



Activities Report & Cash Flow Statement
For the 3 months ending 30 September 2016

Quarterly Activities and Cash Flow Statement

For the three months ending 30 September 2016

31 October 2016

MCS Services Limited (**MCS Services**) (**Company**) (ASX: **MSG**) is pleased to present its Activities Report and Appendix 4C for the three months ending 30 September 2016 (**Period**).

HIGHLIGHTS

- \$2.80 million in cash and net receivables at 30 September 2016 (34% up on the previous period);
- \$4.16 million in gross receipts generated in the Period (20% down on the previous period, primarily due to the timing of Debtor receipts);
- 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 is pleased with its trading for the Period which is in line with internal targets. The Company has maintained its revenue performance and maintained all existing clients, with several increasing their hours of coverage.

The Company was awarded two new contracts in the previous period, with working commencing in this Period:

- The first contract was the renewal of Hillarys Boat Harbour contract (retail, commercial and marina premises) for a further 12 months with the option of a further two 12 month extensions (*refer ASX Announcement 9 June 2016*); and
- The second was a new contract with a large property management group for four new sites (including 3 shopping centres) providing on-site security, patrols and alarm responses (*refer ASX Announcement 22 June 2016*).

As notified previously, the Company lodged a tender quote with a large Perth metropolitan council to provide a physical security presence in its town-centre. Subsequent to the Quarter-end the Company has been awarded the contract and is expecting to commence the work in November 2016.

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

- replaced a security alarm systems at one of these centres,
- lodged a quote to provide security services at 2 of the sites and is awaiting a response, and;
- remains in discussions regarding the remaining 12 sites.

The Company has also progressed discussions with another multi centre property management group who indicated they would like MCS Services to be their preferred supplier of security services.

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During the Period the Company submitted a tender for providing security services in 20 healthcare facilities in WA, and has been provided with increasing levels of ad-hoc (non-contract) security work in 5 of those facilities pending release of the tender decision. The Company continues to pursue other near-term ad-hoc opportunities in the healthcare sector.

The Company has continued to grow in the Pilbara region of WA with additional work commenced in the Period for the local government and an increased level of ad-hoc security work in healthcare facilities. The Company was unsuccessful in its tender for work in an Aboriginal Aged Care facility.

As notified previously, the Company has been accepted as a preferred supplier to a major facility management company with a significant presence in the mining industry. The facility management company can not be named at this time. The Company has obtained the relevant HSE requirements and is now awaiting contract opportunities.

The Company is continuing its discussions with a major contractor in the Oil and Gas sector and has progressed towards ISO recognition for compliance.

The Company is awaiting a response on a tender lodged for security at AMP Commercial buildings in WA.

The Company was unsuccessful in its tender for Westfield shopping centres in WA.

ACQUISITION UPDATE

As noted in MCS Services' Prospectus (dated 26 October 2015), 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 acquisition by the Company including:

- an Australian eastern states company specialising in high end retail security;
- an Australian eastern States company providing security in retail, sports and events sectors;
- a 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.

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FINANCIAL PERFORMANCE

The Company generated customer receipts of \$4.16 million during the Period (the 3 months ending 30 June 2016 was \$5.17 million).

At the end of the Period, \$2.68 million (the 3 months ending 30 June 2016 was \$1.92 million) had been invoiced but not yet received.

During the Period, the Company paid \$3.84 million (the 3 months ending 30 June 2016 was \$3.83 million) in staff costs, predominantly the costs of security guards (including superannuation) and working capital costs of \$0.32 million (the 3 months ending 30 June 2016 was \$0.13 million) which included insurance and general administration costs.

Cash and net receivables at 30 June 2016 totaled \$2.80 million (increasing 34% on the 3 months ending 30 June 2016 of \$2.1m) comprising cash of \$0.835 million (the 3 months ending 30 June 2016 was \$0.98 million) and net receivables of \$1.97 million (the 3 months ending 30 June 2016 was \$1.10 million).

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 and continues to pursue them. The Company is awaiting release of documents so it may produce a tender, having held several meetings with Healthcare representatives and a major Educational Institution.

Furthermore, the national market also presents growth opportunities and the Company has been approached by multiple national retailers and property groups requesting MCS Services tenders on contracts located in NSW, QLD, VIC and NT.

CORPORATE UPDATE

As per the ASX Announcement on 7 September 2016, the Company has 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 include:

- 18 million fully paid ordinary shares held by the vendor of JBL are 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 which is being sought at the upcoming Annual General Meeting;

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- 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 and the Vendors are in the process of finalising the latter loan documentation.

The Company continues seeking improvements for its accounting, rostering and operational management systems.

The Company believes it has made progress in managing its Workers' Compensation incidents and claims, and anticipates this to reduce premiums of the Company's insurance in the future. The Company has enhanced its risk-management tools with the implementation of the GSI Employee survey tools.

Attached is the Appendix 4C Quarterly Cash Flow Statement for the three months ending 30 September 2016.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'P. Simmons', with a large circular flourish above the name.

Paul R. Simmons
Chief Executive Officer
MCS Services Limited

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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.

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")

30 September 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	4,156	4,156
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(43)	(43)
(d) leased assets	(22)	(22)
(e) staff costs (1)	(3,842)	(3,842)
(f) administration and corporate costs	(325)	(325)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	4
1.5 Interest and other costs of finance paid	(1)	(1)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (GST to ATO)	(407)	(407)
1.9 Net cash from / (used in) operating activities	(480)	(480)

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

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(19)	(19)
(b) businesses (see item 10)	350	350
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 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	331	331

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	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-	-

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	984	984
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(480)	(480)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	331	331

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	835	835

Cash at the beginning of the quarter has been amended for a year end audit adjustment.

The above table is exclusive of \$0.42m (30 June 2016: \$1.37m) of cash held by the Company on behalf of the Vendors as at 30 September 2016. During the September quarter:

- \$0.6m was disbursed in cash to the Vendors, and
- \$0.35m became subject to an agreed reduction in post-closing payments as announced on 7th September 2016 as part of the Capital Restructure and is disclosed at 2.1(b) above.

Of the remaining \$0.42m, \$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	835	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)	835	835

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
57
-

Company Secretarial fees to 31 Aug 2016 paid to an associate entity of Melissa Chapman at rate of \$2,000 per month: \$14,000

Director fees to 31 Aug 2016 paid to associate entities of Melissa Chapman and Josh Puckridge at rate of \$25,000 pa: \$42,523

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	78
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

Gross salary payments (incl superannuation) paid to the CEO and COO: \$64k
Office rent paid to a related party of the CEO: \$14k

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	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	40
9.4 Leased assets	22
9.5 Staff costs	3,800
9.6 Administration and corporate costs	300
9.7 Other (GST to ATO)	400
9.8 Total estimated cash outflows	4,562

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:

CFO

Date: 31 October 2016

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.