MCS Services Ltd

ABN: 66 119 641 986

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

# CONTENTS

MCS Services Ltd




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Your directors present their report, together with the financial report on MCS Services Limited (**Company**) and its subsidiaries for the half-year ended 31 December 2019 ("*Period*" or "*half-year*").

## Directors

The names of Directors who held office during or since the end of the Period are set out below. Directors were in office for this entire period unless otherwise stated.

| | |
|---|---|
| The Hon RC (Bob) Kucera APM JP | Non Executive Chairman |
| Mr Geoffrey Martin | Non Executive Director |
| Mr Matthew Ward | Non Executive Director |
| Mr Paul Simmons | Managing Director (appointed effective 1 July 2019) |

## Company Secretary

The Company Secretary, Mr Jonathan Asquith, held office throughout the Period.

## Operating Results

The Company recorded:

- earnings before interest, tax, depreciation and amortisation (EBITDA) of $75,158 ($297,304 in the prior corresponding period) before significant items such as share-based payment costs;
- an underlying net loss after tax (before significant items) of $33,172 (underlying net profit after tax of $178,965 before significant items in the prior corresponding period);

## Operational Overview

The Company specialises in asset security at retail shopping centres, government offices and facilities, major commercial offices, sports stadiums and other ancillary sites and major events throughout the Perth metropolitan area and regional country areas of Western Australia – with recent expansions into the Northern Territory.

During the Period the Company:

- successfully attained ISO 9001 (Quality), AS4801 and OHSAS 18001 (Health & Safety) certification following an independent audit. Certification covers the Company's core safety and quality systems including recruitment, training, operating procedures, risk assessments, hazard identifications, safe working, toolbox meetings, incident investigations, internal auditing, data reporting and continuous improvement processes. The Company continues to progress with further management and system improvements as it moves towards seeking environmental ISO accreditation;

- was recognised as the national '*Outstanding Guarding Company'* of the year by the Australian Security Industry Association (ASIAL). ASIAL is the national peak body for security organisations and professionals in Australia, and members account for approx. 85% of the Australian security industry;

- applied relevant CPI increases to its customer charge-out rates, and provided a pay rise to all Guards effective 1 July 2019 having regard to the relevant Award rates,

- obtained a security licence in New South Wales, adding to existing licences in Western Australia, Victoria and South Australia;

- hired a very experienced General Manager based in Melbourne to grow our business in the Eastern States;

- operationally, the Company:
    - commenced new contractual work at six shopping centres in WA;
    - renewed contracts for security in commercial office buildings and other security segments;
    - commenced additional work for an existing Events & Stadia customer, the owner and operator of multiple venues across Perth, to also provide security at their other venues primarily for music and sports events, further cementing the Company's position in the WA event-security market;
    - commenced a preliminary contract for a private hospital operator in Perth;
    - commenced a seasonal contract at the CBD ferry terminal in Perth;
    - continues to actively review and enhance its marketing strategy.

The Company's organic growth strategy includes:

- pursuing pipeline opportunities in WA and other states, including lodging high quality tenders;
- leveraging its reputation with existing clients to obtain work at additional locations, and
- assessing the addition of new verticals to its business.

The Company is constantly assessing the expansion of its operations in the Perth metropolitan area, regional Western Australia and interstate through the identification and acquisition of suitable targets. The Company may progress these opportunities if they are value accretive to shareholders and consistent with the Company's strategy.

## Corporate Overview

During the Period the Company:

- repaid $100,000 from the Related Party vendor loan owing to P&M Simmons, the vendors of the MCS Security Group Pty Ltd business. The remainder of the vendor loan is repayable no later than October 2020 (**Note 9**);

- Paul Simmons, the CEO, was appointed to the Board as Managing Director effective 1 July 2019;

## Capital

No shares or options were issued during the Period.

During the Period:

- at the Annual General Meeting on 29 November 2019 shareholders approved the issue of 3.6 million Performance Rights as an incentive to Paul Simmons, the CEO and a director of the Company. The Performance Rights vest upon meeting performance hurdles over reporting periods to June 2021 and would then entitle the holder to Ordinary Shares in the Company. Such Ordinary Shares would rank equally with other Ordinary Shares upon vesting, but the Performance Rights carry no shareholder rights until then;

- the Company announced its intention to commence an on-market share buyback for up to 10 per cent of its issued share capital, or approx. 18.7 million shares, over the next 12 months.

During the year ended 30 June 2019 the Company completed the buy-back of unmarketable parcels of MCS ordinary shares, with 1,765,051 ordinary shares acquired and cancelled at a buy-back price of 1.64 cents, for a total consideration of $28,946.

The Company had the following securities on issue at the date of this report:

| | Number |
|---|---|
| Ordinary Shares | **187,544,557** |
| Unlisted Options | **18,000,000** |
| Performance Rights | **3,600,000** |

Signed in accordance with a resolution of the directors.

**The Hon RC (Bob) Kucera APM JP**
**Non-Executive Chairman**
**Dated this 28th day of February 2020**

Stantons International Audit and Consulting Pty Ltd
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28 February 2020

Board of Directors
MCS Services Limited
3/108 Winton Road
JOONDALUP WA 6027

Dear Sirs

**RE: MCS SERVICES LIMITED**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of MCS Services Limited.

As Audit Director for the review of the financial statements of MCS Services Limited for the half year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**
**(Trading as Stantons International)**
**(An Authorised Audit Company)**

**Samir Tirodkar**
**Director**

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

MCS Services Ltd

| | Note | 31 December 2019 $ | 30 June 2019 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | | 1,085,721 | 2,097,866 |
| Trade and other receivables | 5 | 3,468,937 | 2,911,288 |
| Prepayments | | 239,948 | 185,756 |
| Inventory and Work in Progress | | 88,396 | 41,509 |
| Other | | 48,312 | 39,668 |
| **Total Current Assets** | | **4,931,314** | **5,276,087** |
| | | | |
| **Non-Current Assets** | | | |
| Plant and equipment | 6 | 221,139 | 150,915 |
| Restricted cash and bonds | | 2,200 | 2,200 |
| Right of Use Asset | 7 | 249,973 | - |
| **Total Non-Current Assets** | | **473,312** | **153,115** |
| | | | |
| **Total Assets** | | **5,404,626** | **5,429,202** |
| | | | |
| **Current Liabilities** | | | |
| Trade and other payables | | 2,636,351 | 3,270,001 |
| Provisions | | 1,310,458 | 1,128,435 |
| Related party loan | 9 | 81,756 | - |
| Lease liabilities | 7,10 | 51,252 | - |
| Borrowings | 11 | 290,887 | - |
| **Total Current Liabilities** | | **4,370,704** | **4,398,436** |
| | | | |
| **Non-Current Liabilities** | | | |
| Provisions | | 99,484 | 117,173 |
| Related party loan | 9 | - | 176,838 |
| Lease liabilities | 7,10 | 255,996 | - |
| **Total Non-Current Liabilities** | | **355,480** | **294,011** |
| | | | |
| **Total Liabilities** | | **4,726,184** | **4,692,447** |
| | | | |
| **Net Assets** | | **678,442** | **736,755** |
| | | | |
| **Equity** | | | |
| Issued capital | 12 | 17,995,324 | 17,995,324 |
| Share option & Performance Right reserve | 12 | 226,050 | 213,300 |
| Accumulated losses | | (17,542,932) | (17,471,869) |
| **Total Equity** | | **678,442** | **736,755** |

This statement should be read in conjunction with the Condensed Notes to the Financial Statements

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2019

MCS Services Ltd

| | Note | 31 December 2019<br>$ | 31 December 2018<br>$ |
|---|---|---|---|
| **Revenue** | | 12,250,027 | 11,704,827 |
| **Cost of goods sold** | | (10,159,635) | (9,515,610) |
| **Gross profit** | | **2,090,392** | **2,189,217** |
| Other income | | 9,506 | 3,796 |
| Employee expenses and benefits | | (977,573) | (904,135) |
| Directors fees and remuneration | | (62,500) | (47,500) |
| Insurance | | (495,205) | (506,048) |
| Other expenses | | (489,462) | (438,026) |
| | | **(2,015,234)** | **(1,891,913)** |
| | | **75,158** | **297,304** |
| Share based payments expense | 12 | (12,750) | - |
| Prior Period Insurance | 18 | - | (450,000) |
| | | **(12,750)** | **(450,000)** |
| | | **62,408** | **(152,696)** |
| Finance expenses | | (21,116) | (19,895) |
| Depreciation of Plant & Equipment | 6 | (55,924) | (76,373) |
| Depreciation of Right of Use Asset | 7 | (21,125) | - |
| Amortisation of intangible assets | 8 | - | (22,071) |
| | | **(98,165)** | **(118,339)** |
| **Profit / (loss) before tax** | | **(35,757)** | **(271,035)** |
| Income tax expense | | (10,165) | - |
| **Profit / (loss) for the period attributable to members** | | **(45,922)** | **(271,035)** |
| **Other Comprehensive income** | | | |
| Exchange gain / (loss) arising on the translating foreign operations | | - | - |
| **Total comprehensive Profit / (Loss) for the period** | | **(45,922)** | **(271,035)** |
| **Earnings per share** | | **Cents** | **Cents** |
| Basic profit (loss) per share from continuing operations | 13 | (0.024) | (0.143) |
| Diluted profit (loss) per share from continuing operations | 13 | (0.024) | (0.143) |

This statement should be read in conjunction with the Condensed Notes to the Financial Statements

| | Ordinary shares $ | Foreign currency translation Reserve $ | Share option Reserve $ | Accumulated losses $ | Total $ |
|---|---|---|---|---|---|
| **Balance 30 June 2019** | **17,995,324** | **-** | **213,300** | **(17,471,869)** | **736,755** |
| Loss for the period | - | - | - | (45,922) | (45,922) |
| Application of AASB 16 Leases ***(Note 7)*** | - | - | - | (25,141) | (25,141) |
| **Total comprehensive (loss)** | **-** | **-** | **-** | **(71,063)** | **(71,063)** |
| Issue of Performance Rights | - | - | 12,750 | - | 12,750 |
| **Balance 31 December 2019** | **17,995,324** | **-** | **226,050** | **(17,542,932)** | **678,442** |
| **Balance 30 June 2018** | **18,024,270** | **30,624** | **213,300** | **(17,301,367)** | **966,827** |
| Loss for the period | - | - | - | (271,035) | (271,035) |
| Foreign currency translation reserve | - | - | - | - | - |
| **Total comprehensive (loss)** | **-** | **-** | **-** | **(271,035)** | **(271,035)** |
| **Balance 31 December 2018** | **18,024,270** | **30,624** | **213,300** | **(17,572,402)** | **695,792** |

This statement should be read in conjunction with the Condensed Notes to the Financial Statements

# CONSOLIDATED STATEMENT OF CASHFLOWS
# FOR THE HALF YEAR ENDED 31 DECEMBER 2019

| | | 31 December 2019 $ | 31 December 2018 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 12,910,369 | 11,576,393 |
| Payments to employees, suppliers and directors | | (13,675,361) | (11,548,720) |
| Income tax paid | | (18,809) | (12,127) |
| Net cash from / (used in) operating activities | | **(783,801)** | **15,546** |
| | | | |
| **Cash flows from investing activities** | | | |
| Interest received | | 3,744 | 3,783 |
| Interest paid | | (11,187) | - |
| Payment for fixed assets | 6 | (126,148) | (32,303) |
| Payment for acquisition of subsidiaries | | - | - |
| Payment for acquisition of business | | - | - |
| Net cash (used in) investing activities | | **(133,591)** | **(28,520)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Repayment of related party vendor loan | 9 | (100,000) | (120,000) |
| Vehicle Finance | 10 | 30,690 | - |
| Office Lease | 7,10 | (25,443) | - |
| Net cash (used in) financing activities | | **(94,753)** | **(120,000)** |
| | | | |
| **Net decrease in cash and cash equivalents** | | (1,012,145) | (132,974) |
| | | | |
| **Cash and cash equivalents at the beginning of the financial period** | | 2,097,866 | 834,644 |
| | | | |
| **Cash and cash equivalents at the end of the financial period** | | **1,085,721** | **701,670** |

This statement should be read in conjunction with the Condensed Notes to the Financial Statements

MCS Services Limited and its subsidiaries' (**Group** or **Consolidated Entity**) principal activity during the half-year was the provision of uniformed security and related services.

## 1. General information and basis of preparation

These condensed interim consolidated financial statements (**the interim financial statements**) of the Group are for the six months ended 31 December 2019 and are presented in Australian dollars (**$**), which is the functional currency of the parent company.

These general purpose interim financial statements have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standards Board (**AASB**) 134: *Interim Financial Reporting.* They do not include all of the information required in the annual financial statements in accordance with International Financial Reporting Standards (**IFRS**), and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 June 2019 and any public announcements made by the Company during the half-year in accordance with continuous disclosure requirements under the Australian Stock Exchange (**ASX**) Listing Rules and *Corporations Act 2001.*

The interim financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The interim financial report covers MCS Services Limited (**Company**) and its 100% subsidiaries MCS Security Group Pty Ltd and John Boardman Pty Ltd (collectively, **Group**).

MCS Services Limited is a public company, incorporated and domiciled in Australia. The registered office is 3/108 Winton Road, Joondalup, WA, 6027. The Company was incorporated on 11 May 2006.

The interim financial statements for the half-year ended 31 December 2019 (including the comparatives) were approved by the board of directors on 28 February 2020.

## 2. Summary of significant accounting policies

Except as noted below, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The Company has considered the implications of new and amended Accounting Standards which have become applicable for the current financial reporting period.

AASB 16 *Leases* was issued in February 2016 by the Australian Accounting Standards Board and became applicable to the Company for the first time in the Period, being the Company's first annual reporting periods beginning on or after 1 January 2019. This note describes the nature and effect of the adoption of AASB 16: *Leases* on the Company's financial statements.

The Standard requires that, at inception of a contract, a company is to assess if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding liability are to be recognised by the company where the company is a lessee. Initially, the lease liability is to be measured at the present value of the lease payments still to be paid at the commencement date. The lease payments are to be discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the company is to use its incremental borrowing rate. The Standard requires that lease payments included in the measurement of the lease liability are as follows;

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;

- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options;
- lease payments under extension options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of options to terminate the lease.

The Standard requires that the right-of-use asset comprises the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date and any initial direct costs. The subsequent measurement of the right-of-use assets is to be at cost less accumulated depreciation and impairment losses. Right-of-use assets are to be depreciated over the lease term or useful life of the underlying asset, whichever is the shortest.

The Company has adopted AASB 16: *Leases* retrospectively, with the cumulative effect of initially applying AASB 16 recognised as at 1 July 2019. In accordance with AASB 16 the comparatives for the 2018 reporting period have not been restated.

The Company has recognised a lease liability and right-of-use asset for all leases (with exception of short-term and low value leases) previously recognised as operating leases under AASB 117: *Leases* where the Company is a lessee.

Specifically, the Standard has been applied in relation to the Company's office lease in Joondalup, WA. Prior to the application of the Standard the Company's office lease rental payments were recorded as an expense in the Statement of Profit or Loss. Application of the Standard instead results in depreciation (of the Right of Use asset) and interest (on the Lease Liability) being expensed to the Statement of Profit or Loss.

The Company has not applied this approach to its short-term / low value leases as the Standard provides that all contracts that are classified as short-term leases (i.e. leases with a remaining lease term of 12 months or less) and leases of low-value assets continue to be recognised as an operating expense on a straight-line basis over the term of the lease.

Lease liabilities have been measured at the present value of the remaining lease payments. The Company incremental borrowing rate as at 1 July 2019, assessed as 4**%,** was used to discount the lease payments, The right-of-use asset was measured at its carrying values as if AASB 16 *Leases* had been applied since the commencement date but discounted using the Company incremental borrowing rate per lease term as at 1 July 2019. The right-of-use asset has been recognised in the statement of financial position as at 1 July 2019.

## 3. Judgements, Estimates and Assumptions

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results. The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2019.

## 4. Going Concern

The financial statements of the Group have been prepared on a going concern basis which anticipates the ability of the entity to meet its obligations in the normal course of business.

Notwithstanding the Group incurred a loss after tax for the Period of $45,922, the Group had a significant cash balance, a working capital surplus and net assets as at 31 December 2019.

## 5. Trade and other receivables

| | 31 December 2019 $ | 30 June 2019 $ |
|---|---|---|
| Trade debtors | 3,497,204 | 2,944,031 |
| Provision for Doubtful Debts | (42,520) | (42,520) |
| | 3,454,684 | 2,901,511 |
| Other receivables | 14,253 | 9,777 |
| | **3,468,937** | **2,911,288** |

All of the Group's Trade Receivables and Other Receivables as at 31 December 2019 have been reviewed for indicators of impairment. Specific balances have been identified as past-due and impaired.

## 6. Plant and equipment

| | Furniture & equipment $ | Motor vehicles $ | Software $ | Total $ |
|---|---|---|---|---|
| **31 December 2019** | | | | |
| **Cost** | | | | |
| Balance at 1 July 2019 | 414,728 | 238,331 | 142,529 | 795,588 |
| Additions | 33,155 | 58,987 | 34,006 | 126,148 |
| Disposals & other movements | - | (11,232) | - | (11,232) |
| Balance at 31 December 2019 | **447,883** | **286,086** | **176,535** | **910,504** |
| **Depreciation** | | | | |
| Balance at 1 July 2019 | (359,579) | (169,901) | (115,193) | (644,673) |
| Disposals | - | 11,232 | - | 11,232 |
| Depreciation | (33,352) | (14,036) | (8,536) | (55,924) |
| Balance at 31 December 2019 | **(392,931)** | **(172,705)** | **(123,729)** | **(689,365)** |
| Carrying amount at 31 December 2019 | **54,952** | **113,381** | **52,806** | **221,139** |
| **30 June 2019** | | | | |
| **Cost** | | | | |
| Balance at 1 July 2018 | 420,744 | 208,026 | 121,688 | 750,458 |
| Additions | 1,690 | 30,305 | 20,841 | 52,836 |
| Disposals & other movements | (7,706) | - | | (7,706) |
| Balance at 30 June 2019 | **414,728** | **238,331** | **142,529** | **795,588** |
| **Depreciation** | | | | |
| Balance at 1 July 2018 | (296,746) | (145,523) | (74,188) | (516,457) |
| Depreciation | (62,833) | (24,378) | (41,005) | (128,216) |
| Disposals | - | - | - | - |
| Balance at 30 June 2019 | **(359,579)** | **(169,901)** | **(115,193)** | **(644,673)** |
| Carrying amount at 30 June 2019 | **55,149** | **68,430** | **27,336** | **150,915** |

## 7. Right of Use Asset and Lease Liability

AASB 16 *Leases* was issued in February 2016 by Australian Accounting Standards Board and became applicable to the Company for the first time in the Period, being the Company's first annual reporting period beginning on or after 1 January 2019.

The Standard results in relevant leases being recognised on the Statement of Financial Position, as the distinction between operating and finance leases has been removed by the Standard. Under the Standard, an asset (the right to use the leased item) and a financial liability (to pay future rentals) has been recognised. The Standard has been applied in relation to the Company's office lease in Joondalup, WA. The Standard allows exceptions for short-term and low-value leases.

Prior to the application of the Standard the Company's office lease payments were recorded as an expense in the Statement of Profit or Loss. Application of the Standard results instead in depreciation (of the Right of Use asset) and interest expense (on the Lease Liability) being expensed to the Statement of Profit or Loss.

| | 31 December 2019 $ | 30 June 2019 $ |
|---|---|---|
| **Right of Use Asset** | | |
| At the beginning of the Period | - | - |
| Initial recognition (1) | 422,492 | - |
| | **422,492** | **-** |
| **Accumulated Depreciation** | | |
| At the beginning of the Period | - | - |
| Initial recognition of prior period depreciation *(1)* | (151,394) | - |
| Depreciation in Period | (21,125) | - |
| | **(172,519)** | **-** |
| Carrying value at end of the Period | **249,973** | **-** |

| **Lease Liability** | 31 December 2019 $ | 30 June 2019 $ |
|---|---|---|
| At the beginning of the Period | - | - |
| Initial Recognition | (422,492) | - |
| Initial Recognition of prior period interest & repayments *(1)* | 126,253 | - |
| Interest in Period | (5,762) | - |
| Lease Payments in Period | 25,443 | - |
| **At the end of the Period** | **(276,558)** | **-** |
| | | |
| Classified as: | | - |
| Current Liability **(Note 10)** | (41,027) | |
| Non-Current Liability **(Note 10)** | (235,531) | - |
| | **(276,558)** | **-** |

*(1) The initial recognition of the Right of Use asset and the Lease Liability includes recognition of depreciation and net lease payments which relate to the period subsequent to commencement of the office lease but prior to application of the Standard. The net depreciation / lease payments during that period resulted in $25,141 being recognised against Retained Earnings as at 1 July 2019 in accordance with AASB 16.*

Amounts recognised in the Statement of Profit or Loss for the Period in relation to the above are:

| | | |
|---|---|---|
| Finance expenses: interest expense on lease liability | (5,762) | - |
| Depreciation of Right of Use Asset | (21,125) | - |
| | **(26,887)** | **-** |

The lease payments totalling $25,443 to the office landlord during the Period are recorded in the Statement of Cashflows as cashflows from financing activities.

## 8. Intangible assets

As advised to shareholders on 1 August 2017, the Company acquired the customer base of State Security Services (WA) Pty Ltd effective on that date. The consideration was to a maximum of $0.25m (with Stamp Duty payable), the amount being contingent on continuation of workflow from the relevant customers and was payable – except for an element paid on settlement – in monthly instalments over a 12 month period.

| | 31 December 2019 $ | 30 June 2019 $ |
|---|---|---|
| **Cost** | | |
| At the beginning of the period | 239,131 | 239,131 |
| Acquisitions | - | - |
| At the end of the period | **239,131** | **239,131** |
| **Amortisation & Impairment** | | |
| At the beginning of the period | (239,131) | (239,131) |
| Amortisation in the period | - | - |
| | **(239,131)** | **(239,131)** |
| **Carrying value at end of the period** | **-** | **-** |

## 9. Related Party Loan

There were no significant changes to the nature of related party relationships and transactions from those disclosed in 30 June 2019 annual report except the Related Party loan owing to P&M Simmons, as vendors of MCS Security, was reduced by a payment of $100,000 during the Period. The remaining balance is payable by no later than 31 October 2020, and the Related Party loan is accordingly classified as a current liability in this reporting period.

## 10. Lease Liabilities

During the Period the Company obtained finance for a motor vehicle and also applied *AASB 16 Leases* in relation to its office lease **(Note 7)**

| | 31 December 2019 $ | 30 June 2019 $ |
|---|---|---|
| **Current Liability** | | |
| Motor Vehicle Lease | 10,225 | - |
| Office Lease **(Note 7)** | 41,027 | - |
| At the end of the Period | **51,252** | **-** |

| | 31 December 2019 $ | 30 June 2019 $ |
|---|---|---|
| **Non Current Liability** | | |
| Motor Vehicle Lease | 20,465 | - |
| Office Lease **(Note 7)** | 235,531 | - |
| At the end of the Period | **255,996** | **-** |

## 11. Borrowings

During the Period the Company arranged Premium Funding for its 2019/20 insurance and also the prior period insurance **(Note 18).** Equal monthly instalments are payable to June 2020.

## 12. Issued capital

| | Half Year Ended 31 December 2019 $ | Year Ended 30 June 2019 $ |
|---|---|---|
| **Ordinary Shares ($)** | | |
| At the beginning of the Period | 17,995,324 | 18,024,270 |
| Shares cancelled: Buyback of Unmarketable Shares (1) | - | (28,946) |
| At the end of the Period | **17,995,324** | **17,995,324** |

| | Half Year Ended 31 December 2019 Number | Year Ended 30 June 2019 Number |
|---|---|---|
| **Ordinary Shares (Number)** | | |
| At the beginning of the Period | 187,544,557 | 189,309,608 |
| Shares cancelled: Buyback of Unmarketable Shares(1) | - | (1,765,051) |
| At the end of the Period | **187,544,557** | **187,544,557** |

*(1) On 22 January 2019, under the terms of an unmarketable parcel share buy-back announced to relevant shareholders on 28 November 2018, a total of 1,765,051 ordinary MCS shares were acquired and cancelled at a buyback price of 1.64 cents totalling $28,946.*

At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

| | 31 December 2019 $ | 30 June 2019 $ |
|---|---|---|
| **Share Option & Performance Right Reserve** | | |
| At the beginning of the Period(1) | 213,300 | 213,300 |
| Performance Rights issued during the Period (2) | 12,750 | - |
| At the end of the Period | **226,050** | **213,300** |

| | 31 December 2019 Number | 30 June 2019 Number |
|---|---|---|
| **Share Option & Performance Rights** | | |
| At the beginning of the Period (1) | 18,000,000 | 18,000,000 |
| Performance Rights issued during the Period(2) | 3,600,000 | - |
| At the end of the Period | **21,600,000** | **18,000,000** |

(1) *On 30 November 2017 the Company granted 9 million unlisted options as a Directors incentive, and on 19 December 2017 granted 9 million unlisted options as a staff incentive. The options were issued for $nil consideration and are exercisable at 4 cents on or before 30 November 2022. The options were valued at $213,300*

(2) *During the Period shareholders agreed at the Annual General Meeting for the granting of Performance Rights to Paul Simmons, the CEO, entitling him to being issued up to 3.6 million ordinary shares in the Company subject to achieving performance hurdles over reporting periods to June 2021. The Performance Rights were valued at $61,200, with $12,750 of this value expensed in the Period. No shares in the Company were issued pursuant to the Performance Rights during the Period or to the date of this report.*

## 13. Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit (loss) attributable to shareholders of MCS Services Limited as the numerator.

The weighted average number of shares for the purposes of calculating the basic and diluted earnings per share:

| | 31 December 2019 No. | 31 December 2018 No. |
|---|---|---|
| Weighted average number of shares: basic | 187,544,557 | 189,309,608 |
| Weighted average number of shares: dilutive | 187,544,557 | 189,309,608 |

## 14. Events subsequent to balance date

There has not been any matter or circumstance occurring subsequent to the end of the Period that has significantly affected or may significantly affect the operations of the Company, the results of operations or the state of affairs of the Company in future financial periods.

## 15. Segmental information

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on operating sector. The Group's reportable segments under AASB 8 are Security Services.

The Group's remaining dormant Mineral Exploration subsidiaries was deregistered during the period ending 30 June 2019, having no assets or liabilities.

As such, the financial information presented in the Statement of Financial Position and Statement of Profit or Loss represent the Security Services segment.

There were no inter-segment revenues and expenses.

## 16. Business combinations

**MCS Security Reconciliation accounts**

At completion of the Company's acquisition of MCS Security in 2015 the Company was required to transfer the MCS Security retained cash to the vendors of MCS Security. During the reporting period to 30 June 2017 the vendors agreed that a remaining $350,000 owed to them could be reclassified as a loan to the Company. Subsequent reductions to the Related Party loan balance have been made, including $100,000 during the Period.

The remaining balance is payable by no later than 31 October 2020, and the Related Party loan is accordingly classified as a current liability in this Period.

## 17. Winding up of JBPL

During the half-year to 31 December 2017 the winding up of John Boardman Pty Ltd (JBPL), a 100% owned subsidiary of the Company, was commenced. JBPL has no material assets and does not trade.

JBPL's main liabilities are tax amounts of some $0.32m arising prior to JBPL's acquisition by the Company and as warranted by the vendor. The liability has been accrued in the financial position of the Group since the reporting period ending 30 June 2017 as part of Trade Payables.

During the Period the Company provided books & records relating to JBPL to the liquidator.

The Company does not anticipate the winding up will have any adverse effect on operations or on the Group's financial position.

## 18. Accrual for prior period insurance

During the Period to 31 December 2018 the Company, in conjunction with its current Insurance Broker, undertook a review of the Workers Compensation Insurance premiums for insurance periods prior to those managed by our current Broker.

An amount of $450,000 was accrued in the period to December 2018 in relation to expected workers' compensation call-up premiums for the years 2015/16 and 2016/17. The accrued amount was subject to the future application of potential rebates and offsets. The Company's insurer confirmed at that time the expected additional premiums would not fall due for payment until at least 31 August 2019 following a final quantification. The final quantification was confirmed during the Period. The Company obtained Premium Funding for the amounts and is paying the additional premiums in equal monthly instalments to June 2020 **(Note 11).**

The Company has at all times maintained full Workers Compensation insurance coverage for all of its employees.

The directors of the Company declare that:

1. 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

2. The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

   a) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
   b) Complying with Accounting Standards AASB 134 Interim Financial Reporting.

This declaration is made in accordance with a resolution of the directors made pursuant to s303(5) of the *Corporation Act 2001.*

On behalf of the Directors

The Hon RC (Bob) Kucera APM JP
Non-Executive Chairman

Dated this 28th day of February 2020

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**INDEPENDENT AUDITOR'S REVIEW REPORT**
**TO THE MEMBERS OF**
**MCS SERVICES LIMITED**

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of MCS Services Limited, which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the half-year ended on that date, condensed notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for MCS Services Limited ("the consolidated entity"). The consolidated entity comprises both MCS Services Limited ("the Company") and the entities it controlled during the half year.

*Directors' Responsibility for the Half-Year Financial Report*

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

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of MCS Services Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by the directors or management.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of MCS Services Limited on 28 February 2020.

*Conclusion*

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

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

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**
**(Trading as Stantons International)**
**(An Authorised Audit Company)**

**Samir Tirodkar**
**Director**

Stantons International Audit and Consulting Pty Ltd

West Perth, Western Australia
28 February 2020