Moore Stephens Audit (Vic)

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

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Millennium Services Group Limited and controlled entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

- a) the accompanying financial report of the Millennium Services Group Limited and controlled entities is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

#### Basis for Opinion

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

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

#### Key Audit Matters

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

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

Refer to Note 1 “Going concern” and Note 18 “Current liabilities – borrowings”

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The Group has a net current asset deficiency of \$44,945,000 as at 30 June 2018 which is primarily due to \$28,243,000 of borrowings being reclassified as current liabilities from non-current liabilities, \$20,440,000 of employee benefits classified as current liabilities and a number of other matters as described in Note 1 *Going Concern*.

We focused on this area due to the significance of the net current asset deficiency as at 30 June 2018 and the borrowings due diligence review conducted over the year end reporting period by the Group’s bankers, and the possible impact on the group’s ability to continue as a going concern.

Our procedures included, amongst others:

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

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## KEY AUDIT MATTER 2 – Goodwill and Intangible Assets

Refer to Note 14 “Non-Current Assets - Intangibles”

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As at 30 June 2018 the Group has total Intangible Assets of \$37,367,000.

AASB 138 states that goodwill and other intangible assets that have an indefinite useful life are required to be tested at least annually for impairment.

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

Our procedures included, amongst others:

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



## KEY AUDIT MATTER 3 – Payroll Tax Dispute

Refer to Note 30 “Contingent Liabilities” and Note 29 “Contingent Assets”

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On 23 November 2015 the NSW Office of State Revenue (OSR) issued payroll tax assessments totalling \$1,927,000 in respect of the payroll tax years ended 30 June 2011 to 30 June 2015 (inclusive) for the wholly owned subsidiary, Millennium Hi-Tech Group Pty Ltd.

On 9 July 2018, an in-principle settlement was agreed between Millennium Hi-Tech Group Pty Ltd and the Chief Commissioner of State Revenue for \$1,028,000 of primary tax. This has been reported as an expense and liability in the financial report.

The Group is entitled to an indemnity from certain shareholder entities in excess of the in-principle settlement amount. Accordingly income and a receivable for \$1,028,000 have also been reported in the financial report.

Part of the in-principle settlement is still in dispute, with Millennium Hi-Tech Group Pty Ltd contesting the interest and penalties of \$356,000. A contingent liability has been disclosed in Note 30 to the financial statements.

The indemnity from certain shareholder entities also extends itself to the interest and penalties in relation to this matter. Accordingly a contingent asset has also been disclosed in Note 29 to the financial statements.

The group has performed a review of the possible liability it may face subsequent to the in-principle agreement for the financial years of 2016 to 2018 and has assessed the likely exposure as \$610,000 and as a result has brought to account a liability as at 30 June 2018 for that amount.

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

Our procedures included, amongst others:

- Evaluation of the supporting documentation used by management to support the position of the interest and penalties as a contingent liability rather than a liability.
- Assessment of the documentation to support the existence and nature of the indemnity which forms the basis of the contingent asset disclosed.
- Consultation with the Group’s legal representatives and review of written representation in relation to the tax claim.
- Assessment of the adequacy of the Group’s disclosures in respect of the contingent asset and contingent liability.

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Report

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

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

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

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

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

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

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

## Report on the Remuneration Report

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 7 to 14 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Millennium Services Group Limited and controlled entities, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

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



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



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

Melbourne, Victoria

31 August 2018