



## McGrath Limited and Controlled Entities

2018 Annual Report

ACN 608 153 779

**McGrath**

# McGrath Limited and Controlled Entities

A.C.N. 608 153 779

## Corporate Information

McGrath Limited is a company limited by shares, incorporated and domiciled in Australia. McGrath Limited listed on the Australian Securities Exchange on 7 December 2015 (ASX: MEA).

Its registered office and principal place of business is:

McGrath Limited  
191 New South Head Road  
EDGECLIFF NSW 2027

All press releases and other company background information is available on our website:

[www.mcgrath.com.au](http://www.mcgrath.com.au).

In this report, McGrath Limited is referred to as the Company McGrath, McGrath Limited and the subsidiaries that it controlled at the end of the period and from time to time throughout the period are together referred to as the Consolidated Entity.

## What we do

Founded in 1988 by John McGrath, McGrath has been established as one of the leading residential real estate service providers in Australia with a strong market presence in New South Wales and the Australian Capital Territory, a growing presence in Queensland and entered the Victorian market during financial year 2016.

McGrath is an integrated residential real estate services company providing a range of services including residential property sales, property management, mortgage broking, auction services and real estate training.

# McGrath Limited and Controlled Entities

A.C.N. 608 153 779

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## Joint letter from the Chairman and CEO

Dear Shareholder,

The 2018 financial year (FY18) was one of significant change for our business.

It was a difficult period for McGrath with a range of internal and external issues impacting our business, and leading to a disappointing financial result. However, the core fundamentals of our business are robust with one of Australia's leading sales agent teams, brand, customer service offering and network reach.

Founded in 1988 by John McGrath, McGrath this year celebrated its 30<sup>th</sup> year of operation, and with that comes an extensive knowledge of the East Coast real estate market that has made our Company one of Australia's most successful real estate groups.

With offices across New South Wales, Queensland, Victoria and the Australian Capital Territory we have an unmatched presence and understanding of the market. This allows us to deliver outstanding results for clients and offer a level of service unmatched by our competitors and widely appreciated by our customers.

In response to the challenges the business faced over FY18, our Founder and Executive director, John McGrath, assembled a new leadership team including an independent Chairman, two non-executive Directors, Chief Executive Officer and Chief Financial Officer. McGrath's revitalised and united leadership team is committed to restoring our business to its industry-leading position, where the market's best real estate talent is proud to work.

We know that senior management and Board changes, as well as the tumultuous events of the past financial year, have been difficult for our team. Understandably, morale was impacted, and some real estate agents and franchisees have departed. The Board and the new management team are united and focused on stabilising the business, and pleasingly we are already seeing signs of positive momentum.

Pleasingly, our real estate agents remain among the best in the market, with the recently published annual Real Estate Business Top 100 Agents ranking 27 McGrath agents in the Top 100 agents in Australia. Importantly, 37% of female agents in this Top 100 ranking work with McGrath.

We are very proud of our sales agents and the entire team, and a significant focus of McGrath has been on the refinement of the learning and development programs for our employees and sales agents and a focus on building a strong culture. With this in mind, a Head of Learning and Development has been appointed and our learning management system is being enhanced and implemented across our entire network to

systemise and sustain our competitive advantage in improving skills and ensuring exposure to industry leading training for our employees and sales agents.

With the new Board and senior leadership team settled in, the last quarter of FY18 saw the beginning of a period of stabilisation, and we are in the midst of a business turnaround. We are already seeing good progress in recruitment, culture and critically results for our customers. In addition, we have improved our focus on communications both internally and externally to position our Company as a strong and attractive real estate group.

### Real estate market conditions

Residential real estate market conditions in Australia began to cool during FY18, particularly in Sydney. A decrease in listing volumes and auction clearance rates, as well as tougher financing conditions, resulted in McGrath facing a tougher operating environment.

While these weakened real estate conditions have impacted our performance, it must be reiterated that we continue to be one of the best real estate businesses in Australia with a breadth of business, team talent pool, and knowledge of the market that is unmatched.

The residential market has been extremely strong in terms of price growth and clearance rates for several years. We have now entered a tighter cycle where a quality brand, skills and experience are crucial, and we believe McGrath is well placed in this environment.

Above all however, we continue to believe that residential real estate holds an unassailable position at the heart of most portfolios, and while markets will ebb and flow, a home remains the key for most Australians' aspirations.

### Financial performance

Due to the difficult market conditions, lower sales volumes, and the departure of some of McGrath's sales agents and franchisees, Group revenue was down 23% to \$99.2 million (compared to FY17).

The lower revenue resulted in underlying EBITDA reducing to \$5 million (before \$4 million of one-off costs and \$59 million of goodwill impairments), within market guidance.

Over \$12 billion of properties were sold by McGrath in FY18 with property sales volumes decreasing 14% to 11,067, impacted by the reduction in the number of agents.

Managed properties declined to 7,215, driven by challenging conditions across the East Coast residential market.

The total value of loans settled by Oxygen Home Loans, our mortgage broking business, was \$778 million, down 15% on FY17. This was impacted by difficult conditions across the sector.

### Network changes

There were significant network changes across the Group during FY18, with some sales agent and franchisee departures offsetting new agents. Agent numbers are down 99 to 558. It is regrettable that agents left our Company, and we have doubled our efforts to improve morale amongst our sales agents to ensure that McGrath is an excellent place to work.

Our franchise network has seen declines due to a combination of industry factors and the departure of a few smaller franchisees, with 8,065 sales from franchises during FY18 compared to 8,337 sales during FY17.

The number of Company-owned offices declined to 26 from 28 over FY18. The number of franchisee offices decreased to 69 from 74 in the prior year. It is disappointing that we have seen departures in our franchise network and we are committed to providing the highest levels of support and mentoring to all our franchise partners to ensure the success of their businesses. Equally, we must make sure that every office in the McGrath network lives up to the brand demands and the satisfaction of our customers.

### Aqualand investment and strategic alignment

During FY18, we were pleased to welcome Aqualand Group who made a strategic investment in our Company. Aqualand is one of Australia's premier property development and investment groups with a portfolio of 18 sites with a gross development value of approximately \$5 billion.

Aqualand's investment provides our Company with additional capital and resources to grow. As part of the investment, that has seen Aqualand becoming McGrath's second largest shareholder, Aqualand was entitled to appoint a non-executive director onto our Board, and we recently welcomed Wayne Mo to the Board. In addition, McGrath has been given the first right to discuss being a sales agent and leasing agent on Aqualand's new projects. We believe that an ongoing relationship with Aqualand will be fruitful for both parties and provides a growth opportunity for shareholders.

### Outlook

We are committed to, and focused on, restoring our industry-leading position in FY19. Central to this is retaining and attracting the best real estate talent in the market, and ensuring McGrath is a great place to work for all with a welcoming and supportive culture.

Throughout FY19 and beyond we intend to introduce a range of strategic initiatives that are designed to improve the business, including initiatives relating to learning and development, data driven technology improvements and assessment of select acquisitions.

As we have indicated previously, we remain committed to growing the contributions of our annuity businesses in Property Management, Franchise and Oxygen as well as de-risking the volatility of our earnings in Company Owned Sales. At the same time, we will maintain a disciplined approach to cost management across the business.

With an industry-leading team and unmatched knowledge of the market developed over 30 years, we believe that the Company's most difficult days are behind it. The newly appointed Board and management team are unified in their commitment to return the Company to growth after a tumultuous 12 months.

On behalf of the Board and the management team, we would like to thank shareholders for their support and loyalty during a difficult FY18. A special note here to our Founder, John McGrath, who has provided much needed inspiration and stability during this time.

Finally, we would like to thank all our team members and franchise partners for their tireless work and commitment to our Company.

We have a unique platform from which to rebuild our leading market position, and are dedicated to ensuring that rewarding times are ahead for all stakeholders in our business.

Yours sincerely,



**Peter Lewis**  
Chairman



**Geoff Lucas**  
Chief Executive Officer

## Operating and financial review

### Business Overview

The Consolidated Entity operates a diverse business model which provides a range of services that include residential property sales, property management, mortgage broking, auction services and real estate training.

The McGrath Network of real estate offices includes both sales offices operated by the Consolidated Entity (Company owned offices) and sales offices operated by franchisees of the Consolidated Entity (Franchise offices).

The operating segments are:

**Company owned sales:** This segment undertakes residential property sales on behalf of property vendors through Company owned offices and agents. The segment generates revenue by charging a sales commission to a property vendor upon successful sale of a property. The commission is generally based on a percentage of the property's value.

**Company owned property management:** This segment directly manages residential properties on behalf of owner clients. The segment generates revenue through charging a commission to manage a property and leasing fees earned upon successful letting of a property.

**Franchise services:** This segment manages franchise offices that undertake both property sales and property management activities. The segment receives fees from its franchisees that include:

- An initial grant fee on the issue of a franchise or on a franchise renewal;
- An ongoing franchise fee based on a fixed percentage of the total sales commission paid on the sale of a property (Gross Commission Income);
- An ongoing marketing fund contribution based on a fixed percentage of the gross commission income generated by the franchisee; and
- A fixed percentage of the Franchisees' property management fees.

**Other services:** The Consolidated Entity also has a number of other services which complement the service offerings of the segments above. These include:

- Mortgage broking services which earn revenue based on an up-front fee and an ongoing trailing commission
- Training services organise a number of Australian residential real estate conferences and receives revenue from fees paid by attendees, exhibitors and sponsors
- Auction service group generates revenue based on a fixed fee per auction.

### Agents and office locations

As at 30 June 2018 the network comprised 26 Company owned offices and 69 Franchise offices with 558 agents operating within those offices. The spread of offices is across the Eastern seaboard as seen in the graphic in figure 1 below. There was a net reduction of 7 offices in the year with 2 openings and 9 closures.

Total agents have decreased to 558, a 15% decrease on FY17 as a result of the reduction in Franchise offices and company owned agents. McGrath is going through a turnaround and aims to attract, retain, develop and reward high performing sales agents with a focus on growing the office network and market share in New South Wales, ACT, Queensland and Victoria. Productivity increases for existing and new agents will be achieved through new tools and software.



Figure 1: McGrath office Network



### Underlying Income Statement

To assist in the interpretation of the performance of the consolidated entity, the Underlying result excluding one-off items is presented below. Underlying performance is reconciled to statutory results on the following page

	2018 \$'000	2017 \$'000
Underlying Revenue	99,603	129,042
Cost of sales	(38,084)	(49,943)
<b>Underlying Gross profit</b>	<b>61,519</b>	<b>79,099</b>
Employee benefits expenses	(31,766)	(36,913)
Other expenses	(24,720)	(26,932)
<b>Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>5,033</b>	<b>15,254</b>
Depreciation and Amortisation	(7,157)	(9,754)
<b>Underlying (losses)/earnings before interest and tax (EBIT)</b>	<b>(2,124)</b>	<b>5,500</b>
Net finance income	33	37
<b>Underlying (loss)/profit before tax</b>	<b>(2,091)</b>	<b>5,537</b>
Income tax benefit/(expense)	609	(987)
<b>Underlying (loss)/profit after tax</b>	<b>(1,482)</b>	<b>4,550</b>

### Company Owned Sales and Project Marketing

Company owned sales was the major contributor to the overall decline in earnings for FY18. \$4.6 billion in sales value from 3,002 sales for FY18 compared to \$6.4 billion and 4,504 sales in FY17. In FY18 there was a net decrease in offices of 2, with the transfer of Avalon to Franchise and the closure of Seaforth.

Segment Underlying EBITDA of \$4.2 million was 73% down on FY17 driven by a decline in listings volume, lower agent numbers and lower commission rates.

### Company Owned Property Management

Properties under management decreased by 3% to 7,215 in FY18, generating \$6.6 million Underlying EBITDA, a 6% decrease on FY17. This was driven by the lower number of managed properties impacted by lower referrals from company owned sales agents.

### Franchise Services

Our Franchise network exchanged 8,065 properties during FY18, generating an Underlying EBITDA of \$6.4 million, which was down 11% on the prior year. Underlying EBITDA was impacted by a reduction in GCI of 4% as a result of a reduction in the number of offices and a 12% reduction in the number of agents.

The net reduction in office numbers was impacted by 8 closures, predominately in NSW, offset by 2 new offices and 1 office transferred from Company owned sales.

### Other Operating Segments

Other operating segments comprise Oxygen Home Loans, Auction Services, TRET, IT Network Services and the Marketing Fund. IT Networking Services and the Marketing Fund are for the benefit of both the Franchise and Company owned networks.

### Mortgage Broking

Oxygen Home Loans total settlements value of \$778 million was down 15% on FY17, impacted by a reduction in McGrath referring agents. At the end of FY18 there were 31 brokers supporting the network, a decline of 5.

### Total Real Estate Training (TRET)

TRET provides a range of events for principals, agents, property managers and real estate professionals to help them develop their skills and grow their careers. The major event, AREC, attracted more than 4,000 attendees in 2018.

### Auction Services

Auction Services provides auctioneers to the company owned and franchise segments. There were 5,894 auctions booked in FY18 representing 43% of all properties listed.

## Underlying segment revenues and Underlying EBITDA

	2018 \$'000	2017 \$'000
<b>Underlying Revenue</b>		
Company owned sales	58,223	85,683
Company owned property management	19,236	20,012
Franchise services	10,978	11,460
Other operating segments	11,166	11,887
<b>Total Underlying Revenue</b>	<b>99,603</b>	<b>129,042</b>
<b>Underlying EBITDA</b>		
Company owned sales	4,195	15,475
Company owned property management	6,598	7,022
Franchise services	6,419	7,229
Other operating segments	(469)	(589)
Corporate	(11,710)	(13,883)
<b>Total Underlying EBITDA</b>	<b>5,033</b>	<b>15,254</b>

## Reconciliation of statutory to Underlying amounts

	2018 \$'000	2017 \$'000
<b>Statutory revenues and other income</b>	<b>99,176</b>	<b>129,363</b>
Fair value adjustment of deferred consideration <sup>1</sup>		(321)
Deferred revenue adjustment <sup>2</sup>	427	
<b>Underlying revenues and other income</b>	<b>99,603</b>	<b>129,042</b>
<b>Statutory (Loss)/Profit after income tax expense</b>	<b>(63,103)</b>	<b>4,871</b>
Fair value adjustment of deferred consideration <sup>1</sup>		(321)
Restructuring costs <sup>3</sup>	1,478	-
Change in bad debt estimates and write off's	951	-
Change in other accounting estimates	809	-
Loss on sale of property, plant and equipment	247	-
Other non-recurring expenses	508	-
<b>Total Underlying adjustments impacting EBITDA</b>	<b>3,993</b>	<b>(321)</b>
Impairment charges <sup>4</sup>	59,389	-
Tax effect of Underlying adjustments	(1,761)	-
<b>Total Underlying adjustments impacting (loss)/profit after tax</b>	<b>61,621</b>	<b>(321)</b>
<b>Underlying (loss)/profit after tax</b>	<b>(1,482)</b>	<b>4,550</b>

\* EBITDA is a non-IFRS measure and represents earnings before interest, tax, depreciation and amortisation. The reconciliation between statutory revenues and NPAT and Underlying revenues and NPAT includes non-IFRS measures and was not subject to audit.

<sup>1</sup> Adjustment to remove the fair value adjustment of the deferred consideration related to the acquisition of the Smollen group.

<sup>2</sup> Deferred revenue recognition adjustment aligns the recognition of management fees with the provision of the service.

<sup>3</sup> Adjustments totalling \$3.993m are one-off costs in FY18 that will not recur in future years.

<sup>4</sup> Adjustments to remove the impairment charges recognised in the period.



### Impairment

As part of the normal year end balance sheet review an impairment of \$35m against the company owned sales segment was announced to the market on 31 July 2018. This was in addition to the goodwill impairment announced in February 2018 of \$21.8m. Further details of impairments are included in note B3 of the financial statements.

### Key Business Risks

The Consolidated Entity is subject to various risk factors. Some of these are specific to its business activities. Others are of a more general nature. Individually, or in combination, these risk factors may affect the future operating and financial performance of the Consolidated Entity.

- Australian residential real estate market** – McGrath generates the majority of its income from the Australian residential real estate market through commission revenue generated by agents on the sale of properties, property management commissions and commissions on the arranging of mortgages.  
The risk of a reduction in sales transaction volumes or prices is a material risk for McGrath and could be impacted by general economic conditions and factors beyond the Company's control such as housing affordability, employment, interest rates, domestic investor growth and demand, foreign investment and consumer confidence.
- Increased competition and disintermediation** – McGrath operates in a highly competitive environment and constantly monitors the market and the competitive environment. McGrath is also potentially exposed to disintermediation whereby buyers and sellers are able to transact directly in private sale without using the services of an agent.  
McGrath prides itself on delivering exceptional client service and providing a market-leading experience.
- Digital disruption** – McGrath focuses on five key service offerings including residential property sales, property management, mortgage broking, auction services and career training. As technological advancements occur there is a risk that new entrants into the market or larger established corporates that may offer alternative services

and products to that of the traditional real estate service offerings. These may impact on McGrath's market share. McGrath continues to monitor the emergence of these disruptor technologies, and as part of its longer-term strategy is placing additional emphasis on innovation and technology throughout the Group to add value to its existing service offerings.

- Loss of key agents** – McGrath relies significantly on its agents to deliver its services to its clients and promote the reputation of the Company through their dealings with clients and there is a risk that McGrath may lose agents to competitors and/or other industries. McGrath launched the McGrath Future Program in early 2017, a commission and incentive program designed to assist in attracting and retaining high performing residential sales agents. McGrath currently has in place an Equity Incentive Plan that provides McGrath with the ability to offer equity, subject to specific performance and vesting criteria, in the Company as an incentive and retention tool to continue to attract and retain professional, experienced and highly qualified agents.
- Regulatory risks** – McGrath currently has business operations in four states within Australia, with regulations and legislation varying in each state. McGrath relies on licences and approvals issued by various regulatory bodies to carry out its services. Non-compliance may result in penalties and a negative impact to McGrath's operations and reputation. Additionally, changes and developments in legislation and/or regulation and policy in different jurisdictions may impact McGrath's operations. McGrath mitigates regulatory risks through monitoring the regulatory and legislative environment, providing appropriate staff training, and maintaining relationships with regulatory bodies or industry organisations. McGrath also participates in various industry events.

The Consolidated Entity's strategy takes into account these risks, however predicting future conditions is inherently uncertain.

## Corporate governance

### McGrath's corporate governance framework

The Board is committed to implementing the highest standards of corporate governance appropriate for McGrath, taking into account McGrath's size, structure and nature of operations.

### Delegation to Board Committees and Management

The Board has established two standing committees, the Audit and Risk Committee and the Remuneration and Nomination Committee, to support the Board in discharging its powers and responsibilities.

The Board Charter and Committee Charters set out the responsibilities of the Board and each of the Committees.

Day-to-day management and operations are delegated to Management who operates within the agreed framework and reports to, and seeks approvals from, the Board as required. The Chief Executive Officer is responsible for the overall operational and business management of McGrath.

### Board of Directors

The following persons were Directors of McGrath Limited during the year ended 30 June 2018:

#### Peter Lewis

Chair and Independent Non-executive Director.

- Appointed Chair 19 February 2018.

Peter is also a member of the Audit and Risk Committee and the Remuneration and Nomination Committee. Peter is currently a non-executive director of the Australian Broadcasting Corporation and Chair of the Audit and Risk Committee. Peter has previously held board and advisory positions with the International Grammar School Sydney, TXA Australia Pty Ltd, Norwest Productions Pty Ltd, Propex Derivatives, Australian News Channel Pty Ltd, B Digital Limited, VividWireless Limited and Yahoo 7 Australia. Peter has extensive experience in financial management and previously worked as the Chief Financial Officer for various Seven Group entities.

Peter holds a Master of Commerce (UNSW), is a Fellow of the Institute of Chartered Accountants in Australia, a member of the Australian Society of Certified Practising Accountants and a Fellow of the Governance Institute of Australia.

#### Andrew Robinson

Independent Non-executive Director.

- Appointed 19 February 2018.

Andrew is also Chair of the Audit and Risk Committee and Remuneration and Nomination Committee.

Andrew has had extensive involvement in the property sector over many years as both an advisor and a principal. Andrew has been a long-term supporter of various not for profit and charity groups, including Tour de Cure and The Mater/St Vincent's Hospitals.

Andrew established a legal practice in 1982 with specialisations in tax disputes, corporate re-constructions, franchising and commercial negotiation. Prior to that Andrew was involved in litigation and commercial law at Freehill Hollingdale and Page. Andrew holds a Bachelor of Economics and a Bachelor of Law (University of Sydney).

#### Wayne Mo

Non-executive Director.

- Appointed 27 June 2018.

Wayne is also a member of the Remuneration and Nomination Committee. Wayne was appointed to the McGrath Board as the nominee of Aqualand Group, one of Australia's premier residential property development and investment groups. Wayne is CEO of AL Capital, overseeing the growth of its diversified investment portfolio. He has more than 23 years global experience in international banking, structure finance, and M&A. Prior to joining AL Capital, Wayne held senior executive roles with ANZ for 15 years, and was the Chief Investment Officer of Hong Kong listed Everchina International Holdings.

Wayne holds a MBA from Webster University (USA) and a Bachelor of Finance and Economics from Shanghai University. Wayne was a Board Director of Australia China Chamber of Commerce (Beijing) from 2006 to 2008.

#### John McGrath

Executive Director.

- McGrath Operations Limited, appointed 2 March 2000.
- McGrath Limited, appointed 8 September 2015.

John is also a member of the Remuneration and Nomination Committee. John founded McGrath in 1988 and is considered one of the most influential figures in the Australian property industry. John has grown McGrath Estate Agents to be one of Australia's most successful integrated real estate service groups.

In 2003, John was awarded a Centenary Medal for service to business. In 2008, he was honored by the Real Estate Institute of NSW with the Woodrow Weight OBE Award, a lifetime achievement award for his outstanding contribution to the real estate industry.

John was a director of REA Group for 19 years and is a best-selling author.

#### Movements in Directors

Cass O'Connor, Elizabeth Crouch and Cath Rogers resigned on 19 February 2018. Nigel Dews resigned on 19 January 2018.

#### Attendance at meetings

The number of meetings of the Board of Directors and of each standing Board committee, of which the relevant Director was a member, held during the year ended 30 June 2018 and the number of meetings attended by each Director are detailed below:

	Board Meeting		Audit & Risk Committee Meeting		Remuneration & Nomination Committee Meeting	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
P. Lewis	7	7	-	-	-	-
A. Robinson	7	7	-	-	-	-
W. Mo	-	-	-	-	-	-
J. McGrath	19	17	6	4	1	1
C. O'Connor	12	12	6	6	1	1
E. Crouch	12	12	6	6	1	1
C. Rogers	12	12	6	6	1	1
N. Dews	9	8	4	2	-	-

#### Role and responsibilities of the Board

- Represent and serve the interests of Shareholders by considering and approving McGrath's strategies, policies and performance.
- Ensure that an appropriate corporate governance framework is established and operating.
- Provide guidance and oversight in critical areas including:
  - strategic direction
  - financial oversight
  - risk management and internal controls
  - managerial oversight
  - delegations
  - corporate governance

The responsibilities of the Board are detailed in the Board Charter on McGrath's website. The Board's conduct is also governed by McGrath's constitution. Both the Board Charter and McGrath's constitution are available on McGrath's website under About Us / Investor Centre ([www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre)).

#### Board composition and independence

The Board currently consists of two independent non-executive directors.

#### Further information

Further details are provided in McGrath's Corporate Governance Statement available on McGrath's website under About Us / Investor Centre ([www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre)).

## Remuneration report

### Key management personnel covered in this report

*Non-executive and executive directors (see earlier pages for details about each director)*

Name	Position
Peter Lewis (appointed 19 February 2018)	Chair, Independent Non-executive Director
Andrew Robinson (appointed 19 February 2018)	Independent Non-executive Director
Wayne Mo (appointed 27 June 2018)	Non-executive Director
John McGrath	Executive Director
Cass O'Connor (resigned on 19 February 2018)	Chair, Independent Non-executive Director
Elizabeth Crouch (resigned on 19 February 2018)	Independent Non-executive Director
Nigel Dews (resigned on 19 January 2018)	Independent Non-executive Director
Cath Rogers (resigned on 19 February 2018)	Independent Non-executive Director

*Other key management personnel*

Name	Position
Geoff Lucas (appointed 27 February 2018)	Chief Executive Officer
Glynn Wright (appointed 23 October 2017)	Chief Financial Officer
Kon Stathopoulos (appointed 10 October 2016)	Head of Company Sales
Christopher Mourd (appointed 13 June 2017)	Head of Franchise Network
Rob Fearnley (appointed 11 September 2017)	Head of Company Owned Property Management
Cameron Judson (resigned on 16 February 2018)	Chief Executive Officer
Paul Hauenschild (resigned on 25 December 2017)	Chief Financial Officer

### 1. Remuneration policy and link to performance

The overall objective of the Remuneration and Nomination Committee is to assist the Board of Directors of McGrath Limited (the Company) and its subsidiaries to:

- align the Company's remuneration approach with shareholder interests to allow the organisation to attract, motivate and retain its staff to enhance the Company's performance in a manner that supports the long-term financial soundness of the Company; and
- provide appropriate corporate governance by identifying the mix of skills and individuals required in Directors to allow the Board to contribute to the successful oversight and stewardship of the Company and discharge their duties under the law diligently and efficiently.

#### *Balancing short-term and long-term performance*

Short-term incentives for the Company's executives are set at a maximum of 40% of fixed annual remuneration with potential for "stretch" performance up to 125% of target. The targets are set to drive performance without encouraging undue risk-taking. Targets are set against financial and non-financial strategic objectives. The targets act to incentivise growth, achieve strategy and corporate objectives in line with expectations of shareholders. The minimum value of incentive is nil if targets are not met.

The long-term incentive plan (LTI) is designed to align the interests of executives and senior management with the interests of shareholders by providing an opportunity for the participants to receive an equity interest in McGrath, which is also set at a maximum of 40% of fixed annual remuneration.

A summary of McGrath's remuneration mix including fixed annual remuneration, short-term incentive and long-term incentive is set out in figure 1.

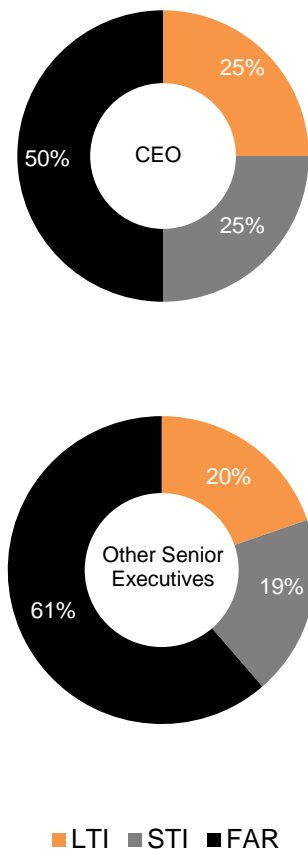
Figure 1: Remuneration framework

COMPONENT	PERFORMANCE MEASURE	WEIGHTING	STRATEGIC OBJECTIVE/ PERFORMANCE LINK
<b>FIXED ANNUAL REMUNERATION (FAR)</b> Salary and other non-cash benefits +	<b>FAR</b> consists of base salary and superannuation and non-monetary benefits. Remuneration is structured to ensure executives are accountable for driving group strategy and corporate objectives in line with expectations of shareholders.  Executives are targeted to achieve specific outcomes in these areas as part of their annual salary. STIs and LTIs are used to incentivise executives to achieve targets beyond fixed annual remuneration expectations.		Remuneration is set to ensure the attraction and retention of industry leading talent. Consideration is given to background and skillsets, seniority of role, level of responsibility, industry benchmarks, core values and cultural alignment.
<b>SHORT-TERM INCENTIVES (STI)</b> Percentage of fixed annual remuneration +	<ul style="list-style-type: none"> <li>• <b>Group Financial Measure (GFM)</b> Net Profit After Tax (NPAT). Additional specific financial objectives may also apply to certain executives.</li> <li>• <b>Divisional Financial Measures (DM)</b> Divisional Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) Contribution which is EBITDA excluding corporate costs.</li> <li>• <b>Non-financial Measures (NFM)</b> Specified strategic objective targets.</li> </ul>	Maximum of 40% of total fixed remuneration, CEO 50%, with potential for “stretch” performance up to 125% of target.	<b>GFM</b> rewards performance at group level. NPAT was chosen to ensure alignment with Consolidated Entity and shareholder objectives.  <b>DM</b> – rewards performance at a divisional level under the direct control of the specific executive.  <b>NFM</b> recognises differing drivers of performance across different Business Units.
<b>LONG-TERM INCENTIVES (LTI)</b> <b>Performance rights</b> +	<ul style="list-style-type: none"> <li>• <b>EBITDA Target</b> Achievement of Consolidated Entity’s EBITDA target.  Measured per year over a three-year period.  Weighted at 50% of LTI.</li> <li>• <b>Total Shareholder Return (TSR)</b> Relative to a group of 12 selected comparative entities listed on the ASX, see figure 7.  Measured per year over a three-year period.  Weighted at 50% of LTI.</li> </ul>	Maximum of 40% of total fixed remuneration, CEO 50%.	<b>EBITDA</b> was chosen because it is an appropriate measure of group operating performance growth.  <b>TSR</b> is chosen because it provides a relative, external market performance measure against McGrath’s comparable peers.
<b>CEO Share options</b>	Achievement of a statutory earnings per share (EPS) target for the financial year ending 30 June 2021.	Unweighted	A specific <b>EPS</b> target was chosen to encourage desired business turnaround outcomes.
<b>= TOTAL REMUNERATION</b>  The remuneration mix is designed to reflect the different components of the McGrath business and is structured to reward executives for performance at a Consolidated Entity level and, for divisional executives, also at a divisional level, and to align executives and stakeholder interests through share ownership.			
<b>Assessing performance</b>  The Remuneration and Nomination Committee is responsible for assessing performance against KPI’s, determining the STI and LTI to be paid to Key Management Personnel and making recommendations to the Board. To assist in this assessment, the committee receives detailed reports on performance from management which are based on independently verifiable data such as financial measures, market share and data from independently run surveys.			

### Target remuneration mix

Our executive remuneration framework for FY18 is shown in figure 2 below. The framework comprises fixed annual remuneration, an annual or short-term incentive and a long-term incentive. The graph shows each of the components as a percentage of total target remuneration on the basis that the performance conditions for the STI and LTI are fully satisfied.

Figure 2: Target remuneration mix for FY18



The actual remuneration mix achieved by KMP is shown in figure 10.

### Elements of remuneration

#### (i) Fixed annual remuneration (FAR)

Executives may receive their FAR as cash, or salary sacrificed benefits. FAR is reviewed annually, or on promotion. It is benchmarked against data for comparable roles within companies in similar industries and with similar market capitalisation. The committee aims to position executives at or near the median, with flexibility to take into account capability, experience, value to the organisation and performance of the individual.

Superannuation is included in FAR for all executives.

#### (ii) Short-term incentives (STI)

Certain employees are entitled to participate in McGrath's STI Plan. The amount of the award under the STI Plan to which each participant may become entitled (if any) will be determined by the Remuneration and Nomination Committee and the senior management team (as appropriate) based on achievement against set performance targets. Further detail is shown in Figure 4 below.

#### (iii) Long-term incentives (LTI)

The Board has discretion to make offers to employees of McGrath or its related bodies corporate that the Board determines to be eligible to receive a grant under the LTI Plan. Under the LTI Plan, performance rights and share options are subject to vesting or performance conditions determined by the Board and specified in the offer document. Any performance rights or share options, will either not be offered, lapse or be forfeited if the relevant vesting and performance conditions are not satisfied.



## 2. Statutory performance indicators

We aim to align our executive remuneration to our strategic and business objectives and the creation of shareholder wealth. Figure 3 shows measures of the group's financial performance over the last five years as required by the Corporations Act 2001. However, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMPs, see figure 5. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

Figure 3: key performance indicators of the group over the last five years

	2018	2017	2016	2015	2014
(Loss)/Profit for the year attributable to owners of McGrath Limited (\$'000)	(63,103)	4,871	8,358	6,727	8,993
Underlying EBITDA <sup>1</sup> (\$'000)	5,033	15,254	26,244	27,160	21,288
Underlying NPAT <sup>1</sup> (\$'000)	(1,482)	4,550	14,594	15,662	12,027
Basic (losses)/earnings per share (cents)	(44.34)	3.58	8.58	14.84	20.58
Dividend payments (\$'000)	1,548	6,142	11,000	6,428	1,539
Dividend payout ratio (%) <sup>2</sup>	(2)%	126%	132%	96%	17%
Closing share price (\$ as at 30 June)	0.375	0.56	0.92	n/a	n/a

<sup>1</sup> Underlying EBITDA and Underlying NPAT are non-IFRS (non-statutory) measures and have not been subject to audit or review.

<sup>2</sup> The dividend pay-out ratio is calculated based on dividends paid and statutory net profit after tax for the year.

## 3. Annual incentive overview

Figure 4: Structure of the short-term incentive plan

Feature	Description									
Maximum opportunity	The CEO and certain members of the senior management team will be entitled to an STI award up to a maximum percentage of their FAR (the maximum on track earning potential is typically 30% but up to 40% of total FAR (CEO 50%), with the potential for stretch performance of up to 125% on the on-track amount).									
Performance period	Financial year.									
Performance metrics	The STI metrics align with our strategic priorities of market competitiveness, operational excellence, shareholder value and fostering talented and engaged people.									
	<table><tr><th>Category</th><th>Measure</th><th>Reason for selection</th></tr><tr><td>Financial</td><td>Group Financial Measure: NPAT. 50% weighting.  Divisional Measure: EBITDA Contribution, other specific financial measures.  Typically, 20 to 25% weighting.</td><td>Rewards performance at group level. NPAT was chosen to ensure alignment with Consolidated Entity and shareholder objectives.  Encourages and rewards performance at a divisional level or specific financial measure that is under direct control of the executive or manager.</td></tr><tr><td>Non-financial measures – specific strategic objective targets</td><td>Typically, 25 to 30% weighting but may be up to 50% for executives not responsible for revenue generating business units.</td><td>Recognises and rewards leadership behavior, internal culture, greater customer satisfaction and service development consistent with shareholder objectives.</td></tr></table>	Category	Measure	Reason for selection	Financial	Group Financial Measure: NPAT. 50% weighting.  Divisional Measure: EBITDA Contribution, other specific financial measures.  Typically, 20 to 25% weighting.	Rewards performance at group level. NPAT was chosen to ensure alignment with Consolidated Entity and shareholder objectives.  Encourages and rewards performance at a divisional level or specific financial measure that is under direct control of the executive or manager.	Non-financial measures – specific strategic objective targets	Typically, 25 to 30% weighting but may be up to 50% for executives not responsible for revenue generating business units.	Recognises and rewards leadership behavior, internal culture, greater customer satisfaction and service development consistent with shareholder objectives.
Category	Measure	Reason for selection								
Financial	Group Financial Measure: NPAT. 50% weighting.  Divisional Measure: EBITDA Contribution, other specific financial measures.  Typically, 20 to 25% weighting.	Rewards performance at group level. NPAT was chosen to ensure alignment with Consolidated Entity and shareholder objectives.  Encourages and rewards performance at a divisional level or specific financial measure that is under direct control of the executive or manager.								
Non-financial measures – specific strategic objective targets	Typically, 25 to 30% weighting but may be up to 50% for executives not responsible for revenue generating business units.	Recognises and rewards leadership behavior, internal culture, greater customer satisfaction and service development consistent with shareholder objectives.								
Delivery of STI	Each year performance will be measured for the twelve-month period ended 30 June. Participants will need to be employed after the lodgement of the Consolidated Entity’s accounts when the payment falls due to be eligible for an STI award, except in good leaver cases including retirement or bona fide redundancy, where some or all of the payment may be made at the discretion of the Board and senior management team (as appropriate).									
Board discretion	The Board has discretion to adjust remuneration outcomes up or down to prevent any inappropriate reward outcomes, including deferral of part of the STI award.									

### FY18 short-term incentive outcome

The table below sets out specific information relating to the actual short-term incentives awarded for FY18. In light of the current year's performance McGrath has elected to withhold certain performance based remuneration awards. R. Fearney's bonus is related to the Property Management segment achieving its earnings hurdle.

Figure 5: Performance based remuneration award

Name	Total STI Opportunity <sup>1</sup>	Awarded	Awarded	Forfeited
	\$	\$	%	%
G. Lucas	250,000	-	0	100
G. Wright	120,000	-	0	100
K. Stathopoulos	180,000	-	0	100
C. Mourd	124,500	-	0	100
R. Fearney	57,000	57,000	100	0

<sup>1</sup> Amounts include superannuation.

C. Judson and P. Hauenschild resigned during the year and forfeited their FY18 short-term incentive opportunity.

### 4. Long-term incentive overview

Figure 6: Structure of the long-term incentive plan

#### CEO LTI Plan

Feature	Description						
Maximum opportunity	The CEO will be entitled to be awarded share options to a value up to a maximum 50% of his FAR.						
Performance period	Three years.						
Performance metrics	<div>The LTI metrics align with our strategic objectives and the creation of shareholder value.</div> <table><tr><th>Category</th><th>Weighting</th><th>Conditions and vesting</th></tr><tr><td>Earning Per Share (EPS)</td><td>100%</td><td><div>The Company's statutory Earnings Per Share (EPS) as set out in the Company's audited financial statements measures the earnings generated by the Company attributable to each share on issue</div><div>The number of options that are capable of vesting is dependent on the Company's EPS performance for the year ending 30 June 2021.</div></td></tr></table>	Category	Weighting	Conditions and vesting	Earning Per Share (EPS)	100%	<div>The Company's statutory Earnings Per Share (EPS) as set out in the Company's audited financial statements measures the earnings generated by the Company attributable to each share on issue</div> <div>The number of options that are capable of vesting is dependent on the Company's EPS performance for the year ending 30 June 2021.</div>
Category	Weighting	Conditions and vesting					
Earning Per Share (EPS)	100%	<div>The Company's statutory Earnings Per Share (EPS) as set out in the Company's audited financial statements measures the earnings generated by the Company attributable to each share on issue</div> <div>The number of options that are capable of vesting is dependent on the Company's EPS performance for the year ending 30 June 2021.</div>					
Delivery of LTI	<div>The performance will be measured at the end of the performance period. The Board determines the number of options that vest based on the extent to which the performance hurdle is satisfied and options can be exercised.</div> <div>Unless the Board determines otherwise, if the employee ceases employment with McGrath for any reason prior to the options vesting, all options will automatically lapse.</div>						

## Members of the senior management LTI Plan

Feature	Description												
Maximum opportunity	Certain members of the senior management team will be entitled to be awarded performance rights to a value up to a maximum percentage of their FAR (the maximum is typically 30% but will not exceed 40% of total FAR).												
Performance period	Three years.												
Performance metrics	The LTI metrics align with our strategic objectives and the creation of shareholder value.												
	Category	Weighting	Conditions and vesting										
	EBITDA	50%	The board, at its discretion, sets the EBITDA target for the financial year of the grant, with compound targets for the two following years.  Performance rights will vest in three tranches depending upon the EBITDA performance of the Consolidated Entity at the end of each financial year.										
	Total shareholder return (TSR)	50%	Performance of the Company is measured against the performance of twelve comparator entities chosen based on similarity of industry structure, operating model and market capitalisation. (see figure 7).  Performance rights will vest in three tranches depending upon the TSR of the Company over one, two and three years respectively. The following vesting schedule applies to the TSR performance hurdle:										
			<table><tr><th>Percentile ranking</th><th>Percentage of awards vesting</th></tr><tr><td>Below 50<sup>th</sup> percentile</td><td>Nil</td></tr><tr><td>Equal to the 50<sup>th</sup> percentile</td><td>50%</td></tr><tr><td>Between the 50<sup>th</sup> and the 85<sup>th</sup> percentile</td><td>50-100% on a straight-line basis</td></tr><tr><td>Above the 85<sup>th</sup> percentile</td><td>100%</td></tr></table>	Percentile ranking	Percentage of awards vesting	Below 50 <sup>th</sup> percentile	Nil	Equal to the 50 <sup>th</sup> percentile	50%	Between the 50 <sup>th</sup> and the 85 <sup>th</sup> percentile	50-100% on a straight-line basis	Above the 85 <sup>th</sup> percentile	100%
	Percentile ranking	Percentage of awards vesting											
	Below 50 <sup>th</sup> percentile	Nil											
Equal to the 50 <sup>th</sup> percentile	50%												
Between the 50 <sup>th</sup> and the 85 <sup>th</sup> percentile	50-100% on a straight-line basis												
Above the 85 <sup>th</sup> percentile	100%												
Delivery of LTI	Each year performance will be measured for the twelve-month period ended 30 June. If the performance hurdle for the period is met in relation to the specific hurdle, one third of the performance rights will vest. Following assessment, any performance rights that do not vest will lapse.  Any shares that vest during the performance period are subject to forfeiture in the event the KMP does not remain employed by the Consolidated Entity for the full period over which the performance right grant is measured.												

Figure 7: Comparator group

Company	ASX code	Sector	Industry group
HFA Holdings Ltd	HFA	Financials	Diversified Financials
Silver Chef Ltd	SIV	Industrials	Capital Goods
iSelect Limited	ISU	Consumer Discretionary	Consumer Services
Wellcom Group Ltd	WLL	Industrials	Commercial & Professional Services
CVC Limited	CVC	Financials	Diversified Financials
Money3 Corporation Limited	MNY	Financials	Diversified Financials
GR Engineering Services Limited	GNG	Industrials	Capital Goods
Shine Corporate Ltd	SHJ	Consumer Discretionary	Consumer Services
Collection House Limited	CLH	Industrials	Commercial & Professional Services
Pacific Current Group Ltd	PAC	Financials	Diversified Financials
Mortgage Choice Limited	MOC	Financials	Banks
Villa World Limited	VLW	Financials	Real Estate

## LTI awarded

The long-term incentive is issued as performance rights granted under a long-term incentive plan each year.

## FY16 LTI Plan – IPO Grant

Performance rights were allocated to continuing KMP under the FY16 LTI plan in May 2017. The performance hurdle for the EBITDA component of the LTI was subject to a single performance period ending 30 June 2016. As the EBITDA performance hurdle was not satisfied, this portion of the FY16 grant was not allocated. In addition, the first tranche of performance rights that were subject to the FY16 TSR hurdle were also not allocated as the performance hurdle was not satisfied. The remaining performance rights, tranche two and tranche three subject to TSR hurdles, were issued at \$2.10, the initial public offer share price.

## FY17 LTI Plan and FY18 LTI Plan

The allocation of performance rights in accordance with the FY17 LTI and FY18 LTI plans were made in May 2017 and September 2017 and are subject to a three-year performance period as set out in figure 6. The performance rights were respectively issued at \$1.17 and \$0.7467, the share price at grant date.

## CEO LTI Plan

Mr. Judson was also allocated performance rights in accordance with his contract of employment from his appointment and promotion to Chief Executive Officer. The performance rights vested in three tranches. Performance rights with a total value of \$250,000 were issued at \$1.03, the share price at 14 July 2016 upon Mr. Judson's appointment. Performance rights with a total value of \$500,000 were issued at \$1.175, the share price at 25 August 2016 when Mr. Judson was promoted to CEO. Tranche one of 222,750 shares vested on 25 August 2017. The remaining performance rights lapsed during the current year upon Mr. Judson's resignation in February 2018.

As of May 14 2018, the Board granted 2,500,000 share options to Mr. Lucas as part of the CEO LTI Program. The options have a grant date fair value of \$0.092 per option.

Figure 8: Performance Rights movement schedule

Performance Rights		Held at 1 July 2017		Granted		Fair value at grant date <sup>1</sup>		Lapsed		Vested <sup>2</sup>		Held at 30 June 2018	
		EBITDA	TSR	EBITDA	TSR	EBITDA	TSR	EBITDA	TSR	EBITDA	TSR	EBITDA	TSR
		Number	Number	Number	Number	\$	\$	Number	Number	Number	Number	Number	Number
J. McGrath	IPO Grant	-	27,776	-	-	-	-	-	(27,776)	-	-	-	-
C. Judson	2017 Grant	74,030	74,030	-	-	-	-	(74,030)	(74,030)	-	-	-	-
	2018 Grant	-	-	174,113	174,113	121,879	91,700	(174,113)	(174,113)	-	-	-	-
	Sign on Grant	242,718	-	-	-	-	-	(161,812)	-	(80,906)	-	-	-
	Promotion Grant	425,532	-	-	-	-	-	(283,688)	-	(141,844)	-	-	-
K. Stathopoulos	IPO Grant	-	11,904	-	-	-	-	-	(11,904)	-	-	-	-
	2017 Grant	51,282	51,282	-	-	-	-	(25,641)	(25,641)	-	-	25,641	25,641
	2018 Grant	-	-	133,923	133,923	93,746	70,533	(44,641)	(44,641)	-	-	89,282	89,282
P. Hauenschild	IPO Grant	-	15,873	-	-	-	-	-	(15,873)	-	-	-	-
	2017 Grant	22,283	22,283	-	-	-	-	(22,283)	(22,283)	-	-	-	-
	2018 Grant	-	-	52,372	52,372	36,660	27,583	(52,372)	(52,372)	-	-	-	-
Glynn Wright	2018 Grant	-	-	111,628	111,628	78,140	58,791	(37,209)	(37,209)	-	-	74,419	74,419
Christopher Mourd	2018 Grant	-	-	83,367	83,367	58,357	43,907	(27,789)	(27,789)	-	-	55,578	55,578
Rob Fearnley	2018 Grant	-	-	38,168	38,168	26,718	20,102	(12,723)	(12,723)	-	-	25,445	25,445

<sup>1</sup> For accounting purposes, the fair value at grant is shown above, in accordance with AASB 2: Share-Based Payment. The rights subject to market conditions (TSR hurdle) have been independently valued using the Monte Carlo simulation using the Black-Scholes framework. The rights subject to non-market conditions (EBITDA hurdle) have been valued using the Black-Scholes option pricing model.

<sup>2</sup> C. Judson's first tranche of the Sign-on and CEO Performance Rights vested 25 August 2017. C. Judson was awarded 222,750 shares and those shares remain subject to escrow until 14/07/2019. These shares were vested based on service and not EBITDA.

Figure 9: Options awarded during the year

Share Options	Grant date	Outstanding at 1 July	Granted	Fair value at grant date <sup>1</sup>	Forfeited	Exercised	Expired	Outstanding at 30 June 2018
CEO 2018 Plan	May 2018	-	2,500,000	230,000	-	-	-	2,500,000

<sup>1</sup> For accounting purposes, the fair value at grant is shown above, in accordance with AASB 2: Share-Based Payment. The fair value of an option of \$0.092 has been independently valued using a binomial tree methodology.

### Relative proportions of fixed vs variable remuneration expense

Figure 10 reflects the relative proportions of FAR and STI of remuneration received based on the actual performance based amount awarded. Where the performance conditions for the STI were not met 100% of the remuneration will be FAR. The proportions are based on the amounts disclosed as statutory remuneration expense in figure 11.

Figure 10: Relative proportion of fixed vs variable remuneration expense

	2018				2017			
	Fixed annual remuneration <sup>1</sup>		STI/LTI		Fixed annual remuneration <sup>1</sup>		STI/LTI	
	\$	%	\$	%	\$	%	\$	%
<b>Chief Executive Officer</b>								
G. Lucas	187,146	95	10,079	5	114,002	100	-	-
C. Judson	456,998	100	-	-	645,640	77	190,543	23
<b>Executive Director</b>								
J. McGrath	550,467	100	-	-	520,749	100	-	-
<b>Other Key Management Personnel</b>								
G. Wright	283,018	94	19,597	6	-	-	-	-
K. Stathopoulos	510,365	95	24,878	5	444,445	81	101,365	19
C. Mourd	423,556	97	14,636	3	22,566	100	-	-
R. Fearnley	206,600	76	63,701	24	-	-	-	-
P. Hauenschild	124,750	100	-	-	254,507	94	15,493	6
M. Lahood	-	-	-	-	395,956	100	-	-
G. Vouris	-	-	-	-	323,547	100	-	-

<sup>1</sup> Fixed Annual Remuneration excludes termination pay. The prior year amounts have been restated to exclude directors and officers insurance to be consistent with the current year.

### 5. Remuneration expenses for executive KMP

The following table shows details of the remuneration expense recognised for the group's executive key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards.

Figure 11: Executive remuneration.

Name	Year	Fixed annual remuneration				Variable remuneration		Total <sup>10</sup>
		Short-term		Long-term	Post-employment benefits <sup>2</sup>	Short-term	Long-term	
		Salary	Termination benefits	Annual and long service leave <sup>1</sup>		STI	LTI	
Chief Executive Officer								
G. Lucas <sup>3</sup>	2018	161,830	-	18,479	6,837	-	10,079	197,225
	2017	105,509	-	6,067	2,426	-	-	114,002
C. Judson <sup>4</sup>	2018	384,264	682,920	39,936	32,798	-	-	1,139,918
	2017	570,590	-	55,434	19,616	72,800	117,743	836,183
Executive Director								
J. McGrath	2018	484,304	-	46,114	20,049	-	-	550,467
	2017	453,328	-	47,831	19,590	-	-	520,749

## 5. Remuneration expenses for executive KMP (continued)

Figure 11: Executive remuneration (continued).

Name	Year	Fixed annual remuneration				Variable remuneration		Total <sup>10</sup>
		Short-term		Long-term	Post-employment benefits <sup>2</sup>	Short-term	Long-term	
		Salary	Termination benefits	Annual and long service leave <sup>1</sup>		STI	LTI	
Other Key Management Personnel								
G. Wright <sup>5</sup>	2018	240,149	-	24,119	18,750	-	19,597	302,615
	2017	-	-	-	-	-	-	-
K. Stathopoulos <sup>6</sup>	2018	442,977	-	47,339	20,049	-	24,878	535,243
	2017	385,704	-	39,151	19,590	100,000	1,365	545,810
C. Mourd <sup>7</sup>	2018	364,679	-	38,828	20,049	-	14,636	438,192
	2017	19,498	-	2,099	969	-	-	22,566
R. Fearnley <sup>8</sup>	2018	172,880	-	17,603	16,117	57,000	6,701	270,301
	2017	-	-	-	-	-	-	-
P. Hauenschild <sup>9</sup>	2018	104,077	47,548	10,869	9,804	-	-	172,298
	2017	212,350	-	22,567	19,590	14,900	593	270,000
M. Lahood	2018	-	-	-	-	-	-	-
	2017	295,723	63,181	27,270	9,782	-	-	395,956
G. Vouris	2018	-	-	-	-	-	-	-
	2017	235,580	49,630	19,100	19,236	-	-	323,546
Total KMPs	2018	2,355,160	730,468	243,287	144,453	57,000	75,891	3,606,259
	2017	2,278,282	112,812	219,519	110,799	187,700	119,701	3,028,813

<sup>1</sup> Reflects the net cost of annual and long service leave accrued in the period.

<sup>2</sup> Reflects the cost of superannuation.

<sup>3</sup> G. Lucas appointed as Chief Executive Officer 27 February 2018. Previously Chief Operating Officer until 12 August 2016.

<sup>4</sup> C. Judson resigned 16 February 2018.

<sup>5</sup> G. Wright appointed 23 October 2017.

<sup>6</sup> K. Stathopoulos appointed 10 October 2016.

<sup>7</sup> C. Mourd appointed 13 June 2017.

<sup>8</sup> R. Fearnley appointed 11 September 2017.

<sup>9</sup> P. Hauenschild resigned on 25 December 2017.

<sup>10</sup> Prior year amounts have been restated to exclude directors and officers insurance to be consistent with the current year.



## Remuneration expenses for executive KMP

The remuneration table below has been provided as additional non-statutory information to assist in understanding the total value of remuneration received by executive KMP in the current and prior financial years. Figure 11 above has been prepared in accordance with accounting standards as required by the Corporations Act 2001. The accounting standards only require the disclosure of the expense or cost to the company in the financial years presented, which may result in only a portion of cash remuneration being disclosed where payments are deferred to future financial years.

Figure 12: Executive remuneration received in the financial year\*.

Name	Year	Cash salary <sup>1</sup>	Other benefits <sup>2</sup>	STI <sup>3</sup>	Superannuation	Total
G. Lucas	2018	163,676	-	-	6,837	170,513
	2017	109,603	-	-	2,426	112,029
J. McGrath	2018	492,672	-	-	20,049	512,721
	2017	511,019	-	-	19,590	530,609
G. Wright	2018	257,685	-	-	18,750	276,435
	2017	-	-	-	-	-
K. Stathopoulos	2018	505,761	-	100,000	20,049	625,810
	2017	445,784	8,000	-	19,590	473,374
C. Mourd	2018	393,541	-	-	20,049	413,590
	2017	-	-	-	-	-
R. Fearnley	2018	188,068	-	-	16,117	204,185
	2017	-	-	-	-	-
C. Judson	2018	1,109,587	-	72,800	32,798	1,215,185
	2017	597,243	-	-	19,616	616,859
P. Hauenschild	2018	163,668	-	14,900	9,804	188,372
	2017	241,096	610	50,000	19,590	311,296
M. Lahood	2018	-	-	-	-	-
	2017	366,804	-	-	9,782	376,586
G. Vouris	2018	-	-	-	-	-
	2017	303,951	-	50,000	19,236	373,187

\* The above table includes non-IFRS measures and has not been subject to audit.

<sup>1</sup> Cash salary includes leave entitlements paid.

<sup>2</sup> Includes non-monetary benefits (at the statutory cost) and commissions.

<sup>3</sup> Relates to cash payment of STIs awarded in the prior financial year.

## Contractual arrangements with executive KMP

## Contractual arrangement with CEO

Component	CEO description
Fixed annual remuneration	\$500,000 (inclusive of statutory superannuation)
Contract duration	Ongoing contract
Notice by the individual/company	6 months
Termination of employment (without cause)	<p>STI</p> <p>Participant will need to be employed and not under notice of resignation or termination until at least 30 June of the relevant year to be eligible for an STI award.</p> <p>LTI</p> <p>Participant will need to be employed until the end of the year ending 30 June 2021 to be eligible to receive the share options that have vested.</p>
Termination of employment (with cause) or by the individual	<p>STI</p> <p>For good leaver cases including retirement or bona fide redundancy, some or all of the payment may be made at the discretion of the Board and senior management team (where appropriate).</p> <p>LTI</p> <p>If the participant ceases employment for cause, resigns, or their employment is terminated by mutual agreement with McGrath, unless the Board determines otherwise, the share options cannot be exercised.</p>

## Contractual arrangement with members of the senior management team

Component	Other executive KMP
Fixed annual remuneration	Range between \$250,000 to \$520,000
Contract duration	Ongoing contract
Notice by the individual/company	Up to 6 months
Termination of employment (without cause)	<p>STI</p> <p>Participants will need to be employed and not under notice of resignation or termination until at least 30 June of the relevant year to be eligible for an STI award.</p> <p>LTI</p> <p>Participants will need to be employed until the end of the three-year performance period to be eligible to receive the performance rights that have vested during the performance period.</p>
Termination of employment (with cause) or by the individual	<p>STI</p> <p>For good leaver cases including retirement or bona fide redundancy, some or all of the payment may be made at the discretion of the Board and senior management team (where appropriate).</p> <p>LTI</p> <p>If the participant ceases employment for cause, resigns, or their employment is terminated by mutual agreement with McGrath, unless the Board determines otherwise, the performance rights will automatically lapse.</p>

## 6. Non-executive director arrangements

Total amount paid to all Non-executive directors for their services, in any financial year, must not exceed in aggregate \$600,000 as set by McGrath's general meeting. The fees shown in the table on the right are inclusive of superannuation.

All non-executive directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of director.

The fees paid to the non-executive directors in relation to the relevant financial year are set out below.

2018

<b>Board fees</b>	
Chair*	\$140,000
Other non-executive directors	\$100,000
<b>Committee fees</b>	
Committee Chair	\$15,000
Committee Member	\$5,000

\*Fees do not include reimbursement of travel costs up to \$10,000.

Figure 13: Non-executive director remuneration

Name	Year	Fees	Superannuation	Total <sup>6</sup>
P. Lewis <sup>1</sup>	2018	46,560	4,423	50,983
	2017	-	-	-
A. Robinson <sup>1</sup>	2018	41,213	3,915	45,128
	2017	-	-	-
C. O'Connor <sup>2</sup>	2018	106,545	10,122	116,667
	2017	153,085	14,543	167,628
E. Crouch <sup>2</sup>	2018	76,104	7,230	83,334
	2017	96,972	9,212	106,184
N. Dews <sup>3</sup>	2018	50,463	4,794	55,257
	2017	67,465	6,409	73,874
C. Rogers <sup>2</sup>	2018	70,015	6,651	76,666
	2017	56,490	5,366	61,856
D. Mackay <sup>4</sup>	2018	-	-	-
	2017	26,635	2,531	29,166
D. Petre <sup>5</sup>	2018	-	-	-
	2017	45,370	3,615	48,985
Total non-executive director remuneration	2018	390,900	37,135	428,035
	2017	446,017	41,676	487,693

<sup>1</sup> P. Lewis and A. Robinson appointed 19 February 2018.

<sup>2</sup> C. O'Connor, E. Crouch and C. Rogers resigned from the board on 19 February 2018.

<sup>3</sup> N. Dews resigned from the board on 19 January 2018.

<sup>4</sup> D. Mackay retired from the board on 25 August 2016.

<sup>5</sup> D. Petre retired from the board on 23 November 2016.

<sup>6</sup> Prior year amounts have been restated to exclude directors and officers insurance to be consistent with the current year.

W. Mo was appointed as a non-executive director of McGrath on 27 June 2018 and has received no remuneration for the year ended 30 June 2018.

## 7. Shareholdings of Directors and KMP

The table below summarises the movements in holdings of ordinary shares in McGrath Limited held directly, indirectly or beneficially, by each Director and KMP and their personally related entities.

Figure 14: Shareholdings

2018 Name	Held at 1 July 2017	Changes during the year	Held at 30 June 2018 <sup>1</sup>
<b>Ordinary shares</b>			
J. McGrath	37,127,378	-	37,127,378
G. Lucas	5,717,194	(5,717,194)	-
K. Stathopoulos	48,077	(47,601)	476
R. Fearnley	-	42,726	42,726
C. Judson	-	222,750	222,750

<sup>1</sup>C. Judson's 222,750 shares disclosed as these shares are to remain in escrow until 14/07/2019.

## 8. Loans given to KMP

Details of loans made to directors of McGrath Limited and key management personnel of the group, including entities related to them, are set out below.

Figure 15: Loans

Name	Year	Balance at the start of the year	Interest paid and payable for the year	Interest not charged	Balance at the end of the year	Highest indebtedness during the year
		\$	\$	\$	\$	\$
M. Lahood	2018	-	-	-	-	-
	2017	92,272	-	-	-	92,272
Total	2018	-	-	-	-	-
	2017	92,272	-	-	-	92,272

The cash advance balances are unsecured, interest free and are repayable on receipt of dividend payments or commissions due to the individual or a related party, or repayable on a fixed date. No loan or cash advance have been granted to directors or key management personnel during the year ended 30 June 2018.

## Directors' Report for the Year Ended 30 June 2018

The Directors present their report, together with the financial statements of McGrath Limited (the Company or McGrath) and the subsidiaries that it controlled at the end of the period and from time to time throughout the period (together referred to as the Consolidated Entity), for the year ended 30 June 2018 and the auditor's report thereon. The financial statements have been reviewed and approved by the directors on the recommendation of the McGrath Audit and Risk Committee.

The Consolidated Entity loss after providing for income tax amounted to \$63,103,772 (2017: profit of \$4,871,157).

### Principal activities and review of operations

The principal activities of the Consolidated Entity during the financial year were the facilitation of real estate sales and property management services. Revenue is generated from franchise and company owned operations.

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the Operating and Financial Review on pages 4-7 of this Annual Report.

### Directors

The following persons were Directors of McGrath Limited during the year ended 30 June 2018:

#### Mr. Peter Lewis

Chairman and Independent Non-executive Director.

- Appointed 19 February 2018.

#### Mr. Andrew Robinson

Independent Non-executive Director.

- Appointed 19 February 2018.

#### Mr. Wayne Mo

Non-executive Director.

- Appointed 27 June 2018.

#### Mr. John McGrath

Executive Director.

#### Ms. Cass O'Connor

Chair and Non-executive Director.

- Resigned 19 February 2018.

#### Ms. Elizabeth Crouch

Independent Non-executive Director.

- Resigned 19 February 2018.

#### Mr. Nigel Dews

Independent Non-executive Director.

- Resigned 19 January 2018.

#### Ms. Cath Rogers

Independent Non-executive Director.

- Resigned 19 February 2018.

### Company Secretary

#### Melissa Jones

- Appointed 15 February 2018.

Melissa has over 15 years' experience as a lawyer, company secretary and governance professional. Melissa is admitted as a Solicitor of the Supreme Court of New South Wales and holds a Bachelor of Laws (Honours).

### Dividends

Dividends totalling \$1,548,000 were declared and paid during the year. (2017: \$6,142,000). No final dividends for the year ending 30 June 2018 were declared.

### Significant changes in state of affairs

There were no significant changes in the state of affairs of the Consolidated Entity.

### Subsequent events

As part of the strategic relationship with the Aqualand Group, on 31 July 2018 the second and last tranche of 11,568,042 shares, at \$0.425 per share, was approved by an ordinary shareholder resolution at an extraordinary general meeting. This second tranche provides Aqualand a further interest of 6.3% in the Consolidated Entity, making Aqualand the second largest shareholder with a 15% relevant interest.

There are no other significant events that have occurred in the interval between the end of the financial year and the date of this report; no item, transaction or event which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in the future financial years.

### Likely developments

The Consolidated Entity has a clear growth strategy of expanding its market share via agent attraction and franchise office roll-outs, as well as entering new operating territories.

Further information about likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years have not been included in this report as the Directors' believe inclusion of such information is likely to result in unreasonable speculation concerning the Consolidated Entity.

### Environmental issues

The Consolidated Entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory. The Consolidated Entity is not subject to the reporting requirements of the National Green House and Energy Act 2007.

### Indemnification and insurance of officers

#### Indemnification

The Company has agreed to indemnify the directors and officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors or officers of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

#### Insurance

During the financial year, the Consolidated Entity has paid an insurance premium of \$119,570 in respect of Directors' and Officers' liability, for current and former Directors and senior executives of the Company and directors and senior executives of its controlled entities.

The insurance premium relates to:

- costs and expenses incurred by the relevant Directors' or Officers in defending proceedings, whether civil or criminal and whatever their outcome; and

- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The insurance policy outlined above does not contain details of any premium paid in respect of individual officers of the Consolidated Entity.

### Directors' interests

The relevant interest of each director in the shares issued by the Company at the date of this report is as follows:

Director	Ordinary Shares
Peter Lewis	-
Andrew Robinson	-
Wayne Mo	-
John McGrath	31,127,378

No options over issued shares or interests in the Company or a controlled entity were granted to directors during or since the end of the financial year.

### Remuneration report – audited

Information on McGrath's remuneration framework and the outcomes for FY18 for the McGrath Limited Board and key management personnel, is included in the remuneration report on pages 8-20 of this Annual Financial Report.

### Corporate governance

Consolidated Entity governance matters are discussed on pages 8-9 of this Annual Financial Report and are also available on the Consolidated Entity's website:

<https://www.mcgrath.com.au/about/investorCentre>



### Non-audit services

McGrath may decide to employ the auditor on assignment additional to their statutory audit duties where the auditor's expertise and experience with the Company are relevant. Details of the amounts paid or payable to the auditor (KPMG) for audit and non-audit services provided during the year ended 30 June 2018 are set out in note E7 to the financial statements.

The Board has considered its position and, in accordance with the advice received from the Audit and Risk Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not affect the impartiality and objectivity of the auditor; and
- none of the services undermines the general principles relating to auditor independence as set out in Accounting Professional & Ethical Standards 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is on page 26.

### Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, amounts in the Financial Statements and the Directors' report have been rounded to the nearest thousand dollars unless otherwise indicated.

Signed in accordance with a resolution of the Directors



Peter Lewis  
Chair – 20 August 2018



# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of McGrath Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of McGrath Limited for the financial year ended 30 June 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'Stuart Marshall'.

Stuart Marshall

Partner

Sydney

20 August 2018



# McGrath Limited and Controlled Entities

ACN. 608 153 779

*Financial Statements For The Year Ended 30 June 2018*

## Financial statements

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## Financial statements

### Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Revenues and other income	A1	99,176	129,363
Cost of sales		(38,084)	(49,943)
Employee benefits expense	A4	(33,804)	(36,913)
Directors' fees		(391)	(449)
Professional fees		(2,095)	(2,347)
Loss on sale of assets	B2,B3	(247)	-
Doubtful debts		(1,321)	(138)
Occupancy		(7,399)	(7,824)
Communications		(2,055)	(2,582)
Advertising and promotions		(1,879)	(2,528)
Other expenses		(10,861)	(11,064)
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>		<b>1,040</b>	<b>15,575</b>
Depreciation and amortisation expense	B3,B2	(7,157)	(7,574)
Impairments	B3,B2,B1	(59,389)	(2,180)
Finance income		52	98
Finance costs		(19)	(61)
Net finance costs		33	37
<b>(Loss)/Profit before income tax expense</b>		<b>(65,473)</b>	<b>5,858</b>
Income tax benefit/(expense)	E1	2,370	(987)
<b>(Loss)/Profit after income tax expense</b>		<b>(63,103)</b>	<b>4,871</b>
Other comprehensive income		-	-
<b>Total (loss)/profit and other comprehensive income for the period</b>		<b>(63,103)</b>	<b>4,871</b>
Net (loss)/profit after income tax expense attributable to:			
Owners of the Company		(63,103)	4,871
Non-controlling interest		-	-
<b>(Loss)/Profit after income tax expense</b>		<b>(63,103)</b>	<b>4,871</b>
Basic (losses)/earnings per share (cents)	A5	(44.34)	3.58
Diluted (losses)/earnings per share (cents)	A5	(44.34)	3.34

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

## Consolidated statement of financial position as at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	A3	10,928	7,999
Trade and other receivables	B1	23,594	28,298
Other assets	E2	2,884	2,782
Current tax assets		3,135	102
<b>TOTAL CURRENT ASSETS</b>		<b>40,541</b>	<b>39,181</b>
<b>NON CURRENT ASSETS</b>			
Trade and other receivables	B1	3,427	4,551
Property, plant and equipment	B2	1,503	9,035
Intangible assets	B3	16,156	74,806
<b>TOTAL NON CURRENT ASSETS</b>		<b>21,086</b>	<b>88,392</b>
<b>TOTAL ASSETS</b>		<b>61,627</b>	<b>127,573</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	B4	11,999	14,118
Loans and borrowings	B5	-	6,125
Provisions	E3	1,141	1,554
<b>TOTAL CURRENT LIABILITIES</b>		<b>13,140</b>	<b>21,797</b>
<b>NON CURRENT LIABILITIES</b>			
Trade and other payables	B4	1,167	1,523
Provisions	E3	1,172	1,402
Deferred tax liabilities	E1	3,755	4,160
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>6,094</b>	<b>7,085</b>
<b>TOTAL LIABILITIES</b>		<b>19,234</b>	<b>28,882</b>
<b>NET ASSETS</b>		<b>42,393</b>	<b>98,691</b>
<b>EQUITY</b>			
Contributed equity	E4	103,549	95,194
Share-based payment reserve	E4	670	672
(Accumulated losses)/Retained profits		(61,826)	2,825
Total equity attributable to equity holders		42,393	98,691
<b>TOTAL EQUITY</b>		<b>42,393</b>	<b>98,691</b>

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

## Consolidated statement of changes in equity as at 30 June 2018

	Notes	Contributed equity	Retained profits/ (accumulated losses)	Share Based Payment Reserve	Total equity, attributable to owners of the Company
		\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2017		95,194	2,825	672	98,691
Profit after income tax expense		-	(63,103)	-	(63,103)
Other comprehensive income		-	-	-	-
<b>Total comprehensive loss for the year</b>		-	(63,103)	-	(63,103)
Issue of Equity	E4	8,852	-	-	8,852
Share buyback	E4	(318)	-	-	(318)
Aqualand placement costs	E4	(179)	-	-	(179)
Share based payment transactions	A4	-	-	(2)	(2)
Dividends	C3	-	(1,548)	-	(1,548)
<b>Transactions with owners, recorded directly in equity</b>		8,355	(1,548)	(2)	6,805
Balance at 30 June 2018		103,549	(61,826)	670	42,393
Balance at 30 June 2016		92,132	4,096	74	96,302
Profit after income tax expense		-	4,871	-	4,871
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year</b>		-	4,871	-	4,871
Issue of Equity	E4	3,062	-	-	3,062
Share based payment transactions	A4	-	-	598	598
Dividends to equity holders	C3	-	(6,142)	-	(6,142)
<b>Transactions with owners, recorded directly in equity</b>		3,062	(6,142)	598	(2,482)
Balance at 30 June 2017		95,194	2,825	672	98,691

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



## Consolidated statement of cash flows for the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		112,041	140,873
Payments to suppliers and employees		(109,222)	(128,076)
Interest paid		(19)	(61)
Interest received		52	98
Income taxes paid		(1,320)	(478)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	A3	<b>1,532</b>	<b>12,356</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of controlled entities, net of cash acquired		-	(185)
Proceeds from disposal of property, plant and equipment		1,017	-
Purchase of property, plant and equipment		(348)	(3,726)
Purchase of intangibles		(499)	(2,943)
Loans granted		-	(827)
Loan repayments received		545	86
<b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>		<b>715</b>	<b>(7,595)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of share capital	E4	5,610	-
Payment for purchase of shares and options	E4	(318)	-
Repayment of borrowings	B5	(3,062)	(3,113)
Dividends paid	C3	(1,548)	(6,142)
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES</b>		<b>682</b>	<b>(9,255)</b>
Net increase/(decrease) in cash and cash equivalents		2,929	(4,494)
Cash and cash equivalents at the beginning of the financial year		7,999	12,493
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>	A3	<b>10,928</b>	<b>7,999</b>

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

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## Notes to the financial statements

The consolidated financial statements of McGrath Limited (the Company) as at and for the year ended 30 June 2018 comprise the Company and its controlled entities, (together referred to as the Consolidated Entity).

McGrath Limited is a for-profit company limited by shares incorporated and domiciled in Australia.

The financial report is presented in Australian dollars which is the Company's functional currency.

The financial statements were approved by the Board of Directors on 17 August 2018.

**The notes are set out in the following main sections:**

### **A: Financial performance and cash flows**

This section explains the drivers of the Consolidated Entity's performance, operating segment disclosures and provides information necessary to assess the Consolidated Entity's cash flows.

### **B: Financial position**

This section provides a breakdown and further information about those balance sheet items that the Directors consider most relevant in assessing the financial position of the Consolidated Entity.

### **C: Risk, capital management and related parties**

This section explains the Consolidated Entity's risk and capital management, including dividend payments and transactions with related parties, particularly Directors and executives.

### **D: Unrecognised items**

Provides information about items that are not recognised in the financial statements but could potentially have a significant impact on the Consolidated Entity's financial position and performance.

### **E: Other information**

Sets out information that the Directors do not consider significant in the context of the Consolidated Entity's operations and covers statutory information that must be disclosed to satisfy the requirements of the Corporations Act 2001.



## A Financial performance and cash flows

*This section explains the drivers of McGrath's performance, operating segments and provides information necessary to assess our cash flows.*

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# Notes to the Financial Statements for the year ended 30 June 2018

## A Financial performance and cash flows

### A1 Revenues and other income

	2018 \$'000	2017 \$'000
Commission	61,549	89,514
Fees	37,627	39,478
Fair value adjustment to deferred consideration	-	371
Total revenue and other income	99,176	129,363

#### Recognition and Measurement

Revenue is recognised for the major business activities using the methods outlined below:

- Sales commission and related income, including franchise fee income, derived from real estate sales are recognised at the time of unconditional exchange of contracts between vendors and purchasers.
- Property management fee income is recognised over the period to which the underlying rental payments for managed properties relate.
- Mortgage commissions are recognised upon loan settlement.

### A2 Operating segments

#### Description of segments

The Consolidated Entity has identified reportable segments based on the internal reports that are regularly reviewed and used by the Chief Executive Officer (the chief operating decision maker – CODM) in order to assess segment performance and in determining the allocation of resources to the segment. These divisions offer different services and are managed separately. The following describes the operations of each segment:

#### Company owned sales

This represents the company owned sales offices for which McGrath earns sales commission revenue. It includes property marketing fees paid by vendor clients of the company owned sales segment.

#### Company owned property management

This represents the company owned property management business for which McGrath earns property management fee revenue.

#### Franchise services

This includes franchise sales offices and franchise property management for which McGrath earns franchise fees.

#### Other

This represents non-reportable segments including mortgage broking, auction services, training and events and other network services.

Head office and corporate costs are not allocated to segments.

Inter-segment transactions are conducted on normal commercial terms and conditions. The majority of inter-segment transactions relate to levies charged by network services to other business units for marketing, training and IT.

The accounting policies of each operating segment are the same as those described for the Consolidated Entity.

## A2 Operating segments (continued)

The Consolidated Entity's operations are from Australian sources and therefore no geographical segments are disclosed. Assets and liabilities have not been reported on a segmented basis as the CODM is provided with consolidated information.

2018	Company owned Sales \$'000	Company owned property management \$'000	Franchise services \$'000	Total reportable segments \$'000	Other segments \$'000	Consolidated total \$'000
External revenues	58,232	18,809	10,978	88,019	11,088	99,107
Inter-segment revenues	(9)	-	-	(9)	4,936	4,927
<b>Segment Revenue</b>	<b>58,223</b>	<b>18,809</b>	<b>10,978</b>	<b>88,010</b>	<b>16,024</b>	<b>104,034</b>
Unallocated revenue						69
Eliminations						(4,927)
<b>Consolidated Revenue</b>						<b>99,176</b>
<b>Segment profit/(loss) before interest, tax, depreciation and amortisation</b>	<b>3,834</b>	<b>6,171</b>	<b>5,727</b>	<b>15,732</b>	<b>(547)</b>	<b>15,185</b>
Unallocated corporate costs						(14,145)
<b>EBITDA</b>						<b>1,040</b>
Depreciation and amortisation	(1,709)	(3,054)	(1)	(4,764)	(1,783)	(6,547)
Impairments	(57,251)	(1,096)	(415)	(58,762)	(627)	(59,389)
Unallocated corporate depreciation and amortisation						(610)
Net finance costs						33
<b>Loss before income tax expense</b>						<b>(65,473)</b>
<b>2017</b>	<b>Company owned Sales \$'000</b>	<b>Company owned property management \$'000</b>	<b>Franchise services \$'000</b>	<b>Total reportable segments \$'000</b>	<b>Other segments \$'000</b>	<b>Consolidated total \$'000</b>
External revenues	85,683	20,012	11,460	117,155	11,800	128,955
Inter-segment revenues	-	-	-	-	5,541	5,541
<b>Segment Revenue</b>	<b>85,683</b>	<b>20,012</b>	<b>11,460</b>	<b>117,155</b>	<b>17,341</b>	<b>134,496</b>
Unallocated revenue						408
Eliminations						(5,541)
<b>Consolidated Revenue</b>						<b>129,363</b>
<b>Segment profit/(loss) before interest, tax, depreciation and amortisation</b>	<b>15,475</b>	<b>7,022</b>	<b>7,229</b>	<b>29,726</b>	<b>(589)</b>	<b>29,137</b>
Unallocated corporate costs						(13,562)
<b>EBITDA</b>						<b>15,575</b>
Depreciation and amortisation	(1,801)	(3,038)	(3)	(4,842)	(1,937)	(6,779)
Impairments	-	-	-	-	(2,180)	(2,180)
Unallocated corporate depreciation and amortisation						(795)
Net finance costs						37
<b>Profit before income tax expense</b>						<b>5,858</b>

### A3 Cash and Cash flow related information

	2018	2017
	\$'000	\$'000
Cash at bank	3,119	2,993
Short-term deposits	7,809	5,006
Cash and cash equivalents	10,928	7,999

#### Recognition and Measurement

Cash and cash equivalents comprise cash at bank and short term deposits with an original maturity of three months or less. For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Consolidated Entity and earn interest at the respective short term deposit rates.

#### Reconciliation of net cash flow from operations to profit from ordinary activities after income tax

	2018	2017
	\$'000	\$'000
(Loss)/Profit after income tax expense	(63,103)	4,871
Adjustments for:		
Depreciation and amortisation expense	7,157	7,574
Impairments	59,389	2,180
Doubtful debts expense	1,321	138
Share-based payments	(2)	598
Loss on sale of property, plant and equipment	247	-
Fair value adjustment of deferred consideration	-	(371)
Net cash inflow from ordinary activities before changes in working capital	5,009	14,990
Payables and other liabilities	(2,475)	(1,551)
Other provisions	(643)	(265)
Deferred tax items	(405)	(587)
Prepayments	(450)	(45)
Receivables	3,227	(544)
Inventory	74	(226)
Other assets	228	(513)
Current tax asset	(3,033)	1,097
Net cash from inflow from operating activities	1,532	12,356

## A4 Employee benefit expenses

	2018	2017
	\$'000	\$'000
Wages and salaries	29,928	32,190
Leave provisions	1,730	2,340
Contributions to defined contribution plans	2,146	2,383
	<u>33,804</u>	<u>36,913</u>

### Accounting for employee benefits

#### Wages, salaries, annual leave and sick leave

Recognition and Measurement:

Short term employee benefits are expensed as the related service is provided. Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date. Liabilities for non-accumulating sick leave are recognised when the leave is taken.

Liabilities for wages, salaries, annual leave and sick leave are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are measured at the rates paid or payable.

#### Long service leave

Recognition and Measurement:

The liability for long service leave is recognised in the provision for employee benefits. The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on a corporate rate with terms to maturity that match, as closely as possible, the estimated future cash outflows.

#### Defined contribution plans

Recognition and Measurement:

A defined contribution plan is a post-employment benefit plan under which the entity pays fixed contributions into a separate entity with no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

#### Share-based payments

The compensation expense corresponding to the share options and performance rights, and associated costs was recorded as follows:

	2018	2017
	\$'000	\$'000
Wages and salaries	(2)	598



## A5 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share has been based on the following net (loss)/profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

#### (i) (Loss)/profit attributable to ordinary shareholders

	2018 \$'000	2017 \$'000
Net (loss)/profit attributable to owners of the Company	(63,103)	4,871

#### (ii) Weighted-average number of ordinary shares

*In thousands of shares*

Shares on issue at close 1 July	139,062	134,153
Issue of shares – High Performing agent plan 13 September 2016	-	2,336
Issue of shares – Smollen acquisition 30 June 2017	-	2,573
Issue of shares – C Judson 25 August 2017	223	-
Smollen Script Milestone 2 21 September 2017	3,977	-
Share buyback 5 October 2017	(520)	-
Placement Aqualand 20 June 2018	13,622	-
Shares on issue at 30 June	156,364	139,062
<b>Weighted-average number of ordinary shares at 30 June</b>	<b>142,324</b>	<b>136,014</b>
<b>Basic (losses)/earnings per share (units, cents)</b>	<b>(44.34)</b>	<b>3.58</b>

### (b) Diluted earnings per share

The calculation of diluted (losses)/earnings per share has been based on the following profit or loss attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the dilutive potential ordinary shares.

#### (i) (Loss)/profit attributable to ordinary shareholders

	2018 \$'000	2017 \$'000
Net (loss)/profit attributable to owners of the Company	(63,103)	4,871

#### (ii) Weighted-average number of ordinary shares

*In thousands of shares*

Weighted-average number of ordinary shares (basic)	142,324	136,014
Convertible redeemable preference shares (CRPS) <sup>1</sup>	-	8,579
High performing agent share plan <sup>2</sup>	-	1,013
Performance Rights and options <sup>3</sup>	-	126
<b>Weighted-average number of ordinary shares at 30 June</b>	<b>142,324</b>	<b>145,732</b>
<b>Diluted (losses)/earnings per share (units, cents)</b>	<b>(44.34)</b>	<b>3.34</b>

<sup>1</sup>The CRPS convert to shares in two tranches. The calculation considers the dilutive effect of the CRPS tranche one converted at a share price of \$1.19 and potential dilutive effect of tranche two if they were to be converted at the share price at 30 June 2017 per the share purchase agreement for the Smollen Group.

<sup>2</sup> High performing agents who achieved specified commission thresholds in FY16 were invited to purchase shares. The amount of shares that each agent was eligible to purchase was determined by the commission threshold they achieved. The shares were issued at a price of \$1.1731. The Company provided agents with a limited recourse loan to acquire shares. These shares are anti-dilutive in the period to June 2018 as their potential conversion to ordinary shares will decrease the loss per share.

<sup>3</sup> Performance rights were issued to certain senior executives under a Long-Term Incentive Plan as part of their employment agreements. The performance rights convert to ordinary shares upon the achievement of EBITDA, TSR and continuity of service obligations. The performance rights are anti-dilutive in the period to June 2018 as their potential conversion to ordinary shares will decrease the loss per share.

The Consolidated Entity presents basic and diluted earnings per share. Basic (losses)/earnings per share is calculated by dividing the net (loss)/profit attributable to ordinary shareholders of McGrath by the weighted average number of ordinary shares outstanding. The diluted (losses)/earnings per share is determined by adjusting the net (loss)/profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. McGrath uses the treasury stock method for calculating diluted (losses)/earnings per share. The diluted (losses)/earnings per share calculation considers the impact of potentially dilutive instruments, if any.



## B Financial position

*This section provides a breakdown and further information about those balance sheet items that the Directors consider most relevant in assessing the financial position of McGrath.*

B1	Trade and other receivables	41
B2	Property, plant and equipment	42
B3	Intangible assets	44
B4	Trade and other payables	47
B5	Loans and borrowings	47

## B Financial Position

### B1 Trade and other receivables

	Notes	2018 \$'000	2017 \$'000
<b>Current</b>			
Trade receivables	(i)	19,162	21,967
Doubtful debts provision	(ii)	(943)	(301)
		18,219	21,666
Other receivables	(iii)	5,808	5,762
Loans - other	(iv)	348	870
Impairment	(iii)	(781)	-
		23,594	28,298
<b>Non-current</b>			
Trade receivables	(i)	3,356	4,457
Loans - other	(iv)	71	94
		3,427	4,551

#### Recognition and Measurement

(i) Trade receivables, which are generally due on settlement or have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Where settlement is due more than 12 months later, the receivable is classified as non-current.

(ii) Details of the ageing of trade receivables is disclosed in C1. An impairment for doubtful debts is made when there is objective evidence that the Consolidated Entity will not be able to collect the debts. Bad debts are written off when identified.

(iii) Other receivables is largely related to franchise fees owing from franchise businesses. The impairment is a result of an improvement in the estimation methodology of the accrual process.

(iv) Other loans are predominantly unsecured and may be interest bearing or interest free. They are repaid on an ongoing basis from agent commissions or agreed payment arrangements.

## B2 Property, plant and equipment

	Notes	Plant and equipment \$'000	Leasehold improvement \$'000	Land and Buildings <sup>1</sup> \$'000	Total \$'000
<b>Consolidated Entity, year ended 30 June 2018</b>					
<b>Cost</b>					
At 1 July 2017		8,268	10,002	1,172	19,442
Additions		323	25	-	348
Transfers		(9)	(77)	-	(86)
Disposals		(191)	(280)	(1,172)	(1,643)
At 30 June 2018		<u>8,391</u>	<u>9,670</u>	<u>-</u>	<u>18,061</u>
<b>Accumulated depreciation</b>					
At 1 July 2017		(4,919)	(5,488)	-	(10,407)
Depreciation charge for the year		(1,424)	(1,334)	-	(2,758)
Transfers		-	-	-	-
Disposals		161	223	-	384
Impairment	B3	(856)	(2,921)	-	(3,777)
At 30 June 2018		<u>(7,038)</u>	<u>(9,520)</u>	<u>-</u>	<u>(16,558)</u>
<b>Carrying amounts</b>					
At 1 July 2017		3,349	4,514	1,172	9,035
At 30 June 2018		<u>1,353</u>	<u>150</u>	<u>-</u>	<u>1,503</u>

<sup>1</sup>The land and buildings asset is the McGrath office at Sydney Road, Seaforth which is wholly owned by the Consolidated Entity. The Consolidated Entity entered into a contract for the sale of this asset, leasehold improvements and equipment to an external party. The net proceeds of the sale were below the carrying value held for this asset, which incurred a net loss on disposal of \$247,000.

		Plant and equipment \$'000	Leasehold improvement \$'000	Land and Buildings \$'000	Total \$'000
<b>Consolidated Entity, year ended 30 June 2017</b>					
<b>Cost</b>					
At 1 July 2016		6,162	8,163	1,172	15,497
Additions		2,171	1,778	-	3,949
Assets acquired in a business combination		201	61	-	262
Disposals		(266)	-	-	(266)
At 30 June 2017		<u>8,268</u>	<u>10,002</u>	<u>1,172</u>	<u>19,442</u>
<b>Accumulated depreciation</b>					
At 1 July 2016		(3,691)	(4,095)	-	(7,786)
Depreciation charge for the year		(1,271)	(1,393)	-	(2,664)
Disposals		43	-	-	43
At 30 June 2017		<u>(4,919)</u>	<u>(5,488)</u>	<u>-</u>	<u>(10,407)</u>
<b>Carrying amounts</b>					
At 1 July 2016		2,471	4,068	1,172	7,711
At 30 June 2017		<u>3,349</u>	<u>4,514</u>	<u>1,172</u>	<u>9,035</u>

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## **B2      Property, plant and equipment (continued)**

### **Recognition and Measurement**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is based on the cost of an asset less its residual value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Plant and equipment - 2.5 to 10 years
- Leasehold improvements - remaining lease term
- Land and buildings are not depreciated

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

#### **(i) Impairment**

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. For plant and equipment, impairment losses are recognised in the profit and loss.

#### **(ii) Derecognition and disposal**

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

## B3 Intangible assets

	Goodwill	Property Management Rights	Software	Total
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated Entity, year ended 30 June 2018</b>				
<b>Cost</b>				
At 1 July 2017	53,328	22,363	12,521	88,212
Additions	-	9	490	499
Transfers	-	-	86	86
Disposals	-	-	(5)	(5)
At 30 June 2018	53,328	22,372	13,092	88,792
<b>Accumulated amortisation</b>				
At 1 July 2017	-	(6,971)	(6,435)	(13,406)
Transfers	-	-	-	-
Disposals	-	-	-	-
Amortisation charge for the year	-	(3,023)	(1,376)	(4,399)
Impairments <sup>1</sup>	(53,328)	(1,096)	(407)	(54,831)
At 30 June 2018	(53,328)	(11,090)	(8,218)	(72,636)
<b>Carrying amounts</b>				
At 1 July 2017	53,328	15,392	6,086	74,806
At 30 June 2018	-	11,282	4,874	16,156

<sup>1</sup>The impairments relate to property management rights acquired through historical sale transactions with outside parties, redundant software due to new development and goodwill acquired in the Smollen acquisition.

	Goodwill	Property Management Rights	Software	Total
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated Entity, year ended 30 June 2017</b>				
<b>Cost</b>				
At 1 July 2016	53,289	22,363	9,579	85,231
Additions	-	-	2,942	2,942
Assets acquired in a business combination	39	-	-	39
Disposals	-	-	-	-
Transfers	-	-	-	-
At 30 June 2017	53,328	22,363	12,521	88,212
<b>Accumulated amortisation</b>				
At 1 July 2016	-	(3,938)	(2,378)	(6,316)
Transfers	-	-	-	-
Disposals	-	-	-	-
Amortisation charge for the year	-	(3,033)	(1,877)	(4,910)
Impairment of software asset <sup>2</sup>	-	-	(2,180)	(2,180)
At 30 June 2017	-	(6,971)	(6,435)	(13,406)
<b>Carrying amounts</b>				
At 1 July 2016	53,289	18,425	7,201	78,915
At 30 June 2017	53,328	15,392	6,086	74,806

<sup>2</sup>The impairment charge relates to in-house software development costs capitalised during FY14 and FY15. During the reporting period, external software developers were engaged to provide enhanced software applications. It was assessed that these applications superseded a proportion of in-house software development costs capitalised during FY14 and FY15.

### B3 Intangible assets (continued)

#### Recognition and Measurement – Property Management Rights & Software

Intangible assets acquired separately or in a business combination have finite useful lives and initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, acquired intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Property Management Rights are amortised using the diminishing balance method at a rate of 15-20%.

Expenditure on internally generated intangible assets, excluding software development costs, is not capitalised. Software assets are amortised on a straight-line basis over 2.5 to 5 years commencing from implementation of the software. At each reporting date, the Consolidated Entity reviews the carrying amount of intangibles to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each reporting period.

#### Recognition and Measurement – Goodwill

##### Goodwill

Goodwill arising on the acquisition of businesses is measured at cost less accumulated impairment losses. Goodwill is tested annually for impairment or at each reporting date when indicators of impairment are present.

<b>Year Ended 30 June 2018</b>	<b>\$'000</b>
<b>Consolidated Entity</b>	
Carrying amount at beginning of financial year	53,328
Additions during the year	-
Impairment losses during the year	(53,328)
Carrying amount at end of financial year	-
<b>Year Ended 30 June 2017</b>	
<b>Consolidated Entity</b>	
Carrying amount at beginning of financial year	53,289
Additions during the year	39
Impairment losses during the year	-
Carrying amount at end of financial year	53,328

#### Significant accounting judgements, estimates and assumptions utilised in impairment testing

Goodwill recognised in the acquisition of businesses has been allocated to the Company Owned sales operating segment on the basis that the businesses will benefit the Company Owned sales operating segment as a whole.

An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. The recoverable amount is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. The value in use methodology has been used to determine the recoverable amount, determined by discounting the future cash flows to be generated from the continuing use of the CGU.

As at 30 June 2018, the recoverable amount of the Company Owned Sales CGU was determined to be lower than its carrying amount and impairments of goodwill and property, plant and equipment were recognised of \$53.3 million and \$3.8 million respectively. Following the impairment losses recognised in the Company Owned Sales segment CGU, the recoverable amount approximates its carrying amount.

The Company Owned Sales segment's financial performance (including the acquired businesses) has not been performing to expectation and this has affected management's assessment. The Company Owned Sales segment has been affected by significant departures of agents, lower productivity (the number of sales per agent) as new hires take some time to meet their potential, and the drop in average property price growth forecasts.

### B3 Intangible assets (continued)

#### Recognition and Measurement – Goodwill

The key assumption used in assessing value in use are set out below. The values assigned to the key assumptions represent management's assessment of future trends in real estate considering predicted property values, sales agent numbers, commission rates achieved and costs that have been based on historical data from internal and external sources. Some key assumptions, because of their commercial-in-confidence nature, have not been disclosed.

Key Assumptions	Forecast 5 year average
Sales agents	201
Price growth on average sale per property	0-2.5%
Growth in operating costs	2.5%
Terminal value in growth rate	2.5%
Discount rate (pre-tax)	16.3%



## B4 Trade and other payables

	2018	2017
	\$'000	\$'000
<b>Current</b>		
Trade creditors	650	1,228
Other creditors	990	1,647
Accrued expenses	8,002	7,960
Accrued sales commission	1,715	2,721
Unearned income	642	562
	<u>11,999</u>	<u>14,118</u>
<b>Non-current</b>		
Accrued sales commission	<u>1,167</u>	<u>1,523</u>
	<u>1,167</u>	<u>1,523</u>

### Recognition and Measurement

Trade and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year that are unpaid and arise when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of these goods and services.

## B5 Loans and borrowings

	2018	2017
	\$'000	\$'000
<b>Current</b>		
Deferred consideration	-	6,125
	<u>-</u>	<u>6,125</u>
<b>Non-current</b>		
Deferred consideration	-	-
	<u>-</u>	<u>-</u>

The deferred consideration relates to the acquisition of the Smollen Group. The deferred consideration has been presented at fair value as determined at 30 June 2017.

On 7 September 2016, a payment of \$3,062,500 was made to the Smollen Group in settlement of the cash component of the first tranche of deferred consideration. On 30 June 2017, the equity component of the first tranche of deferred consideration was settled by the issue of 2,573,520 ordinary shares in McGrath Limited.

On 21 September 2017, \$6,125,000 for the Smollen Group second tranche deferred consideration was settled 50% in cash and 50% by the issue of 3,977,260 ordinary shares in McGrath Limited. There are no further liabilities in relation to the acquisition of the Smollen Group.

The consolidated entity has no bank loans at 30 June 2018 (30 June 2017: nil).

### Overdraft facility and covenants

The Consolidated Entity has an undrawn overdraft facility of \$5 million (2017: Nil).

Under the terms of the borrowing facility, the Consolidated Entity is required to comply with certain financial covenants including minimum annual earnings before interest tax depreciation and amortisation, minimum property management commissions and drawings limitations.

The Consolidated Entity has complied with these covenants throughout the reporting period.



## C Risk, capital management and related parties

*This section explains McGrath's risk and capital management, including dividend payments and transactions with related parties, particularly Directors and executives.*

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C2	Capital management	52
C3	Dividends paid and proposed	52
C4	Key management personnel disclosure	53
C5	Related Party Transactions	54

## C Risk, capital management and related parties

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### C1 Financial risk management

The Consolidated Entity has exposure to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk

#### **Risk Management Framework**

The Consolidated Entity's board of directors has overall responsibility for the establishment and oversight of the risk management framework. The Consolidated Entity's risk management policies are established to identify and analyse the risks faced by the Consolidated Entity, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

#### **Credit risk**

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial asset fails to meet its contractual obligations and arises principally from the Consolidated Entity's receivables from customers.

#### **Exposure**

The maximum exposure to credit risk at balance date is the carrying amount of financial assets, net of any provisions for doubtful debts, as disclosed in the statements of financial position and notes to the financial statements. The Consolidated Entity closely monitors the age of trade and other receivables on a continuous basis to determine collectability and whether there is any risk of impairment.

The Consolidated Entity does not have any material credit risk exposure to any single debtor or group of debtors.

## C1 Financial risk management (continued)

### Impairment losses

The ageing of the Consolidated Entity's trade and other receivables at the reporting date was:

	2018 Gross \$'000	2018 Impairment \$'000	2017 Gross \$'000	2017 Impairment \$'000
Not past due	24,490	-	31,092	(59)
Past due 0-30 days	764	-	412	-
Past due 31-90 days	753	-	614	-
Past due 90 days +	1,957	(943)	1,032	(242)
	<u>27,964</u>	<u>(943)</u>	<u>33,150</u>	<u>(301)</u>

Movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2018 \$'000	2017 \$'000
Balance at 1 July	(301)	(509)
Provisions and adjustments	(804)	(126)
Impairment loss recognised	162	334
Balance at 30 June	<u>(943)</u>	<u>(301)</u>

### Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will encounter difficulty in meeting the obligations associated with its financial liabilities. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The following are the contractual maturities of financial liabilities, including estimated future interest payments and excluding loans from controlled entities.

	Carrying amount \$'000	Total Contractual cash flows \$'000	Within Year \$'000	1 to 2 Years \$'000	2 to 5 Years \$'000	Greater than 5 years \$'000
30 June 2018						
Trade & other payables	13,166	13,166	11,999	1,167	-	-
Deferred consideration	-	-	-	-	-	-
	<u>13,166</u>	<u>13,166</u>	<u>11,999</u>	<u>1,167</u>	<u>-</u>	<u>-</u>
30 June 2017						
Trade & other payables	15,641	15,641	14,118	1,523	-	-
Deferred consideration	6,125	3,063	3,063	-	-	-
	<u>21,766</u>	<u>18,704</u>	<u>17,181</u>	<u>1,523</u>	<u>-</u>	<u>-</u>

## C1 Financial risk management (continued)

### Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Consolidated Entity's financial performance and position.

### Interest rate risk

#### Profile

At reporting date, all interest bearing loans are variable instruments.

At the reporting date the interest rate profile of the interest bearing financial assets and liabilities was:

	Carrying Amount		Weighted average floating interest rate	
	2018 \$'000	2017 \$'000	2018 %	2017 %
Financial assets:				
Cash at bank	3,119	2,993	0.00%	0.00%
Short term deposits	7,809	5,006	0.75%	0.67%
Total financial assets	<u>10,928</u>	<u>7,999</u>		
Financial liabilities:				
Deferred consideration	-	6,125		
Total financial liabilities	<u>-</u>	<u>6,125</u>		

#### Interest rate sensitivity

A change of 100 basis points in interest rates would have increased or decreased the Consolidated Entity's (loss)/profit by \$51,783 (2017: \$53,492).

### Other Market risks

At 30 June 2018 the Consolidated Entity did not hold any available-for-sale equity securities assets (2017: nil) or have exposure to currency risk.

### Fair values

For financial assets and financial liabilities the fair value approximates their carrying value.

The aggregate carrying amounts of financial assets and financial liabilities are disclosed in the consolidated statement of financial position and in the notes to the financial statements.

## C2 Capital management

### Risk management

Capital is defined as the combination of contributed equity, reserves and net debt (borrowings less cash). The board is responsible for monitoring and approving the capital management framework within which management operates. The Consolidated Entity's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders such as employees. The Consolidated Entity focuses on interrelated financial parameters, including its gearing ratio, earnings growth, average cost of debt, gearing, weighted average debt maturity and borrowing capacity. The Consolidated Entity also monitors its interest coverage ratio and weighted average cost of debt. These are all taken into account when the Consolidated Entity makes decisions on how to invest its capital and evaluate its existing investments.

The capital structure of the Consolidated Entity can be changed by paying distributions to shareholders, returning capital to shareholders, issuing new shares or selling assets.

## C3 Dividends paid and proposed

	2018 \$'000	2017 \$'000
Declared and paid during the year:		
Dividends on ordinary shares:		
Final franked dividend for 2016: 3.5¢ (2015: 6.1¢) paid September 2016	-	4,777
Interim franked dividend for 2017: 1¢ (2016: nil) paid March 2017	-	1,365
Final franked dividend for 2017: 1¢ (2016: 3.5¢) paid October 2017	1,433	-
Final franked dividend for 2016: CPRS paid November 2017 <sup>1</sup>	90	-
Interim franked dividend for 2017: CPRS paid November 2017 <sup>1</sup>	25	-
	<u>1,548</u>	<u>6,142</u>

The tax rate at which dividends paid have been franked is 30% (2017: 30%).

Dividend Payout Ratio	(2)%	126%
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<b>Dividend franking account</b>	<b>\$'000</b>	<b>\$'000</b>
Amount of franking credits available to shareholders	<u>6,081</u>	<u>5,752</u>

The ability to utilise franking credits is dependent upon the ability to declare dividends.

<sup>1</sup>Under the sale purchase agreement for the Smollen Group, CPRS shareholders were entitled to receive dividends from the period of the calculation of the Milestone One scrip payment on September 2016, until the issue of ordinary shares on 30 June 2017.

### Recognition and Measurement

Dividends and distributions are recognised when declared.

## C4 Key management personnel disclosure

### Non-executive Directors

P. Lewis	Chair and Non-executive Director	Appointed 19 February 2018
A. Robinson	Non-executive Director	Appointed 19 February 2018
W. Mo	Non-executive Director	Appointed 27 June 2018
C. O'Connor	Chair and Non-executive Director	Resigned 19 February 2018
E. Crouch	Non-executive Director	Resigned 19 February 2018
N. Dews	Non-executive Director	Resigned 19 January 2018
C. Rogers	Non-executive Director	Resigned 19 February 2018

### Executive Director

J. McGrath	Executive Director
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### Executives

G. Lucas	Chief Executive Officer	Appointed 27 February 2018
G. Wright	Chief Financial Officer	Appointed 23 October 2017
K. Stathopoulos	Head of Sales	Appointed 10 October 2016
C. Mourd	Head of Franchise Services	Appointed 13 June 2017
R. Fearnley	Head of Property Management	Appointed 11 September 2017
C. Judson	Chief Executive Officer	Resigned 16 February 2018
P. Hauenschild	Chief Financial Officer	Resigned 25 December 2017

### (a) Compensation of key management personnel

The key management personnel of the Company are the Directors and Executives of the Consolidated Entity who have the authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly. Key management personnel compensation included in Employee Benefit Expenses (refer to A4) is as follows.

	2018	2017
	\$	\$
Long term and Short term employee benefits	3,122,238	3,340,684
Post-employment benefits	181,588	152,475
Termination benefits	730,468	112,812
Share-based payment expense	(265,564)	372,517
	<u>3,768,730</u>	<u>3,978,488</u>

Dividends have been paid during the year ended 30 June 2018 amounting to \$1,547,930 (2017: \$6,142,000) which include amounts paid to directors and other key management personnel.

### (b) Loans to key management personnel

	Year	Cash advance balance at beginning of financial year	Advances received during the year	Repayments made during the year	Cash advance balance at end of financial year
		\$	\$	\$	\$
M. Lahood	2018	-	-	-	-
	2017	92,272	-	92,272	-
Total	2018	-	-	-	-
	2017	92,272	-	92,272	-

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**C4 Key management personnel disclosure (continued)****Key management personnel related party transactions**

Several key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted in conjunction with the Consolidated Entity in the reporting period or prior period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

For further details and information related to key management personnel remuneration, please refer to the Remuneration Report.

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**C5 Related Party Transactions**

A number of subsidiaries within the Consolidated Entity enter into related party transactions. These transactions are conducted in the normal course of business and under arms-length terms and conditions. The majority of related party transactions between subsidiaries relate to levies and fees charged by MG Logistics Pty Ltd, McGrath Australasia Pty Ltd and McGrath Auctions Unit Trust for marketing, training, IT and auction services. The segment note at A2 discloses the quantum of these transactions.

Other related party transactions between subsidiaries occur due to the Consolidated Entity using centralised bank accounts in managing their treasury operations. Refer to E5 for a listing of the intercompany balances outstanding between McGrath Limited and its subsidiaries. The above related party transactions eliminate on consolidation at the consolidated entity level.





## D Unrecognised items

*Provides information about items that are not recognised in the financial statements but could potentially have a significant impact on McGrath's financial position and performance.*

D1	Commitments for expenditure	56
D2	Contingent liabilities	56
D3	Events subsequent to reporting date	56

## D Unrecognised items

### D1 Commitments for expenditure

	2018	2017
	\$'000	\$'000
<b>Operating leases</b>		
Non cancellable operating leases contracted for but not capitalised in the financial statements:		
-not later than 1 year	4,635	4,937
-later than 1 but not later than 5 years	7,523	7,843
-later than 5 years	-	220
	<u>12,158</u>	<u>13,000</u>

The operating lease commitment has been determined within the respective periods above according to executed lease contracts and relate to committed rental on leased business premises.

At the reporting date, the Consolidated Entity has nil capital expenditure commitments (2017: \$nil).

### D2 Contingent liabilities

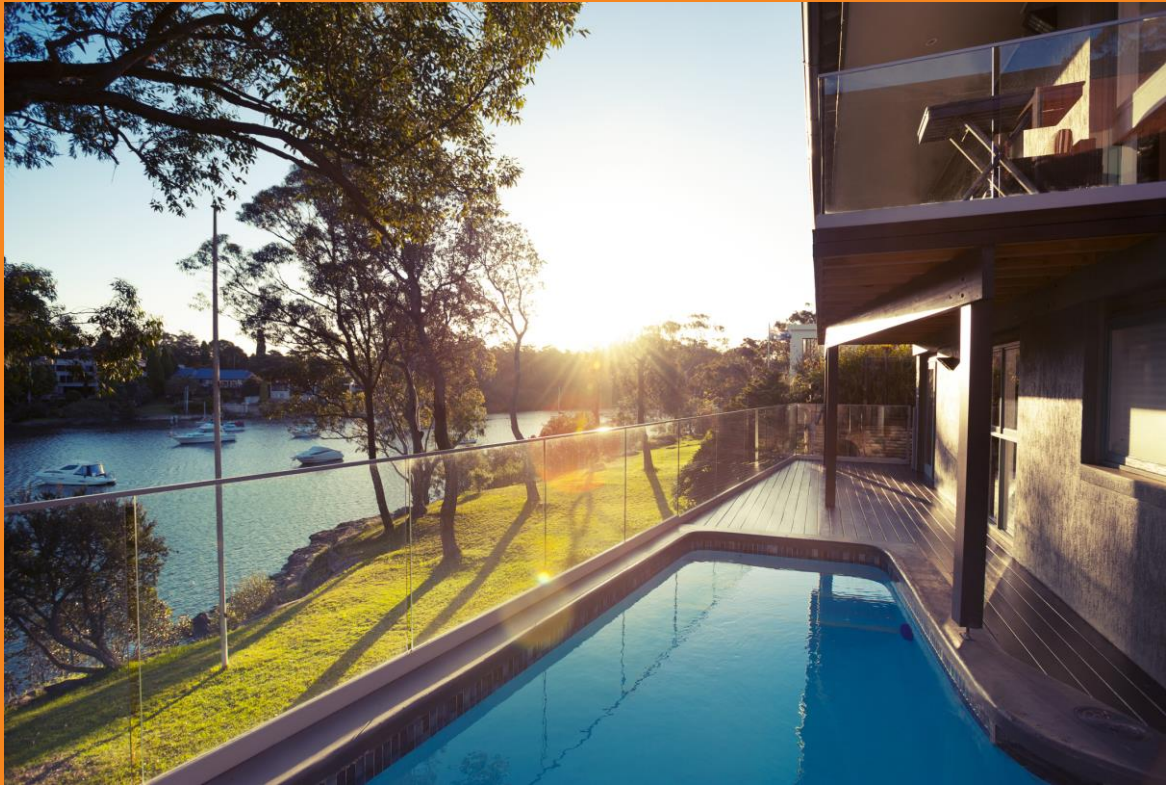
#### Bank guarantees

Bank guarantees have been issued in regard to operating leases totaling \$1,554,187 (2017: \$1,556,073). At 30 June 2018, the available guarantee facility was \$2,000,000 (2017: \$2,000,000). The operating lease commitment has been determined within the respective periods above according to executed lease contracts and relate to committed rental on leased business premises.

### D3 Events subsequent to reporting date

As detailed in note E4 - Capital and reserves, on 19 June 2018, a first tranche of 13,621,838 shares was issued at \$0.425 per share as part of a strategic relationship with the Aqualand Group. The second and last tranche of 11,568,042 shares, at \$0.425 per share, was approved on 31 July 2018 by an ordinary shareholder resolution at an extraordinary general meeting. This second tranche provides Aqualand a further interest of 6.3% in the Consolidated Entity, making Aqualand the second largest shareholder with a 15% relevant interest.

Other than the above there has not arisen in the interval between the end of the year and the date of this report, any item, transaction or event which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial periods.



## E Other information

*The Appendix sets out information that the directors do not consider significant in the context of McGrath's operations and covers statutory information that must be disclosed to satisfy the requirements of the Corporations Act 2001.*

E1	Taxation	58
E2	Other assets	61
E3	Provisions	61
E4	Capital and reserves	62
E5	Subsidiaries and non-controlling interests	63
E6	Parent entity disclosures	64
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E9	General accounting policies	68

## E Other information

### E1 Taxation

This note provides an analysis of the Consolidated Entity's income tax expense, shows what amounts are recognised directly in equity and in other comprehensive income, and how the tax expense is affected by non-assessable and non-deductible items. It also explains how the Consolidated Entity accounts for unsettled sales commission costs and tax losses.

	2018 \$'000	2017 \$'000
<b>Income tax (benefit)/expense</b>		
<i>Current tax (benefit)/expense</i>		
Current year	(2,058)	2,333
Adjustments in respect of income tax of previous years	93	(730)
Tax losses utilised	-	(29)
	(1,965)	1,574
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	(318)	(616)
Adjustments in respect of deferred tax of previous years	(87)	-
Tax losses utilised	-	29
	(405)	(587)
<b>Total income tax (benefit)/expense</b>	<b>(2,370)</b>	<b>987</b>
<i>Reconciliation of income tax expense/(benefit)</i>		
(Loss)/Profit before tax	(65,473)	5,858
At the statutory income tax rate of 30% (2017: 30%)	(19,642)	1,757
Over provision in respect of previous years income tax	93	(730)
Non assessable income	-	(111)
Non deductible expenses:		
Impairments	17,132	-
Other	47	71
<b>Income tax (benefit)/expense</b>	<b>(2,370)</b>	<b>987</b>

## E1 Taxation (continued)

### Balance and movement in deferred tax assets and liabilities

	Net deferred tax balance 1 July 2017	Recognised in profit or loss	Recognised in equity	Net deferred tax balance 30 June 2018	Deferred tax assets	Deferred tax liabilities
Intangible assets	(2,697)	-	-	(2,697)	-	(2,697)
Sales commission revenue	(5,826)	1,497	-	(4,329)	-	(4,329)
Equity transaction costs	1,546	(515)	77	1,108	1,108	-
Capitalised expenses	1	(1)	-	-	-	-
Provisions	977	1	-	978	978	-
Accruals	355	(302)	-	53	53	-
Sales commission costs	816	(194)	-	622	622	-
Software assets	668	(158)	-	510	510	-
	(4,160)	328	77	(3,755)	3,271	(7,026)

	Net deferred tax balance 1 July 2016	Recognised in profit or loss	Recognised in equity	Net deferred tax balance 30 June 2017	Deferred tax assets	Deferred tax liabilities
Intangible assets	(3,252)	555	-	(2,697)	-	(2,697)
Sales commission revenue	(5,957)	131	-	(5,826)	-	(5,826)
IPO transaction costs	2,062	(516)	-	1,546	1,546	-
Capitalised expenses	1	-	-	1	1	-
Provisions	1,114	(137)	-	977	977	-
Accruals	266	89	-	355	355	-
Sales commission costs	991	(175)	-	816	816	-
Software assets	-	668	-	668	668	-
Change in previously recognised tax losses	29	(29)	-	-	-	-
	(4,746)	586	-	(4,160)	4,363	(8,523)

### Tax losses

The Consolidated Entity has capital tax losses where no deferred tax asset is recognised on the consolidated statement of financial position of \$948,977 (2017: \$948,977) which are available for offset against future capital gains subject to continuing to meet relevant statutory tests.

The Consolidated Entity has income tax losses where no deferred tax asset is recognised on the consolidated statement of financial position of \$2 million (2017: \$nil).

## **E1 Taxation (continued)**

### **Income tax**

Income tax expense comprises current and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax is provided on all temporary differences at the reporting date between the tax bases used for taxation purposes of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax is recognised for all taxable temporary differences except:

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

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will be available against which they can be used.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

### **Tax Consolidation Legislation**

McGrath Limited and its wholly-owned controlled entities apply the tax consolidation legislation.

The deferred tax balances recognised by the parent entity and the consolidated entity in relation to wholly-owned entities joining the tax consolidated group are initially measured and remeasured based on the carrying amounts of the assets and liabilities of those entities at the level of the tax consolidated group and their tax values, as applicable under the tax consolidation legislation.

McGrath Limited, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under a tax sharing agreement with the tax consolidated entities are recognised as tax-related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax (expense)/benefit.

## E2 Other assets

	2018	2017
	\$'000	\$'000
<b>Current:</b>		
Prepayments	2,412	1,962
Stock on hand	225	299
Other	247	521
	<u>2,884</u>	<u>2,782</u>

### Recognition and Measurement

Prepayments are for services which are to be provided in future years but paid for in the current or prior financial years. Prepayments are measured at amortised cost, less provision for impairment.

## E3 Provisions

	2018	2017
	\$'000	\$'000
<b>Current:</b>		
Provision for annual leave	1,111	1,480
Provision for long service leave	30	74
Balance at 30 June	<u>1,141</u>	<u>1,554</u>
<b>Non-current:</b>		
Make-good provision	832	838
Provision for long service leave	340	564
Balance at 30 June	<u>1,172</u>	<u>1,402</u>
(a) Aggregate employee entitlements	<u>1,481</u>	<u>2,118</u>
(b) Average number of employees	<u>432</u>	<u>517</u>

## E4 Capital and reserves

	2018	2017
	\$'000	\$'000
156,364,491 fully paid ordinary shares (2017: 139,062,433).	103,549	95,194

### Contributed capital movement schedule

	\$'000	Shares
On issue at 1 July 2017	95,194	139,062,433
Issue of shares - C Judson	-	222,750
Smollen Scrip Milestone 2	3,063	3,977,260
Share buyback	(318)	(519,791)
Placement Aqualand	5,789	13,621,838
Aqualand placement costs	(179)	-
Balance at 30 June 2018	103,549	156,364,490

### Issue of ordinary shares

On 25 August 2017, 222,750 shares were issued to C. Judson as per his employment agreement with the Consolidated Entity.

On 21 September 2017, 3,977,260 shares were issued in consideration for the Milestone Two scrip payment for the Smollen acquisition.

On 19 June 2018, 13,621,838 shares were issued at \$0.425 per share as part of a strategic relationship with Aqualand Group. The transaction costs were accounted for as a deduction from equity.

### Buy-back/cancellation of shares

Between 6 & 13 October 2017, the Consolidated Entity engaged in a share buy-back of 519,790 ordinary shares. These shares were advised as cancelled to ASX on 31 October 2017.

### Prior year contributed capital movement schedule

	\$'000	Shares
On issue at 1 July 2016	92,132	134,153,229
Issue of shares – High performing agent plan	-	2,335,684
Issue of shares – Smollen Acquisition	3,062	2,573,520
Balance at 30 June 2017	95,194	139,062,433

On 13 September 2016 2,335,684 ordinary shares were issued in accordance with the terms and conditions of the High Performing Agent Plan. On 30 June 2017 2,573,520 ordinary shares were issued as deferred consideration for the acquisition of the Smollen Group.

### Recognition and Measurement

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of shares are recognised as a deduction from equity. Where ordinary shares are issued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Ordinary shares participate in dividends in proportion to the number of shares held. At shareholder meetings each ordinary share is entitled to one vote on show of hands, otherwise each shareholder has one vote when a poll is called.

### Share-based payment reserve

	2018	2017
	\$'000	\$'000
Balance at 1 July	672	74
Share-based payment expense	(2)	598
Balance at 30 June	670	672

The share-based payment reserve relates to the HPA share plan disclosed in note A5 and the LTIP plan disclosed in note 4 of the remuneration report.

### Significant accounting judgements, estimates and assumptions

The determination is based on the nature of the costs incurred and allocated on a reasonable basis. Costs that are determined to be attributable are recognised as a deduction from equity.



## E5 Subsidiaries and non-controlling interests

### Parent entity

The Parent entity within the Consolidated Entity is McGrath Limited.

### Controlled Entity

The consolidated financial statements include the financial statements of McGrath Limited and its controlled entities listed in the following table.

Company name	Ownership		Investment	
	2018	2017	2018	2017
			\$	\$
McGrath Operations Limited	100	100	7,566,460	7,566,460
McGrath Sales Pty Limited	100	100	1	1
McGrath Property Management Pty Limited	100	100	1	1
Total Real Estate Training Pty Limited	100	100	1	1
Architype Marketing Pty Limited	100	100	2	2
McGrath Oxygen Home Loans Pty Limited	100	100	1	1
MG Logistics Pty Limited	100	100	1	1
McGrath Australasia Pty Ltd	100	100	100	100
McGrath Auctions Pty Limited	100	100	100	100
McGrath Auctions Unit Trust	100	100	100	100
McGrath Sales (QLD) Pty Ltd	100	100	100	100
McGrath Property Management (QLD) Pty Ltd	100	100	100	100
McGrath Sales Paddington Pty Ltd	100	100	100	100
McGrath Bulimba Sales Unit Trust	100	100	100	100
McGrath Bulimba (No. 1) Pty Ltd	100	100	100	100
McGrath Bulimba Property Management Unit Trust	100	100	100	100
McGrath Bulimba (No. 2) Pty Ltd	100	100	100	100
McGrath Asia Pty Ltd	100	100	100	100
McGrath Sales (VIC) Pty Ltd	100	100	100	100
SPG (Australian Portfolio Management) Pty Ltd	100	100	100	100
Australian Portfolio Management Pty Ltd	100	100	100	100
Australian Portfolio Management Unit Trust	100	100	100	100
SPG (NDH Property) Pty Ltd	100	100	100	100
NDH Property Pty Limited	100	100	100	100
NDH Property Unit Trust	100	100	100	100
SPG (MNS Property) Pty Ltd	100	100	100	100
MNS Property Pty Ltd	100	100	100	100
MNS Property Unit Trust	100	100	100	100
SPG (NB Property) Pty Ltd	100	100	100	100
NB Property Pty Ltd	100	100	100	100
NB Property Unit Trust	100	100	100	100
SPG (HH Property) Pty Ltd	100	100	100	100
HH Property Pty Ltd	100	100	100	100
HH Property Unit Trust	100	100	100	100
SPG (UNS Property) Pty Ltd	100	100	100	100
UNS Property Pty Ltd	100	100	100	100
UNS Property Unit Trust	100	100	100	100
SPG (Engage Property) Pty Ltd	100	100	100	100
Engage Property Management Pty Limited	100	100	100	100
Engage Property Management Unit Trust	100	100	100	100
SPG (Market Pod) Pty Ltd	100	100	100	100
Market Pod Pty Limited	100	100	100	100
Market Pod Unit Trust	100	100	100	100
SPG (Hills Property) Pty Ltd	100	100	100	100
Hills Property Pty Ltd	100	100	100	100
Hills Property Unit Trust	100	100	100	100
SPG (Pymble Property) Pty Ltd	100	100	100	100
Pymble Property Pty Ltd	100	100	100	100
Pymble Property Unit Trust	100	100	100	100
			<u>7,570,667</u>	<u>7,570,667</u>

## E5 Subsidiaries and non-controlling interests (continued)

### Balances outstanding

The following table provides the total amount outstanding between McGrath Limited and its wholly-owned subsidiaries at reporting date:

	2018	2017
	\$	\$
<i>Receivables</i>		
McGrath Sales Pty Limited	3,473,307	5,535,460
MG Logistics Pty Limited	37,855,648	36,995,683
McGrath Auctions Unit Trust	25,388	25,388
McGrath Sales (VIC) Pty Ltd	48,123	-
Australian Portfolio Management Unit Trust	665,338	665,338
McGrath Operations Limited	2,978,480	2,978,480
	<u>45,046,284</u>	<u>46,200,349</u>
<i>Payables</i>		
McGrath Australasia Pty Ltd	7,140	-
McGrath Sales (QLD) Pty Ltd	15,249	-
McGrath Bulimba Sales Unit Trust	38,051	38,051
NDH Property Unit Trust	19,904	-
HH Property Unit Trust	19,067	-
Engage Property Management Unit Trust	335,616	300,000
	<u>435,027</u>	<u>338,051</u>

## E6 Parent entity disclosures

	2018	2017
	\$'000	\$'000
<b>Result of parent entity</b>		
(Loss)/Profit after income tax expense	(53,082)	13,175
Total (loss)/profit and other comprehensive income for the year	<u>(53,082)</u>	<u>13,175</u>
<b>Financial position of parent entity at year end</b>		
Current assets	45,776	45,864
Total assets	46,271	99,480
Current liabilities	(506)	(7,437)
Total liabilities	<u>(506)</u>	<u>(7,437)</u>
Net assets	<u>45,765</u>	<u>92,043</u>
<b>Total equity of parent entity comprising of:</b>		
Contributed equity	95,983	87,629
Share based payment reserve	670	672
Retained earnings	<u>(50,888)</u>	<u>3,742</u>
Total equity	<u>45,765</u>	<u>92,043</u>

No capital expenditure commitments contracted for at reporting date (2017: \$ nil).

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**E7 Auditor's Remuneration**

	2018	2017
	\$	\$
<b>Audit and other services - KPMG</b>		
Audit and review of financial statements	293,000	280,000
Other regulatory audit services	-	-
Total	<u>293,000</u>	<u>280,000</u>
 <b>Other services - KPMG</b>		
Assurance and taxation	91,735	147,686
Total other services	<u>91,735</u>	<u>147,686</u>

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**E8 Deed of cross guarantee****Nature**

During FY16, McGrath Limited and certain wholly-owned entities (collectively the 'Closed Group') entered into a Deed of Cross Guarantee (the 'Deed'). The members of the Closed Group guarantee to pay any deficiency in the event that another member winds up.

**Parties to the Deeds**

The parties to the deed consist of the following:

*Holding Entity*

- McGrath Limited

*Group Entities other than Holding Entity*

- McGrath Operations Limited
- McGrath Sales Pty Limited
- MG Logistics Proprietary Limited.

*Trustee*

- McGrath Operations Limited

*Alternative Trustee*

- McGrath Sales Pty Limited

**Parties added or removed during or since the relevant financial year**

No parties were added or removed during the year.

**Details of entities which obtained relief in the immediately preceding financial year**

Other than the above no parties obtained relief in the immediately preceding financial year.

## E8 Deed of cross guarantee (continued)

The consolidated statement of profit or loss and other comprehensive income and the consolidated statement of **Closed Group** for the year ended 30 June

	2018 \$'000	2017 \$'000
Revenues and other income	36,784	57,340
Cost of sales	(7,112)	(11,292)
Employee benefits expense	(15,874)	(17,923)
Directors' fees	(391)	(449)
Professional fees	(1,765)	(2,228)
Loss on disposal of assets	(260)	-
Doubtful debts	(282)	(26)
Occupancy	(3,813)	(4,130)
Communications	(1,194)	(1,494)
Advertising and promotions	(493)	(602)
Other expenses from ordinary activities	(6,686)	(6,486)
<b>(Losses)/Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>(1,086)</b>	<b>12,710</b>
Depreciation and amortisation expenses	(2,732)	(5,370)
Impairments	(67,894)	-
Finance income	89	115
Finance costs	(19)	(61)
<b>Net finance costs</b>	<b>70</b>	<b>54</b>
<b>(Loss)/Profit before income tax expense</b>	<b>(71,642)</b>	<b>7,394</b>
Income tax benefit	1,193	603
<b>(Loss)/Profit after income tax expense</b>	<b>(70,449)</b>	<b>7,997</b>
Other comprehensive income	-	-
<b>Total (loss)/profit and other comprehensive income for the year</b>	<b>(70,449)</b>	<b>7,997</b>

## E8 Deed of cross guarantee (continued)

Closed group consolidated statement of financial position as at 30 June

	2018 \$'000	2017 \$'000
CURRENT ASSETS		
Cash and cash equivalents	10,865	7,939
Trade and other receivables	55,662	67,893
Other	1,603	1,609
Current tax assets	3,366	332
<b>TOTAL CURRENT ASSETS</b>	<b>71,496</b>	<b>77,773</b>
NON CURRENT ASSETS		
Receivables	3,240	4,227
Intangible assets	3,682	57,861
Other Financial assets	1	1
Property, plant and equipment	1,452	5,913
Deferred tax assets	-	-
<b>TOTAL NON CURRENT ASSETS</b>	<b>8,375</b>	<b>68,002</b>
<b>TOTAL ASSETS</b>	<b>79,871</b>	<b>145,775</b>
CURRENT LIABILITIES		
Trade and other payables	34,308	29,420
Financial liabilities	-	6,125
Provisions	1,141	1,554
<b>TOTAL CURRENT LIABILITIES</b>	<b>35,449</b>	<b>37,099</b>
NON CURRENT LIABILITIES		
Trade and other payables	1,165	1,522
Deferred tax liabilities	23	53
Provisions	795	1,018
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>1,983</b>	<b>2,593</b>
<b>TOTAL LIABILITIES</b>	<b>37,432</b>	<b>39,692</b>
<b>NET ASSETS</b>	<b>42,439</b>	<b>106,083</b>
EQUITY		
Contributed equity	103,550	95,195
Share based payment reserve	670	672
Retained (losses)/profits	(61,781)	10,216
<b>TOTAL EQUITY</b>	<b>42,439</b>	<b>106,083</b>

All amounts are stated in thousands of Australian Dollar, except per share amounts which are stated in cents.

**(a) Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The Consolidated Entity is a for profit entity for the purpose of preparing the financial statements and is domiciled in Australia.

The Company's registered address is 191 New South Head Road Edgecliff NSW 2027.

**(i) Compliance with IFRS**

The consolidated financial statements of the Consolidated Entity also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

**(ii) Historical cost convention**

These financial statements have been prepared on a historical cost basis, except as identified within the notes.

**(b) Principles of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June each year.

In preparing the consolidated financial statements, intercompany balances and transactions, income and expenses and profit and losses resulting from intra-Consolidated Entity transactions have been eliminated in full.

Subsidiaries are all entities over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are deconsolidated from the date that control ceases.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement of financial position respectively. The Consolidated Entity applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Consolidated Entity. Disposals to non-controlling interests result in gains and losses for the Consolidated Entity that are recorded in the consolidated statement of profit or loss and other comprehensive income.

**(c) Changes in accounting policies and disclosures**

In the current year, the Consolidated Entity has applied a number of new and revised accounting standards and amendments that are mandatorily effective for an accounting period that begins on or after 1 January 2017, as follows:

- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses;
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107; and
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle.

While these standards introduced new disclosure requirements, they do not affect the Group's accounting policies or any of the amounts recognised in the financial statements.

**(d) Standards issued but not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not been early adopted by the Consolidated Entity. The Consolidated Entity's assessment of the impact of these new standards and interpretations is set out below:

**i) AASB 9 Financial Instruments**

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces a new expected credit loss model for calculation of impairment on financial assets model, and new rules for hedge accounting. The standard will become mandatory for reporting periods beginning on or after 1 January 2018. The Consolidated Entity does not intend to early adopt the standard.

The Consolidated Entity will adopt AASB 9 for the year beginning July 1, 2018 using the modified retrospective approach. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application on 1 July 2018, without restating the comparative period presented.

The Consolidated Entity does not expect any impact from the new classification, measurement and derecognition rules on the Consolidated Entity's financial assets and financial liabilities. The change in method from recognition of incurred losses to the recognition of expected credit losses for impairment of financial assets, may lead to a currently estimated adjustment reducing opening equity by \$750k (after tax) with regards to non-current accounts receivables.

**ii) AASB 15 Revenue from Contracts with Customers**

AASB 15 establishes the accounting principles that an entity shall apply to recognise revenue from contracts with customers. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The standard will become mandatory for reporting periods beginning on or after 1 January 2018. The Consolidated Entity does not intend to early adopt the standard.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard provides a single, principle-based, five-step model to be applied in order to define the timing and the amount of revenue arising from a contract with a customer.

The Consolidated Entity will adopt AASB 15 for the year beginning July 1, 2018 using the modified retrospective approach. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application on 1 July 2018, without restating the comparative period presented.

The Consolidated Entity analysed its revenue streams and concluded these revenue streams have the same timing and pattern of revenue recognition under the new guidance, and therefore the Consolidated Entity had no changes in revenue recognition with the adoption of the new standard. As such, adoption of the standard did not result in a cumulative adjustment recognised 1 July 2018.

The standard requires the disclosure of new qualitative and quantitative information in the notes to the consolidated accounts.

**iii) AASB 16 Leases**

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

The Consolidated Entity has not yet assessed the impact of the new standard. The standard is effective for financial years commencing on or after 1 January 2019.

There are no other standards and interpretations that are not yet effective and that are expected to have a material impact on the Consolidated Entity in the current or future reporting periods and on foreseeable future transactions.

**(e) Significant accounting judgements, estimates and assumptions**

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment in the year ending 30 June 2018 are included in the following notes:

- Note B3 – impairment testing of intangible assets including goodwill.
- Note C1 – provisioning for doubtful debts.
- Note E4 – cost allocation attributable to the issue of shares.

**(f) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

**(g) Investments and other financial assets**

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value. The Consolidated Entity determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

The Consolidated Entity derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Consolidated Entity is recognised as a separate asset or liability.

**(h) Loans and receivables**

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

**(i) Impairment of financial assets**

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Consolidated Entity on terms that the Consolidated Entity would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.



**(j) Impairment of financial assets (continued)**

The Consolidated Entity considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Consolidated Entity uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**(k) Provisions**

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**(l) Share based-payments**

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

**(m) Contributed equity**

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

## ***Directors' Declaration For the Year Ended 30 June 2018***

In the opinion of the directors of McGrath Limited:

(a) the consolidated financial statements and notes that are set out on pages 27-71 are in accordance with the

*Corporations Act 2001*, including:

(i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of its performance, for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in note E8 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note E8.

(d) the directors draw attention to Note E9 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

The Directors have been given the declarations by the CEO & Managing Director and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.



Peter Lewis  
Chair  
20 August 2018



# Independent Auditor's Report

To the shareholders of McGrath Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of McGrath Limited (the Group).

In our opinion, the accompanying Financial Report of the Group is in accordance with the *Corporations Act 2001*, including:

- The **Group's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2018;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

The **Key Audit Matters** we identified are:

- Carrying value of Goodwill
- Recoverability of trade receivables in connection with development projects

**Key Audit Matters** are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Carrying value of Goodwill

Refer to Note B3 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>Carrying value of Goodwill allocated to the Company Owned Sales segment is a Key Audit Matter due to:</p> <ul style="list-style-type: none"> <li>• The level of judgement required by us in evaluating the Group's assessment of impairment, particularly given: <ul style="list-style-type: none"> <li>- The market reduction of Real Estate listings year on year;</li> <li>- The reduction of Company Owned Sales agent numbers during 2018; and</li> <li>- The reduction in property prices in key markets during the year.</li> </ul> </li> <li>• The size of the balance relative to the net assets of the Group.</li> </ul> <p>The Group has used the value in use method in assessing the carrying value of Goodwill. The value in use model includes the following significant judgements, which were the focus of our work:</p> <ul style="list-style-type: none"> <li>• 5-year cashflow forecast of the Company Owned Sales segment including number of sales agents, price growth on average sale per property, agent productivity and commission rate assumptions; and</li> <li>• WACC and terminal value rates.</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the budget setting and monitoring process used to develop the 5-year cashflow forecast;</li> <li>• Comparing previous actual results to prior period budgets to assess the accuracy of McGrath's forecasting;</li> <li>• Assessing the 5-year cash flow forecasts including number of sales agents, price growth on average sale per property, agent productivity and commission rate assumptions. We analysed these assumptions against the Group's historical data, our industry knowledge and experience, and compared them to the Board approved FY19 budget; and</li> <li>• Working with our valuation specialists to assess the WACC and terminal value rates.</li> </ul>

## Recoverability of trade receivables in connection with development projects

Refer to Note B1 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>Recoverability of trade receivables in connection with development projects ('Project debtors') is a Key Audit Matter due to the level of judgement required. This involves assessing the likelihood of development projects being completed by the contractual sunset date (development risk) and the purchasers settling (sales risk).</p> <p>Commission income from off-the-plan apartment sales is recognised on unconditional exchange, with payments due:</p> <ul style="list-style-type: none"> <li>• 50% on unconditional exchange; and</li> <li>• 50% on settlement.</li> </ul> <p>The long timeframe between unconditional exchange and settlement gives rise to two types of recoverability risk, being from:</p> <ol style="list-style-type: none"> <li>1. Sales risk: The risk the buyer will not settle on the sale. This is influenced by availability of finance and property market movements between exchange and settlement;</li> <li>2. Development risk: The risk the developer will not complete the development, thereby invalidate the sale and expected recoverability of the associated trade receivable. This risk is influenced by the availability of project finance to the developer, pending achievement of pre-sales targets and delays in construction completion beyond the contract sunset date.</li> </ol> <p>Assessing the conditions giving rise to these recoverability risks are our focus.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing the Group's monitoring report for specific risk criteria such as projects expected to settle within the next two years, or were expected to settle before year-end and did not, and higher risk projects identified by the Group.</li> <li>• Meeting with the Head of Projects and finance team to understand the Group's analysis of the project status, sales and construction risks, and the Group's process for recognising and monitoring doubtful debt provisions;</li> <li>• Research industry data for identification of matters which could impact sales risk, such as market price deterioration. We compare this research to the Group's judgements for consistency; and</li> <li>• Analysis of historical trends for recovery of off-the-plan apartment sales commission. We compare these trends to the Group's judgements of future recovery, and our knowledge of current and forecasted industry trends.</li> <li>• Assessing the recoverability of project debtors through evaluation of the above analysis.</li> </ul>

## Other Information

Other Information is financial and non-financial information in McGrath Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Letter from the Chair and CEO, Operating and Financial Review, Corporate Governance, Directors' Report and Remuneration Report. The Directors are responsible for the Other Information.

We obtained the Other Information prior to the date of this Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

### **Responsibilities of the Directors for the Financial Report**

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the Financial Report**

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf). This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of McGrath Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

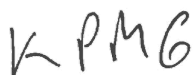
### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

### Our responsibilities

We have audited the Remuneration Report included in pages 10 to 22 of the Annual Financial Report referenced to in the Director's report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.



KPMG



Stuart Marshall  
*Partner*

Sydney  
20 August 2018

## Shareholder information

The information set out below was prepared as at 7 August 2018 (unless indicated otherwise) and applies to McGrath's securities (ASX code: MEA).

As at 7 August 2018 there were 167,932,532 fully paid ordinary shares on issue.

### Substantial shareholders

As disclosed in substantial holding notices lodged with the ASX as at 14 August 2018:

Shareholder	Date of notice	Number of shares	Percentage of issued equity % <sup>1</sup>
Shane Smollen Pty Limited as trustee for The Smollen Property Family Trust	14/08/2018	12,413,085	7.39
Perpetual Limited and subsidiaries	03/08/2018	15,175,295	9.04
Argo Investments	03/08/2018	10,000,000	5.95
AL Capital Holding Pty Ltd as trustee for the AL Capital No 1 Unit Trust and Yunhui Lin	02/08/2018	25,189,880	15.00
John McGrath & Fondurru	01/08/2018	37,127,378	22.108
Central T Pty Ltd ATF Central Trust	22/06/2018	9,419,291	6.02

<sup>1</sup> Percentage of issued equity held as disclosed in the substantial holding notices provided to the Company.

### Range of shareholders – fully paid ordinary shares

Range	Number of holders	Number of securities
1 to 1,000	583	325,381
1,001 to 5,000	679	2,064,309
5,001 to 10,000	382	3,169,187
10,001 to 100,000	550	16,537,024
100,001 and over	73	145,836,631
<b>Total number of shareholders</b>	<b>2,267</b>	<b>167,932,532</b>

Number of security holders holding less than a marketable parcel (being 1,283 securities at the closing market price of \$0.390 on 7 August 2018): 621.

### Range of holders – performance rights (unquoted)

Range	Number of holders	Number of securities
1 to 1,000	0	0
1,001 to 5,000	0	0
5,001 to 10,000	2	11,904
10,001 to 100,000	4	230,704
100,001 and over	6	1,001,457
<b>Total number of holders</b>	<b>12</b>	<b>1,244,065</b>

### Range of holders – options (unquoted)

Range	Number of holders	Number of securities
1 to 1,000	0	0
1,001 to 5,000	0	0
5,001 to 10,000	0	0
10,001 to 100,000	0	0
100,001 and over	1	2,500,000
<b>Total number of holders</b>	<b>1</b>	<b>2,500,000</b>



## 20 largest shareholders (as of 7 August 2018)

No.	Shareholder	Number of shares	Percentage of issued equity %
1	AL Capital Holding Pty Ltd <AL Capital No1 Unit A/C>	25,191,880	15.00
2	Fondorru Pty Ltd	21,195,450	12.62
3	John Damian McGrath	15,059,928	8.97
4	UBS Nominees Pty Ltd	14,237,291	8.48
5	Smollen Property Pty Limited	12,413,085	7.39
6	Argo Investments Limited	10,000,000	5.95
7	Central <Central A/C>	9,419,291	5.61
8	JP Morgan Nominees Australia	6,877,400	4.10
9	HSBC Custody Nominees (Australia) Limited	5,234,308	3.12
10	Invia Custodian Pty Limited	3,719,614	2.21
11	The Rockshore Horizon Investment Company Pty Ltd	2,502,911	1.49
12	Lindway Investments Pty Limited	1,238,000	0.74
13	Mr John Damian McGrath	872,000	0.52
14	Courntey Holdings Pty Ltd	827,539	0.49
14	Paranchi Investments Pty Ltd	827,539	0.49
14	Peter Chauncy Investments Pty Ltd	827,539	0.49
14	Tracey Dixon Investments Pty Ltd	827,539	0.49
14	Vaughan Investment Group Pty	827,539	0.49
15	Radiata Investments Pty Ltd	808,621	0.48
16	CAV & Associates Pty Ltd	780,468	0.46
17	Mr Junchen He	712,236	0.42
18	CLK Consultancy Pty Ltd	697,218	0.42
18	Alexandra Stamatiou-Buda	697,218	0.42
19	Dalelan Pty Limited	685,000	0.41
20	Mr Alex Jordan	600,000	0.36
Top 20 holders of Shares		137,079,614	81.63
Balance of Shares		30,852,918	18.37
<b>Total Shares on issue</b>		<b>167,932,532</b>	<b>100.00</b>

**Voting rights**

Subject to the Constitutions of McGrath Limited and to any rights or restrictions for the time being attached to any class or classes of shares, units or stapled securities:

- on a show of hands, each holder of fully paid ordinary shares present in person or by proxy, attorney, or representative has one vote; and
- on a poll, each holder of fully paid ordinary shares has:  
> in the case of a resolution of McGrath Limited, one vote for each fully paid ordinary share in McGrath Limited held.

Holders of Performance Rights and Optoins have no voting rights.

**On-market Buy Back**

There is no current on-market buy back.

## Corporate Directory

### STOCK EXCHANGE LISTING

The shares of McGrath Limited are listed on the Australian Securities Exchange trading under the ASX Listing Code “MEA”.

**ACN:** 608 153 779

### DIRECTORS

**Peter Lewis**

Chair and Independent Non-executive Director

**Andrew Robinson**

Independent Non-executive Director

**Wayne Mo**

Non-executive Director

**John McGrath**

Executive Director

### CHIEF EXECUTIVE OFFICER

Geoff Lucas

### COMPANY SECRETARY

Melissa Jones

### REGISTERED OFFICE

**Address**

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