MCS Services Ltd

ABN: 66 119 641 986

Appendix 4E
Preliminary Final Report

For the year ended 30 June 2020

1. Reporting Period

Reporting period: ("Current period"):	Year ending 30 June 2020
Previous corresponding period:	Year ending 30 June 2019

2. Results for announcement to the market

Revenue from ordinary activities	up	by 6.6% / $1.548m	to	$25,111,000
Profit / (loss) from ordinary activities after tax attributable to members excluding significant items	declined	by 49% / $0.123m	to	$128,000
Net profit / (loss) for the period attributable to members including significant items	improved	by $0.515m	to	$316,000

	Amount per share (cents)	**Franked amount per share** (cents)
Dividends		
Final: Current Year	–	–
Final: Previous Year	–	–
Interim: Current Year	–	–
Interim: Previous Year	–	–

Overall the business generated:

- underlying EBITDA (before Significant Items and tax) from ordinary activities of $0.38m (2019: 0.43m);
- underlying net profit (before Significant Items and tax) from ordinary activities of $0.20m (2019: $0.26m);
- a net profit attributable to members of $0.32m (2019: net loss $0.20m).

The Board's intentions for declaring a dividend subsequent to 30 June 2020 are subject to assessments of the most effective available capital management and business opportunities.

3. Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	30 June 2020 $'000	30 June 2019 $'000
Revenue	25,511	23,563
Cost of sales	(20,485)	(19,191)
Gross profit	**4,626**	**4,372**
Other Income		
Interest	7	8
Other	12	21
	19	**29**
Overheads		
Overhead, administration and other expenses	(2,098)	(2,080)
Employee expenses & benefits	(2,172)	(1,889)
	(4,270)	**(3,969)**
	375	**432**
Depreciation of property, plant & equipment	(102)	(130)
Depreciation of AASB 16 Right of Use assets	(42)	–
Finance Expenses	(32)	(24)
Amortisation of contracts acquired	–	(22)
	(176)	**(176)**
	199	**256**
Significant items		
Loss on capital restructure	–	–
Issue of Performance Rights (Note 6)	(25)	–
JBPL settlement (Note 12)	(125)	–
Writeback of JBPL net liabilities (Note 12)	338	
Prior period insurance (Note 16)	–	(450)
	188	**(450)**
Profit (Loss) before tax	**387**	**(194)**
Income tax expense	(71)	(5)
Profit / (Loss) for the year attributable to members	**316**	**(199)**
Discontinued operations	–	(2)
	316	**(201)**
Other Comprehensive Income		
Gain on deconsolidation of discontinued operations	–	30
Total comprehensive profit (loss) for the year	**316**	**(171)**

4. Condensed Consolidated Statement of Financial Position

	30 June 2020 $'000	30 June 2019 $'000
Current Assets		
Cash and cash equivalents	2,081	2,098
Trade and other receivables	2,728	3,097
Inventory	53	41
Other	–	40
Non-Current Assets	**4,862**	**5,276**
Plant and equipment	203	151
Right of Use assets – leased property	229	–
Other	2	2
	434	**153**
Total Assets	**5,297**	**5,429**
Current Liabilities		
Trade and other payables	2,206	3,270
Income Tax	71	–
Provisions	1,521	1,128
Financial liabilities: AASB 16 Leases	42	–
Financial liabilities: motor vehicle	10	–
Related party loan	84	–
	3934	**4,398**
Non-Current Liabilities		
Provisions	94	117
Financial liabilities: AASB 16 Leases	214	–
Financial liabilities: motor vehicle	16	–
Related party loan	–	177
	324	**294**
Total Liabilities	**4258**	**4,692**
Net Assets	**1,039**	**737**
Equity		
Issued capital (Note 6)	17,981	17,995
Other reserves (Note 6)	239	214
Accumulated losses (Note 8)	(17,181)	(17,472)
	1,039	**737**

5. Condensed Consolidated Statement of Cashflows

Cash flows from operating activities	**30 June 2020** $'000	**30 June 2019** $'000
Receipts from customers	27,949	25,681
Payments to employees, suppliers and directors	(25,544)	(22,272)
Payments for BAS	(2,010)	(1,880)
Income tax refunded (paid)	39	(70)
JBPL legal settlement (**Note 12**)	(150)	-
Net cash provided by operating activities	**284**	**1,459**
Cash flows from investing activities		
Interest received	7	8
Interest paid	(13)	-
Payment for plant & equipment	(154)	(53)
Release of cash held by former mining subsidiaries	-	(2)
Net cash (used in) investing activities	**(160)**	**(47)**
Cash flows from financing activities		
Proceeds from the issue / (buyback) of share capital (**Note 6**)	(15)	(29)
Finance Lease - motor vehicle	25	-
AASB 16 Leases – office rent (**Note 13**)	(51)	-
Repayment of Related Party borrowings	(100)	(120)
Net cash (used in) financing activities	**(141)**	**(149)**
Net (decrease) / increase in cash and cash equivalents	**(17)**	**1,263**
Cash / cash equivalents at beginning of financial year	2,098	835
Cash / cash equivalents at end of financial year	**2,081**	**2,098**

6. Securities on Issue

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

	Number
Ordinary shares	
Shares 1 July 2019	187,544,557
Shares bought and cancelled pursuant to share buy-back (below)	(1,270,000)
On issue at date of this report	**186,274,557**
Quoted options	
Options at 1 July 2019	-
On issue at date of this report	**-**
Unquoted options	
Options at 1 July 2019	18,000,000
On issue at date of this report	**18,000,000**
Performance Rights	
Performance Rights at 1 July 2019	-
On issue at date of this report	**3,600,000**

Ordinary shares Dividend Reinvestment Plan (DRP)
During the Reporting Period no shares were issued pursuant to the DRP.

Ordinary share buy-back & cancellation
During the Reporting Period, as part of an on-market Share Buy-Back program approved by shareholders, 1,270,000 ordinary securities were acquired and cancelled at an average buy-back price of 1.11 cents, totalling $14,700.

Quoted options
No quoted options were issued, exercised or expired during the Reporting Period.

Unquoted options
No unquoted options were issued, exercised or expired during the Reporting Period.

During a previous period, 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 on issue.

Performance rights
During the Reporting Period 3.6 million Performance Rights, as approved by shareholders at the AGM on 29 November 2019, were granted to the CEO / Managing Director, Paul Simmons, effective 29 November 2019 as a cost effective incentive forming part of a reasonable and appropriate remuneration package. The Performance Rights vest over the period to 30 June 2022 upon achievement of earnings per share / strategic plan milestones, were issued for $nil consideration, have an exercise price of nil cents and expire on or before 30 June 2022. Each Performance Right will, subject to vesting, entitle the holder on exercise to one share in the Company. The value of the Performance Rights was calculated using the Black-Scholes Model at $61,200, of which $25,500 was expensed to Profit or Loss in the Reporting Period and the remainder will be expensed over future reporting periods to June 2022. None of the Performance Rights had been vested by 30 June 2020.

7. Dividend reinvestment plan

A dividend reinvestment plan is in place.

8. Accumulated losses

	30 June 2020 $'000	**30 June 2019** $'000
Accumulated (losses) at beginning of financial year	(17,472)	(17,301)
Initial application of AASB 16 – Leases (**Note 13**)	(25)	–
Net profit (loss) attributable to members	316	(171)
Accumulated (losses) at end of financial year	(17,181)	(17,472)

9. Net tangible assets

	30 June 2020 Cents	**30 June 2019** Cents
Net tangible asset backing per ordinary share	0.6	0.4

10. Details of entities over which control has been gained or lost during the period

None

11. Details of associates and joint venture entities

Not applicable.

12. Any other significant information

During a previous period, on 26 September 2017, John Boardman Pty Ltd ("JBPL"), a 100% owned subsidiary of the Company, was placed into liquidation. That entity had negligible assets, did not trade, and had been acquired in 2015 on the contractually warranted basis that the vendor was liable for pre-acquisition liabilities. Subsequently the Company became aware of unpaid JBPL tax liabilities of some $0.3m which had not been paid by the vendor and, accordingly, the Group consolidated the liability into the Group's reported financial position.

During the Reporting Period:

- the liquidator lodged a claim against the Company, the underlying claim related to the unpaid pre-acquisition tax liabilities of JBPL;
- the Company disputed the claim but for commercial reasons paid $150,000 in settlement of all existing and possible claims, including repayment of a $25,000 inter-company loan owing to JBPL by the Company;
- as a result of the settlement, the net liabilities of JBPL are no longer a liability of the Group and have given rise to a writeback of $0.34m to the Group's consolidated Profit or Loss.

13. Accounting Standards

The financial report is a general-purpose financial report that has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

During the Reporting Period *AASB 16 – Leases* was applicable for the first time. AASB 16 introduced a single lessee accounting model that eliminated the requirement for leases to be classified as either operating of finance leases. The key features of AASB 16 are:

- Lessees are required to recognise assets and liabilities for all leases (excluding short term leases with less than 12 months of tenure and leases relating to low value assets);
- A lessee measures the right-of-use assets similar to other non-financial assets and lease liabilities similarly to other financial liabilities;
- Assets and liabilities arising from the lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease;
- additional disclosure requirements.

The Group has reviewed all the Group's arrangements to identify leases. The Group currently leases it's office premises. The Group currently has no other material operating leases and does not act as a lessor.

The impacts of AASB 16 on the Group's financial statements in the Reporting Period included:

- a Right of Use asset arose on the initial application of AASB 16 Leases, which was applied from 1 July 2019 using the modified retrospective approach whereby the opening balances were not restated. Under this approach, the cumulative effect of initially applying AASB16 was recognised as an adjustment to equity at the date of initial application – being an adjustment to Accumulated Losses brought forward of $25,141;
- the rental charge for the Group's office premises of $51,098 was reclassified as payment of the lease liability and interest thereon. The Right of Use Asset has been depreciated by $42,250 and an interest charge of $11,124 has been recognised in Profit or Loss, with a resulting effect on EBITDA calculations for users of the financial report; and giving rise to a reduction in reported net profitability of some $2,275;
- repayment of the principal portion of the office lease liability has been classified as cashflow from financing activities, rather than as cashflow from operating activities.

14. Results for the period

	30 June 2020 cents	**30 June 2019** cents
Basic earnings / (loss) per ordinary share	0.166	(0.090)
Weighted Average number of ordinary shares outstanding during the period used in the calculation of basic EPS	190,757,297	188,535,887

15. Return to shareholders

During the Reporting Period, as part of an on-market Share Buy-Back program approved by shareholders, 1,270,000 ordinary securities were acquired and cancelled at an average buy-back price of 1.11 cents, totalling $14,700.

16. Significant features of operating performance

During the Reporting Period the Company:

Operational

- maintained all material existing client contracts;
- increased annual revenue by 6.6% notwithstanding the effects of COVID 19 restrictions on the retail, sports and events sectors in WA;
- increased its revenues through organic growth, with new contractual work commencing at shopping centres, a major private hospital and an increased number of event / sports venues in WA;
- 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;
- had its management processes certified under ISO 9001 (Quality), AS4801 and OHSAS 18001 (Health & Safety). 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 develop its environmental processes and will seek ISO 14001 Environmental Management accreditation in the year to June 2021;

Corporate

- During a previous period, on 26 September 2017, John Boardman Pty Ltd ("JBPL"), a 100% owned subsidiary of the Company, was placed into liquidation. That entity had negligible assets, did not trade, and had been acquired in 2015 on the contractually warranted basis that the vendor was liable for pre-acquisition liabilities. Subsequently the Company became aware of unpaid JBPL tax liabilities of some $0.3m which had not been paid by the vendor and, accordingly, the Group consolidated the pre-acquisition liability into the Group's reported financial position.

  During the Reporting Period the Company was subject to a claim from the liquidator of JBPL related to unpaid liabilities of JBPL arising prior to its acquisition by the Company in 2015. The Company disputed the liquidator's claim but reached a $150,000 settlement for commercial reasons. The settlement included repayment of an inter-company loan of some $25,000 and was in full settlement of any existing or future claims. As a result, the Group has been able to writeback in the Reporting Period JBPL's net liabilities of $0.34m as previously consolidated into the Group's Financial Position;
- bought back and cancelled 1,270,000 ordinary shares, representing less than 1% of the then share capital, for $14,700;
- granted 3.6m Performance Rights to the CEO / Managing Director, Paul Simmons;
- repaid $100,000 of the vendor loan owing to P&M Simmons, vendors of the MCS Security Group Pty Ltd business. The remainder of the vendor loan is repayable by October 2020

Strategic

- obtained security operating licences for NSW and ACT, adding to the existing operating licences for Victoria, South Australia and Western Australia;
- continued to pursue pipeline opportunities in WA and other States;

The Company:

- continues to seek further organic growth opportunities in its specialist security segments, including but not limited to leveraging its reputation with existing clients to obtain work at additional locations;
- is also assessing the addition of new verticals to its business;
- 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. It may progress these opportunities if they are value accretive to shareholders and consistent with the Company's strategy; and
- is assessing the most effective use of cash balances going forward including for business acquisitions, share buy-backs and / or reduction of the remaining Related Party loan balance.
- During the previous reporting period the Company finalised a review of its Workers Compensation Insurance premium liabilities for insurance periods prior to those managed by its current Insurance Broker. An amount of $450,000 was accrued in the previous reporting period in relation to expected workers' compensation call-up premiums for the years 2015/16 and 2016/17. The call-up premiums for those periods were paid in full in the Reporting Period. The Company had at all times maintained full Workers Compensation insurance for all of its employees.

17. Segment results

All revenue earned during the year, and all non-cash assets included in the Statement of Financial Position at the year end, relate to the security business as based in Australia.

18. Trends in results

The upward trend in Revenue during the Reporting Period reflects:

- the Company's progress in establishing itself as the most prominent provider of security services to shopping centres and sports stadia in Western Australia;
- the Group's retail and events security work volumes being impacted by COVID restrictions during the latter part of the Reporting Period, with work volume reductions at some shopping centres and a complete suspension of music / sports events work (except for the asset protection security at Perth's major sports stadium, which remained unaltered) commencing in March 2020.

  However the effect was negated by new work opportunities during that period including undertaking security work at a quarantine-control hotel in Perth.

  Towards the end of the Reporting Period, and into the subsequent period, the relevant retail security clients have progressively returned to standard work volumes and there has been a gradual increase in events-security volumes as WA's COVID restrictions have been eased.

  At the date of this Report the Group's quarantine-control hotel security work is ongoing, utilising a full complement of specifically trained MCS security officers.

Gross Profit margins were affected by pay-awards to Guards net of contract rate increases to customers.

Operational Overheads were affected by:

- the AASB 16 re-classification of office rent between depreciation and finance costs (**Note 13**);
- the continuing downward trend in Workers Compensation insurance costs relative to wage costs, a function of a trend in reduced incidents and enhance management of the return to work process.

19. This Report is based on accounts to which the following applies

The accounts are in the process of being audited.

20. Description of any likely audit dispute or qualification

None.

Signed in accordance with a resolution of the directors.

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

Dated this 31st day of August 2020