



Activities Report & Cash Flow Statement
For the 3 months ending 31 December 2016

Quarterly Activities and Cash Flow Statement

For the three months ending 31 December 2016

27 January 2017

MCS Services Limited (**MCS Services**) (**Company**) (ASX: **MSG**) is pleased to present its Activities Report and Appendix 4C for the three months ending 31 December 2016 (**Period**).

HIGHLIGHTS

- \$4.7 million in gross receipts generated in the Period (13% up on the previous period, despite being affected by the timing of customer receipts over the Christmas period);
- \$2.3 million in cash and net receivables as at 31 December 2016;
- \$2.79 million in total cash and net receivables (as at the end of the Period), accounting for dividends paid during the Period, representing an approximate 16% increase on the same metric from the previous period;
- Operating conditions remain strong, with a continued focus on organic growth via the tender pipeline, pursuing potential acquisition targets, and the servicing and maintenance of existing contracts; and
- Continued focus on operational, financial and management system improvements.

OPERATIONS UPDATE

The Company had a strong quarter, and after the first 6 months of the Financial Year the Company is tracking in line with Managements' expectations.

The Company has maintained positive revenue performance (compared to the three months ending 30 September 2016) and has maintained all existing clients, with many increasing their hours of coverage during the Period due to the extended trading hours of the Christmas season.

The Company has recorded the below unaudited results, on an accruals basis:

	3 months to 30 Sept 2016	3 months to 31 Dec 2016	Cumulative 6 months to 31 Dec 2016
	\$'m	\$'m	\$'m
Revenue	4.38	4.87	9.25
Gross Profit	1.02	1.09	2.11
Insurance	(0.18)	(0.18)	(0.36)
Operating Overheads	(0.55)	(0.49)	(1.04)
Corporate Overheads	(0.12)	(0.10)	(0.22)
EBITDA	0.17	0.32	0.49
Depn, Interest, Impairment	(0.05)	(0.05)	(0.1)
Net Profit before Tax	0.12	0.27	0.39

Quarterly Activities and Cash Flow Statement

For the three months ending 31 December 2016

27 January 2017

A key cost to the Company is its Workers Compensation premium. The Company's annual premium, which runs 1 September to 31 August each year, is reflective of the size of its workforce and is structured such that a partial reduction or refund of premiums may be obtained if claims are below certain thresholds. The Company actively manages its risk through recruitment, training, supervision and risk awareness. The Company has made pleasing progress with the quantum and management of Workers Compensation incidents and claims, and anticipates this will result in notably reduced premiums on insurance going forward. As at the end of the Period the Company's insurer had six claims on foot, being five claims from the previous insured period and one arising in the Period. With a workforce of over 400 employees, operating in a volatile and sometimes confrontational sector, this is a pleasing result and reflects the calibre and training of the Company's front-line operatives.

As notified previously, the Company lodged a tender quote with a large Perth metropolitan council for provision of a physical security presence in its town-centre. During the Period the Company was awarded the contract and commenced the work in November 2016 for a 3 month trial period. Subsequent to the Period, the Company has scheduled to discuss an extension with the Council.

As announced, the Company has been in discussions with a property management group with 14 sites including a number of small shopping centres. During the Period, the Company:

- lodged a quote to provide security services at 2 of the sites, which was successful; and
- remains in discussions regarding the remaining 12 sites.

The Company has also progressed discussions with a second multi centre property management group who indicated they would like MCS Services to be their preferred supplier of security services. The Company has scheduled to discuss this further, with a view to a possible Heads of Agreement within the current period.

During the previous, and current, periods the Company completed non-contracted security work in 5 healthcare facilities. The Company will continue to pursue further ad-hoc work in the Healthcare sector as a source of new revenues.

The Company has continued to grow in the Pilbara region of WA with increased levels of security work at a major demolition site and continuing levels of Events security work for the local government and security work in healthcare facilities.

As notified previously, the Company has been accepted as a preferred supplier to a major facility management company with significant presence in the mining industry. The Company has obtained the relevant HSE requirements and is awaiting contract opportunities.

The Company is continuing to progress through the tender selection process with a major contractor in the Oil and Gas sector.

Quarterly Activities and Cash Flow Statement

For the three months ending 31 December 2016

27 January 2017

ACQUISITION UPDATE

The Company is constantly assessing expanding its operations in the Perth metropolitan area, regional Western Australia and interstate through the identification and acquisition of suitable targets.

The Company is currently in talks with a number of privately-owned security companies regarding a possible acquisition by the Company, including with a Retail Security business operating in the Northern Territory and a local Perth company with contracts in the industrial sector - an area where the Company could leverage our management and operational expertise and add to our portfolio.

Discussions have progressed, particularly in relation to the Perth company, though all discussions remain confidential, non-binding and incomplete.

FINANCIAL PERFORMANCE

The Company generated customer receipts of \$4.69 million during the Period (the 3 months ending 30 September 2016 was \$4.16 million).

At the end of the Period, \$3.35 million (the 3 months ending 30 September 2016 was \$2.68 million) had been invoiced but not yet received. The increase was a function of a seasonal increase in customer billings in December and the timing of customer receipts over the Christmas period. This has since reduced post the Period as invoices have been settled in line with expected payment terms of clients.

During the Period, the Company paid \$4.02 million (the 3 months ending 30 September 2016 was \$3.84 million) in staff costs, predominantly the costs of security guards including superannuation. Working capital costs of \$0.39 million (the 3 months ending 30 September 2016 was \$0.32 million) were paid in the Period included insurance and general administration costs.

Cash and net receivables as at 31 December 2016 totaled \$2.30 million (the 3 months ending 30 September 2016 was \$2.43 million on a comparable basis) comprising cash of \$0.30 million (the 3 months ending 30 September 2016 was \$0.84 million) and net receivables of \$2.00 million (the 3 months ending 30 September 2016 was \$1.59 million on a comparable basis).

SECTOR OUTLOOK

Management remains confident regarding the local Perth market's ability to provide growth to the Company's revenues. The Company has identified multiple key contract tenders in Government, Healthcare, Retail, Mining and Construction.

Furthermore, the national market also presents large growth opportunities and the Company has been approached by multiple national retailers and property groups requesting MCS Services tenders on

Quarterly Activities and Cash Flow Statement

For the three months ending 31 December 2016

27 January 2017

contracts located in NSW, QLD, VIC and NT. Subsequent to the Period, the Company has scheduled discussions regarding the provision of security services at WA locations with two major national retail chains.

CORPORATE UPDATE

Capital Restructure

As per the ASX Announcement on 7 September, and discussed in the September 2016 Quarterly, the Company entered into agreements with the vendors of its operating subsidiaries, MCS Security Group Pty Ltd (MCS) and John Boardman Pty Ltd (JBL), to optimize the Company's capital structure and balance sheet.

Key terms of the agreements included:

- 18 million fully paid ordinary shares held by the vendor of JBL to be cancelled by way of a selective buy-back in consideration for the issue of 27 million unlisted options exercisable at \$0.06 each expiring 30 October 2010, subject to shareholder approval;

Shareholder approval was obtained at the Company's AGM on 28th November 2016, and all other conditions of this agreement regarding JBL have been satisfied. The Buy-Back documentation is expected to be completed shortly.

- a \$0.35m reduction in the post-closing payment to be made to the vendors of MCS, and the provision of a \$0.35m loan facility to the Company by those vendors;

The Company is in the process of finalising the latter loan documentation.

Annual General Meeting

On 28 November 2016, the Company held its first Annual General Meeting of shareholders (AGM) since re-listing as a MCS Services.

All resolutions of the AGM were carried.

Director Appointment and Resignation

Ms Melissa Chapman resigned as a director of the Company, as announced 28 November 2016. The board of the Company thanks Ms Chapman for her service to the Company and wishes her the best in her future endeavors.

Replacing Ms Chapman as a non-Executive Director, Mr Matthew Ward joined the board of the Company. Mr Ward brings over 30 years' of financial and commercial experience and is already proving a valuable addition and asset to the Company.

Quarterly Activities and Cash Flow Statement

For the three months ending 31 December 2016

27 January 2017

Dividend

During the Quarter, on 2 November 2016, the Company announced its decision to pay an unfranked dividend of \$650,000 (\$0.00322 per share) and the adoption of a Dividend Reinvestment Plan (DRP).

On 16th December 2016:

- a dividend of \$496,703 was paid, with an additional \$45,188 Withholding Tax withheld;
- shareholders electing to participate in the DRP received shares in the Company, based on a price of \$0.025 per share, totalling \$107,258

Attached is the Appendix 4C Quarterly Cash Flow Statement for the three months ending 31 December 2016.

Yours faithfully,



Paul R. Simmons
Chief Executive Officer
MCS Services Limited

For further information, please contact:

Corporate/Operational

Paul Simmons, Chief Executive Officer +61 (8) 9301 2420

Investors/Analysts

Josh Puckridge, Non-Executive Director +61 (8) 6489 1600

About MCS Services Limited

MCS Services Limited is a Company listed on the Australian Securities Exchange (ASX: **MSG**).

The Company is one of the largest fully integrated security providers in Western Australia, employing over 500 operational staff and supervisors. MCS Services specialises in asset security at government offices and facilities, major commercial property sites, retail shopping centres, sports stadiums, construction sites, ancillary sites and major outdoor events throughout Western Australia.

Visit the Company's website (www.mcssecurity.com.au) and see the Company's latest announcements (www.asx.com.au/asx/research/company.do#!/MSG) for more details.

Quarterly Activities and Cash Flow Statement

For the three months ending 31 December 2016

27 January 2017

Forward-Looking Statements

This document includes forward-looking statements. Forward-looking statements include, but are not limited to, statements concerning MCS Services Limited's planned activities, operations, expectations and other statements that are not historical facts. When used in this announcement, the words such as "could," "plan," "estimate," "expect," "intend," "may", "potential," "should," and any other similar expressions are forward-looking statements. Although MCS Services Limited believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. All figures presented in this document are unaudited and this document does not contain any forecasts of profitability or loss.

-END-

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

MCS Services Limited

ABN

66 119 641 986

Quarter ended ("current quarter")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	4,686	8,842
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(28)	(71)
(d) leased assets	(18)	(41)
(e) staff costs (1)	(4,022)	(7,864)
(f) administration and corporate costs	(389)	(714)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	6
1.5 Interest and other costs of finance paid	(1)	(2)
1.6 Income taxes paid	152	152
1.7 Government grants and tax incentives	-	-
1.8 Other (GST to ATO)	(387)	(795)
1.9 Net cash from / (used in) operating activities	(6)	(485)

(1): Includes payroll, PAYG, payroll tax, superannuation etc

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(30)	(49)
(b) businesses (see item 10)	-	350
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(30)	301

The \$0.35m inflow at 2.1(b) above reflects the Vendor of MCS Security agreeing to a \$0.35m reduction in the post-closing payment as announced on 7 September 2016.

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	(497)	(497)
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	(497)	(497)

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	835	984
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(6)	(485)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(30)	301

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(497)	(497)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	304	304

The above table is exclusive of \$0.35m (30 Sept 2016: \$0.42m) of cash held by the Company on behalf of the Vendors as at 31 December 2016. During the December quarter \$0.067m was disbursed in cash to the Vendors.

The remaining \$0.35m is to be subject to an unsecured loan to the Company by the Vendors as announced on 7th September 2016. The loan is subject to final documentation (refer Section 8)

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	304	835
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	304	835

6. Payments to directors of the entity and their associates

	Current quarter \$A'000
6.1	12
6.2	-
6.3	

Director fees to 30 November paid to associate entities of Melissa Chapman and Josh Puckridge at rate of \$25,000 pa: \$12,500

7. Payments to related entities of the entity and their associates

	Current quarter \$A'000
7.1	82
7.2	-
7.3	

Gross salary payments (incl superannuation) paid to Paul Simmons the CEO and to John Boardman the COO: \$67,204

Office rent paid to a related party of the CEO: \$14,503

8. Financing facilities available

Add notes as necessary for an understanding of the position

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	350	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

The Company is in the process of finalising the terms of an unsecured \$0.35m loan from the Vendors of MCS, pursuant to the Capital Restructure announced on 7 September 2016. The proceeds of the proposed loan are effectively already held by the Company, being an element of the post-closing payment due to the Vendors of MCS.

9. Estimated cash outflows for next quarter

\$A'000

9.1 Research and development	-
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	30
9.4 Leased assets	20
9.5 Staff costs	3,800
9.6 Administration and corporate costs	350
9.7 Other (GST to ATO)	400
9.8 Total estimated cash outflows	4,600

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)

Acquisitions

Disposals

10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:

Date: 27 January 2017

CFO

Print name: MARK ENGLEBERT

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.