

24 August 2020

ASX Markets Announcement Office
Exchange Centre
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

2020 Annual Report

Please find attached for release to the market, McGrath Limited's *Annual Report* for the year ended 30 June 2020.

-ENDS-

This Announcement was authorised for release by McGrath Limited's Board of Directors.

About McGrath:

McGrath Limited (**ASX: MEA**) has grown to be an integrated real estate services business, offering agency sales, property management, mortgage broking and career training services. McGrath Estate Agents currently has 99 offices located throughout the East Coast of Australia. For further information, please visit www.mcgrath.com.au.

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McGrath Limited and Controlled Entities
2020 Annual Year 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
55 Pyrmont Street
PYRMONT NSW 2009

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

www.mcgrath.com.au.

In this report, McGrath Limited is referred to as the Company or 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 across the Eastern seaboard of Australia.

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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Letter from the Chair

Dear Shareholders,

The 2020 financial year (FY20) was a year which saw a recovery of the Australian real estate market. This recovery however, has been somewhat tempered by the onset of the Coronavirus pandemic ("COVID") which impacted on all aspects of our society and accordingly also had an impact on the real estate market and our business.

The impacts of COVID became evident at the onset of the pandemic in mid-March where transaction volumes were lower for a 6-week period due to restrictions around open houses and on-site auctions. However, since then we have seen a rebound in sales volumes as these restrictions were eased and eventually lifted. Notwithstanding the impact of COVID, we are pleased to advise that the extensive work we have undertaken over the past year has manifested in our financial results with the Company showing a turnaround in excess of \$10 million in our underlying operating results and also returning to net profitability. Furthermore, we continue to improve our processes and quality of service with an unwavering commitment to achieve excellent results for our clients and the communities to whom we serve.

Our foremost responsibility through the COVID pandemic is to ensure the safety and wellbeing of all our stakeholders, including all our team members and clients. At the onset, we implemented our plan to ensure a safe workplace and the health of all our stakeholders in compliance with the Work Health and Safety laws. Equally, our teams worked quickly to transition our business to live-streaming auctions and digital property inspections. As a result, transactions continued through these times. As these restrictions have eased in most parts of the country, we continue to conduct our business with the safety of all our stakeholders being of paramount importance. Whilst there had been some impact on listing volumes since the onset of COVID, home values have remained quite resilient through this time. In our Property Management (PM) business, we have seen some decline in rental values. The lower demand due to the weaker labour market has impacted rents.

Our thoughts and support are with our Victorian neighbours who have currently had to enforce more severe restrictions given a spike in the number of COVID infections. Notwithstanding, from a business perspective, any prolonged "lockdown" in Victoria is not likely to have a material impact on Group revenues.

The fundamentals of our brand remain strong, with one of Australia's leading sales agent teams, customer service and network reach. These are supplemented by a first-class PM business with approximately 32,500 properties managed for more than 28,000 landlord investors.

McGrath continues to dominate the annual Real Estate Business Top 100 ranking, with 22 Agents included - more than three times the number of agents than any other company.

Extensive work has been undertaken with more work to be done. Our progress to date includes:

- We moved into our new state of the art office in Sydney's technology hub of Pyrmont, placing us at

the forefront of innovation. Our new office has already been made available to everyone in our expanding network as an industry leading training facility;

- We completed the roll out of our new CRM platform to all our 97 offices;
- Launching our new industry website. We now have a new contemporary customer and data centric website providing an enhanced digital experience for all stakeholders;
- Continuation of the improvements being made in revitalising our property management businesses, with an intense focus on improving the customer experience;
- We acquired premium businesses in key markets lead by high calibre people. These were in Millers Point, Castle Cove, Northbridge (NSW) and Wilston (Queensland); and
- We've opened new Franchise offices in Ulladulla, Mollymook, Albury I Wodonga and Mansfield.

We are committed to maintaining our industry-leading position in FY21. Central to this is retaining and attracting the industry's best real estate talent, and ensuring McGrath has a welcoming and supportive workplace culture. Our Balance Sheet is well capitalised to take advantage of any acquisitions as the industry consolidates.

Throughout FY21 we will continue our strategic initiatives that are designed to improve the business with learning and development programs, a hallmark of McGrath, our data driven technology improvements and the assessment of selected acquisitions.

On behalf of the Board, I would like to thank Geoff Lucas, who resigned from the business as CEO on 24 August 2020 having presided over the turnaround in our FY20 results. Geoff is leaving the business in a stronger position than 12 months ago and has decided it is the opportune time to pursue other business interests. We wish Geoff well in his future endeavours.

I am pleased to announce the appointment of Edward Law as our new CEO. Edward brings to McGrath vast experience in the real estate and finance sectors and we are confident he will lead the group to further earnings and market share growth, lifting shareholder value.

I would like to also thank all our team members and franchise partners for their tireless work, commitment to our company and their leadership shown throughout the industry during a challenging period.

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

Yours sincerely



Peter Lewis
Chair

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 earnings 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 earnings 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 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; and
- Auction service group generates earnings based on a fixed fee per auction.

Office locations

As at 30 June 2020 the network comprised 30 Company owned offices and 67 Franchise offices. The spread of offices is across the Eastern seaboard as seen in the graphic in Figure 1 below. There was no net movement in offices in the 12 months since June 2019 with 3 openings, 1 transfer from Franchise services to Company owned sales and 4 closures.

McGrath continues to focus on agent productivity whilst also recruiting and retaining high performing agents. This is complemented by a focus on learning and development initiatives and data technology improvements to enhance the agent and vendor experience.

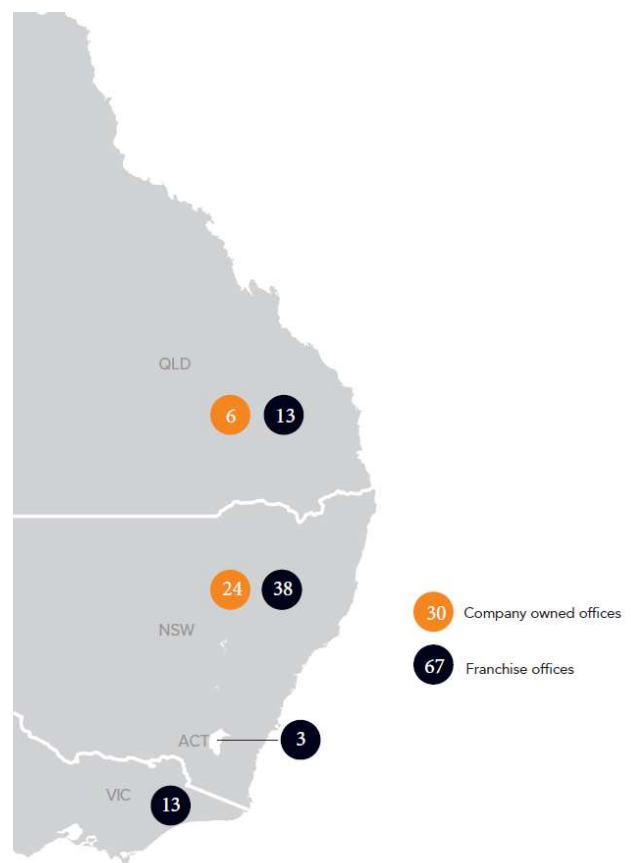


Figure 1: McGrath office Network

Income Statement

To assist in the interpretation of the performance of the Consolidated Entity, the results presented below includes the impact on the initial adoption of AASB 16 *Leases*. Prior to the application of AASB 16, leases were classified as operating leases and payments made under operating leases were charged to the profit or loss on a straight-line basis over the period of the lease. AASB 16 introduces a single on-balance sheet lessee accounting model where leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. The lease liability is initially measured at the present value of the future lease payments discounted at the Consolidated Entity's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. The interest cost is charged to the profit or loss over the lease period and the associated right-of-use asset is depreciated over the lease term on a straight-line basis. The impact is an increase to EBITDA of \$5.964 million, an increase to depreciation and amortisation of \$4.497 million and an increase in finance expense of \$1.816 million, resulting in a decrease of \$349 thousand to profit before income tax.

In response to the COVID-19 pandemic, the Government provided grants to assist businesses. Included in the results is the JobKeeper wage subsidy Government Grant recognised for the period 30 March 2020 to 30 June 2020. The Government Grants, as disclosed in the financial statements as other income, increased the EBITDA and profit before income tax by \$2.173 million.

	Statutory June 2020	Reconciling Amounts	Underlying June 2020	Underlying June 2019 ¹
	\$'000	\$'000	\$'000	\$'000
Revenue	91,638	-	91,638	82,699
Other Income	2,173	(2,173)	-	-
Cost of sales	(37,847)	-	(37,847)	(34,530)
Underlying Gross profit	55,964	(2,173)	53,791	48,169
Employee benefits expenses	(28,429)	-	(28,429)	(30,212)
Other expenses ²	(15,694)	(5,964)	(21,658)	(24,388)
Earnings before interest, tax, depreciation and amortisation and impairment (EBITDA)	11,841	(8,137)	3,704	(6,431)
Depreciation and amortisation ²	(8,267)	4,497	(3,770)	(4,525)
Earnings before interest and tax (EBIT)	3,574	(3,640)	(66)	(10,956)
Net finance (expense)/income ²	(1,765)	1,816	51	194
Profit/(Loss) before income tax	1,809	(1,824)	(15)	(10,762)
Income tax (expense)/benefit	(1,088)	547	(541)	1,055
Profit/(Loss) after income tax	721	(1,277)	(556)	(9,707)
Basic earnings/(losses) per share (cents)	0.43	(0.76)	(0.33)	(5.82)

¹The year ended 30 June 2019 are extracted from the 30 June 2019 annual report and represent management's assessment of underlying earnings not statutory amounts. The 30 June 2019 figures exclude significant items of \$3.694 million in onerous contract costs and \$3.365 million in impairment charges.

²The impact on the adoption of AASB 16 Leases from 1 July 2019 has resulted in \$4.497 million of depreciation expenses of right-of-use assets and \$1.816 million of interest expenses relating to the associated lease liabilities being recognised in the statutory accounts. Excluding the adoption of AASB 16 Leases the Consolidated Entity would have recognised \$5.964 million to occupancy and communication expenses.

Note: The Income statement presented above is a non-IFRS measure and was not subject to audit.

Segment revenue and EBITDA

The adoption of AASB 16 results in an increase to total company EBITDA of \$5.964 million with the Company owned sales segment being impacted the most, increasing by \$4.007 million, while the other segments were less impacted. The receipt of Government Grants had a total impact of \$2.173 million to the EBITDA which was allocated across all segments with company owned property management and company owned sales being impacted the most by increasing \$781 and \$711 thousand respectively.

	Statutory June 2020	Reconciling Amounts	Underlying June 2020	Underlying June 2019 ¹
	\$'000	\$'000	\$'000	\$'000
Revenue				
Company owned sales	58,565	-	58,565	47,527
Company owned property management	20,428	-	20,428	19,403
Franchise services	7,749	-	7,749	8,136
Other operating segments	4,896	-	4,896	7,633
Total Revenue	91,638	-	91,638	82,699
EBITDA				
Company owned sales	10,939	(4,718)	6,221	(2,003)
Company owned property management	7,462	(1,289)	6,173	5,350
Franchise services	3,627	(142)	3,485	3,317
Other operating segments	(27)	(1,304)	(1,331)	(2,413)
Corporate	(10,160)	(684)	(10,844)	(10,682)
Total EBITDA	11,841	(8,137)	3,704	(6,431)

¹The year ended 30 June 2019 EBITDA figures exclude significant items of \$3.694 million in onerous contracts.

Note: The segment revenue and EBITDA presented above is a non-IFRS measure and was not subject to audit.

Balance Sheet

The adoption of AASB 16 resulted in lease liabilities being recognised on the balance sheet, together with the corresponding right-of-use asset effectively, decreasing net assets by \$1.764 million. The table below shows the balance sheet impact due to the application of AASB 16 and the receipt of Government Grant.

	Statutory June 2020	Reconciling Amounts	Underlying June 2020	Statutory June 2019 ¹
	\$'000		\$'000	\$'000
Total current assets	37,196	(2,677)	34,519	32,310
Total non current assets	42,596	(21,321)	21,275	17,275
Total assets	79,792	(23,998)	55,794	49,585
Total current liabilities	27,187	(4,514)	22,673	15,709
Total non current liabilities	22,436	(19,727)	2,709	3,028
Total liabilities	49,623	(24,241)	25,382	18,737
Total net assets	30,169	243	30,412	30,848

¹The Consolidated Entity has initially applied AASB 16 from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application.

Note: The balance sheet presented above is a non-IFRS measure and was not subject to audit.

The following relates to underlying results, as presented on the previous page. The results are not that of statutory profit and were not subject to audit. The segment results for FY20 are excluding the impact of adoption of AASB 16 and the Government Grants.

Company Owned Sales and Project Marketing

Company owned sales were the major contributor to the overall improvement in earnings for FY20 assisted by a 19% increase in the number of properties sold, resulting in segment EBITDA of \$6.2 million, up on the FY19 loss of \$2.0 million.

There was \$4.7 billion in sales value from 3,160 sales in FY20 compared to \$3.7 billion and 2,655 sales in FY19.

During the year, there was no net movement in offices, with 3 openings, 1 transfer from Franchise services to Company owned sales and 4 office closures.

Company owned property management

Properties under management increased by 9.8% to 8,375 in FY20, generating \$6.2 million EBITDA, an 15.4% increase on FY19.

Franchise services

Our Franchise network exchanged 7,202 properties during FY20 (FY19: 6,558), generating an EBITDA of \$3.5 million, up 5% on the prior year. The growth in properties exchanged was partially offset by a lower average selling price.

During the year, there was no net movement in Franchise offices, with 4 new office openings, 1 transfer from Franchise services to Company owned sales and 3 closures.

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 \$678 million was down 10% for FY20, impacted by tightening lending conditions. At the end of FY20, there were 27 brokers supporting the network, a decline of 3 from FY19.

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 each year, AREC, which attracts real estate talent Australia wide was cancelled due to COVID-19.

Auction Services

Auction Services provides auctioneers to the Company owned and Franchise segments. There were 4,841 auctions booked in FY20 (FY19: 4,835) representing 38% of all properties listed.

Key Business Risks

The Consolidated Entity is subject to various risk factors. Some of these are specific to its business activities while 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.

- COVID-19** – The ongoing COVID-19 pandemic has had a significant impact on the global and Australian economy and the ability of businesses, individuals and governments to operate. Emergency powers and restrictions have been enacted on an international, Federal and State level in Australia which, amongst other things, has restricted travel and the ability of individuals to leave their homes and travel to places of work. McGrath has already experienced some adverse impact on its sales and property management business borne out by government lock down measures, and broader global uncertainty around a recovery of business activity affecting the real estate market. There is a risk if the duration of events surrounding COVID-19 are protracted. There are also other changes in the domestic and global macroeconomic environment associated with the events relating to COVID-19 that are beyond the control of McGrath and may be exacerbated in an economic recession or downturn. These include but are not limited to: (i) changes in inflation and interest rates (ii) changes in employment levels and labour costs; (iii) changes in aggregate investment and economic output; and (iv) other changes in economic conditions which may affect the business of McGrath. There are a number of actions McGrath could consider to mitigate this risk which include actions such as restructuring the cost base of the business to reduce costs and raising capital on the markets to strengthen the balance sheet and create additional liquidity.
- Australian residential real estate market** – McGrath generates the majority of its income from the Australian Eastern Seaboard 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 mitigates this risk by 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 corporations that may offer alternative services and products to that of the traditional real estate service offerings. These may impact 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 services to clients and promote the reputation of the Company through their dealings with clients. There is a risk that McGrath may lose agents to competitors and/or other industries. McGrath mitigates this risk by providing a competitive commission and incentive program designed to assist in attracting and retaining high performing residential sales agents.
- **Regulatory risks** – McGrath currently has business operations in New South Wales, Queensland, Victoria and the Australian Capital Territory, with regulations and legislation varying in each state and territory. 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 and in accordance with the ASX Corporate Governance Principles and Recommendations (3rd edition).

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 operate within the agreed framework and report to, and seek 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 2020:

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 is an advisory board member of Anacacia Capital.

John McGrath

Executive Director.

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

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 is a best-selling author and was a director of REA Group for 19 years and previously a Board Director of South Sydney Rabbitohs.

Andrew Robinson

Independent Non-executive Director.

- Appointed 19 February 2018.

Andrew is also Chair of the Audit and Risk Committee and a member of the 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 Chair of the Remuneration and Nomination Committee and a member of the Audit and Risk 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 and also a non-executive director of Sydney Children's Hospital Foundation and Ausbiz TV Pty Ltd. He has more than 25 years global experience in international banking, structured finance, and mergers and acquisitions. 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 is a graduate member of Australia Institute of Company Directors, holds an MBA from Webster University (USA) and a Bachelor of Economics from Shanghai University of Finance and Economics (SUF). Wayne was a Board Director of Australia China Chamber of Commerce (Beijing) from 2006 to 2008 and was a non-executive director of Fiagril Ltd and Becagricola, two leading Brazilian Agriculture Companies.

Movement in Directors

The above directors held office for the full financial year and continue to do so at the date of this report.

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 2020 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	17	16	4	4	4	4
A. Robinson	17	15	4	4	4	3
W. Mo	17	16	4	4	4	4
J. McGrath	16	15	4	4	4	4

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).

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).

Remuneration report

Key management personnel

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

Name	Position
Peter Lewis	Chair, Independent Non-executive Director
John McGrath	Executive Director
Andrew Robinson	Independent Non-executive Director
Wayne Mo	Non-executive Director

Other key management personnel

Name	Position
Geoff Lucas	Chief Executive Officer
Howard Herman	Chief Financial Officer
Christopher Mourd	Head of Franchise Network
Rob Fearnley	Head of Company Owned Property Management

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.

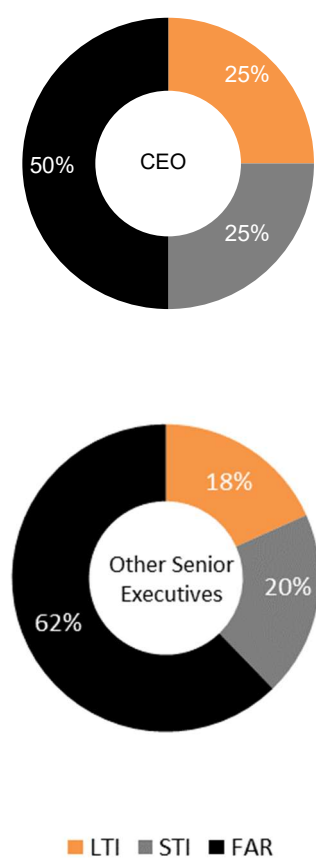
Figure 1: Remuneration framework

COMPONENT	PERFORMANCE MEASURE	WEIGHTING	STRATEGIC OBJECTIVE/ PERFORMANCE LINK
FIXED ANNUAL REMUNERATION (FAR) Salary and other non-cash benefits +	FAR consists of base salary and superannuation. 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.
SHORT-TERM INCENTIVES (STI) Percentage of fixed annual remuneration +	<ul style="list-style-type: none"> Group Financial Measure (GFM) Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). Additional specific financial objectives may also apply to certain executives. Divisional Financial Measures (DM) Divisional Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) Contribution which is EBITDA excluding corporate costs. Non-financial Measures (NFM) Specified strategic objective targets. 	Maximum of 40% of total fixed remuneration, CEO 50%, with potential for “stretch” performance up to 125% of target.	GFM rewards performance at group level. EBITDA was chosen to ensure alignment with Consolidated Entity and shareholder objectives. DM – rewards performance at a divisional level under the direct control of the specific executive. NFM recognises differing drivers of performance across different Business Units.
LONG-TERM INCENTIVES (LTI) Performance rights +	<ul style="list-style-type: none"> EPS Target Achievement of Consolidated Entity’s Earnings Per Share (EPS) target. Measured per year over a three-year period. Weighted at 100% of LTI. 	Maximum of 40% of total fixed remuneration, CEO 50%.	Annual EPS targets have been chosen to encourage desired business turnaround outcomes.
CEO Share options	Achievement of a statutory earnings per share (EPS) target for the financial year ending 30 June 2021 and 30 June 2022.	Unweighted	A specific EPS target was chosen to encourage desired business turnaround outcomes.
= TOTAL REMUNERATION 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, for divisional executives at a divisional level, and to align executives and stakeholder interests through share ownership.			
Assessing performance 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 the year FY20 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 the year



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 5.

(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*.

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

	2020	2019	2018	2017	2016
Profit/(Loss) for the year attributable to owners of McGrath Limited (\$'000)	721	(15,573)	(63,103)	4,871	8,358
Underlying EBITDA ¹ (\$'000)	3,704	(6,431)	5,033	15,254	26,244
Underlying NPAT ¹ (\$'000)	(556)	(9,707)	(1,482)	4,550	14,594
Basic earnings/(losses) per share (cents)	0.43	(9.33)	(44.34)	3.58	8.58
Dividend payments (\$'000)	-	-	1,548	6,142	11,000
Dividend payout ratio (%) ²	0%	0%	(2)%	126%	132%
Closing share price (\$ as at 30 June)	0.190	0.225	0.375	0.56	0.92

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

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

3. 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 4: Executive remuneration

Name	Year	Fixed annual remuneration		Post-employment benefits ²	Variable remuneration		Total
		Short-term	Long-term		Short-term	Long-term	
		Salary	Annual and long service leave ¹		STI	LTI ³	
Chief Executive Officer							
G. Lucas ⁷	2020	438,467	54,079	21,003	75,896	24,512	613,957
	2019	440,743	54,058	20,531	-	73,307	588,639
Executive Director							
J. McGrath	2020	485,189	46,670	21,003	-	-	552,862
	2019	485,648	46,714	20,531	-	-	552,893
Other Key Management Personnel							
H. Herman ⁴	2020	326,676	32,716	21,003	62,615	27,258	470,268
Chief Financial Officer	2019	6,731	630	395	-	-	7,756
G. Wright ⁵	2020	-	-	-	-	-	-
Chief Financial Officer	2019	342,008	33,241	23,311	-	-	398,560
K. Stathopoulos ⁶	2020	204,485	20,000	10,501	-	-	234,986
Head of Company Sales	2019	460,840	46,750	20,531	-	-	528,121
C. Mourd	2020	373,183	36,878	21,003	49,587	45,165	525,816
Head of Franchise Network	2019	363,726	36,638	20,531	6,255	14,636	441,786
R. Fearnley	2020	239,834	23,436	20,129	38,182	25,092	346,673
Head of Company Owned Property Management	2019	220,352	21,305	22,197	5,700	6,701	276,255
Total KMPs	2020	2,067,834	213,779	114,642	226,280	122,027	2,744,562
	2019	2,320,048	239,336	128,027	11,955	94,644	2,794,010

¹ Reflects the net cost of annual and long service leave accrued and taken in the period.

² Reflects the cost of superannuation.

³ Reflects the performance rights granted under the long-term incentive plan as set out in pages 17-19.

⁴ H. Herman appointed 24 June 2019.

⁵ G. Wright appointed 23 October 2017 and resigned on 7 June 2019.

⁶ K. Stathopoulos provided notice of resignation on 4 June 2019 and complied with the six month notice period. No termination benefits were paid.

⁷ Geoff Lucas has resigned as CEO of the Group on 24 August 2020. Edward Law has been appointed as CEO effective 24 August 2020. The key terms of Mr Law's remuneration package include fixed salary (including statutory superannuation) of \$500,000 pa plus annual STI of 50% of fixed remuneration and annual LTI of 50% of fixed remuneration which are dependent upon reaching agreed performance metrics. The terms of Mr Lucas's termination include the lapsing of his options and a payment of 6 months base salary will be included in the financial statements for the year ended 30 June 2021.

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 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 Participant will need to be employed until the end of the year ending 30 June 2022 to be eligible to receive any share options that have vested.</p>
Termination of employment (with cause) or by the individual	<p>STI 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 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 \$270,000 to \$415,000
Contract duration	Ongoing contract
Notice by the individual/company	Up to 6 months
Termination of employment (without cause)	<p>STI 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 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 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 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>

4. Short-term incentive overview

Figure 5: 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 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	<div>The STI metrics align with our strategic priorities of market competitiveness, operational excellence, shareholder value and fostering talented and engaged people.</div> <table><tr><th>Category</th><th>Measure</th><th>Reason for selection</th></tr><tr><td rowspan="3">Financial</td><td>Group Financial Measure: EBITDA. 50% weighting.</td><td>Rewards performance at group level. EBITDA was chosen to ensure alignment with Consolidated Entity and shareholder objectives.</td></tr><tr><td>Divisional Measure: EBITDA Contribution, other specific financial measures.</td><td>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>Typically, 20 to 25% weighting.</td><td></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 behaviour, internal culture, greater customer satisfaction and service development consistent with shareholder objectives.</td></tr></table>	Category	Measure	Reason for selection	Financial	Group Financial Measure: EBITDA. 50% weighting.	Rewards performance at group level. EBITDA was chosen to ensure alignment with Consolidated Entity and shareholder objectives.	Divisional Measure: EBITDA Contribution, other specific financial measures.	Encourages and rewards performance at a divisional level or specific financial measure that is under direct control of the executive or manager.	Typically, 20 to 25% weighting.		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 behaviour, internal culture, greater customer satisfaction and service development consistent with shareholder objectives.
Category	Measure	Reason for selection												
Financial	Group Financial Measure: EBITDA. 50% weighting.	Rewards performance at group level. EBITDA was chosen to ensure alignment with Consolidated Entity and shareholder objectives.												
	Divisional Measure: EBITDA Contribution, other specific financial measures.	Encourages and rewards performance at a divisional level or specific financial measure that is under direct control of the executive or manager.												
	Typically, 20 to 25% weighting.													
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 behaviour, 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). All STI are awarded in cash.													
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.													

FY20 short-term incentive outcome

The table below sets out specific information relating to the actual short-term incentives awarded for the year.

Figure 6: Performance based remuneration award

Name	Total STI Opportunity ¹	Awarded in 2020	Awarded	Forfeited
	\$	\$	%	%
G. Lucas	250,000	75,896	30	70
H. Herman	111,159	62,615	56	44
C. Mourd	124,500	49,587	40	60
R. Fearnley	95,000	38,182	40	60

¹ Amounts include superannuation.

5. Long-term incentive overview

Figure 7: 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 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>Earnings 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 and 30 June 2022.</div></td></tr></table>	Category	Weighting	Conditions and vesting	Earnings 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 and 30 June 2022.</div>
Category	Weighting	Conditions and vesting					
Earnings 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 and 30 June 2022.</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.															
	Year	Category	Weighting	Conditions and vesting												
	2020 and 2019	Earnings Per Share (EPS)	100%	<p>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.</p> <p>Performance rights will vest in three tranches depending upon the EPS of the Company over one, two and three years respectively. The following vesting schedule applies to the EPS performance hurdle:</p> <table><tr><th>Performance achieved</th><th>Percentage of awards vesting</th></tr><tr><td>Below threshold EPS</td><td>Nil</td></tr><tr><td>Equal to the threshold EPS</td><td>95%</td></tr><tr><td>Between threshold and target basis</td><td>96%-100% on a straight-line basis</td></tr><tr><td>Between target and stretch EPS</td><td>101% - 124%</td></tr><tr><td>Above stretched EPS</td><td>125%</td></tr></table>	Performance achieved	Percentage of awards vesting	Below threshold EPS	Nil	Equal to the threshold EPS	95%	Between threshold and target basis	96%-100% on a straight-line basis	Between target and stretch EPS	101% - 124%	Above stretched EPS	125%
	Performance achieved	Percentage of awards vesting														
	Below threshold EPS	Nil														
	Equal to the threshold EPS	95%														
Between threshold and target basis	96%-100% on a straight-line basis															
Between target and stretch EPS	101% - 124%															
Above stretched EPS	125%															
2018	EBITDA	50%	<p>The board, at its discretion, sets the EBITDA targets for the financial year of the grant, with compound targets for the two following years.</p> <p>Performance rights will vest in three tranches depending upon the EBITDA performance of the Consolidated Entity at the end of each financial year.</p>													
	Total shareholder return (TSR)	50%	<p>Performance of the Company is measured against the performance of twelve comparator entities chosen based on similarity of industry structure, operating model and market capitalization.</p> <p>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:</p> <table><tr><th>Percentile ranking</th><th>Percentage of awards vesting</th></tr><tr><td>Below 50th percentile</td><td>Nil</td></tr><tr><td>Equal to the 50th percentile</td><td>50%</td></tr><tr><td>Between the 50th and the 85th percentile</td><td>50%-100% on a straight-line basis</td></tr><tr><td>Above the 85th percentile</td><td>100%</td></tr></table>	Percentile ranking	Percentage of awards vesting	Below 50 th percentile	Nil	Equal to the 50 th percentile	50%	Between the 50 th and the 85 th percentile	50%-100% on a straight-line basis	Above the 85 th percentile	100%			
Percentile ranking	Percentage of awards vesting															
Below 50 th percentile	Nil															
Equal to the 50 th percentile	50%															
Between the 50 th and the 85 th percentile	50%-100% on a straight-line basis															
Above the 85 th percentile	100%															
Delivery of LTI	<p>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.</p> <p>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.</p>															

LTI awarded

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

CEO LTI Plan

On 18 October 2019, the Board granted 6,900,000 share options to Mr. Lucas as part of the CEO LTI Program. The options have a grant date fair value of \$0.036 per option. The options are subject to employment and performance hurdles, as set out in figure 7. Each option has an exercise price of \$0.31 per option and will vest on 31 August 2022 and expire on 18 October 2023. The share options are additional to the 2,500,000 options granted on 4 May 2018 to Mr. Lucas. The options have a grant date fair value of \$0.092 per option. The options are subject to employment and performance hurdles, as set out in figure 7. Each option has an exercise price of \$0.550 per option and will vest on 31 August 2021 and expire on 14 May 2022. During the year no share options have vested. The number of share options outstanding at 30 June 2020 are all exercisable.

Figure 8: Options movement schedule

Share Options	Grant date	Outstanding at 1 July 2019	Granted	Fair value at grant date ¹	Forfeited	Exercised	Expired	Outstanding at 30 June 2020
CEO 2019 Plan	October 2019	-	6,900,000	250,000	-	-	-	6,900,000
CEO 2018 Plan	May 2018	2,500,000	-	230,000	-	-	-	2,500,000

¹ 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 has been independently valued using a binomial tree methodology.

Members of the senior management LTI Plans**FY20 LTI Plan**

On 23 March 2020 the Board awarded performance rights in accordance to the FY20 LTI plans. The performance rights are subject to a three year service period and performance hurdles as set out in figure 7. The performance rights were issued at \$0.2175, the volume weighted average share price of the Company for the 10 days prior to grant and have a nil exercise price. The performance rights have a grant date fair value of \$0.1600 per right.

FY18 LTI Plan and FY19 LTI Plan

The allocation of performance rights in accordance to the FY18 LTI and FY19 LTI plans were made on 11 September 2017 and 21 December 2018 and are subject to a three-year service period and performance condition as set out in figure 7. The performance rights were respectively issued at \$0.7467 and \$0.2900 and have a nil exercise price.

Figure 9: Performance Rights movement schedule

Performance Rights		EBITDA / TSR / EPS ²				
		Held at 1 July 2019	Granted	Fair value at grant date ¹	Lapsed	Held at 30 June 2020 ³
		Number	Number	\$	Number	Number
H. Herman	2020 Grant	-	511,094	81,775	-	511,094
C. Mourd	2020 Grant	-	572,434	91,589	-	572,434
	2019 Grant	287,157	-		(143,579)	143,578
	2018 Grant	55,578	-		(55,578)	-
R. Fearnley	2020 Grant	-	344,840	55,174	-	344,840
	2019 Grant	131,469	-		(65,735)	65,734
	2018 Grant	25,445	-		(25,445)	-

¹ 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 has been independently valued using the Black-Scholes methodology.

² The performance metrics in FY18 is 50% weighting on EBITDA and 50% weighting on TSR. In FY19 and FY20 the weighting is based on 100% EPS.

³ The performance rights held at 30 June 2020 are all exercisable.

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 on the 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 4.

Figure 10: Relative proportion of fixed vs variable remuneration expense

	2020				2019			
	Fixed annual remuneration ¹		STI and LTI		Fixed annual remuneration ¹		STI and LTI	
	\$	%	\$	%	\$	%	\$	%
Chief Executive Officer								
G. Lucas	513,549	84	100,408	16	515,332	88	73,307	12
Executive Director								
J. McGrath	552,862	100	-	-	552,893	100	-	-
Other Key Management Personnel								
H. Herman	380,395	81	89,873	19	7,756	100	-	-
G. Wright	-	-	-	-	398,561	100	-	-
K. Stathopoulos	234,986	100	-	-	528,122	100	-	-
C. Mourd	431,063	82	94,752	18	420,896	95	20,891	5
R. Fearnley	283,399	82	63,274	18	263,854	96	12,401	4

¹ Fixed Annual Remuneration excludes termination pay.

5. 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.

	2020
Board fees	
Chair*	\$140,000
Other non-executive directors	\$100,000

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

The above fees do not include a 40% reduction for the months of May and June 2020.

Figure 11: Non-executive director remuneration

Name	Year	Fees	Superannuation	Total
P. Lewis	2020	119,330 [^]	11,336	130,666
	2019	127,856	12,144	140,000
A. Robinson	2020	85,235 [^]	8,097	93,332
	2019	91,324	8,676	100,000
Total non-executive director remuneration	2020	204,565 [^]	19,433	223,998
	2019	219,180	20,820	240,000

[^] A 40% reduction to director fees was applied to the months of May and June 2020.

W. Mo was appointed as a non-executive director on 27 June 2018. W. Mo received no remuneration for the year and prior year.

6. 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 12: Shareholdings

2020 Name	Held at 1 July 2019	Changes during the year	Held at 30 June 2020
Ordinary shares			
P. Lewis	136,662	-	136,662
A. Robinson	52,631	-	52,631
J. McGrath	37,127,378	-	37,127,378
R. Fearnley	42,726	54,920	97,646

W. Mo did not hold any shares during the year.

7. Loans given to KMP

No loans or cash advance have been granted to directors or key management personnel during the year and prior year.

Directors' Report for the Year Ended 30 June 2020

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 2020 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 gain after providing for income tax amounted to \$720,757 (2019: loss of \$15,572,697).

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 3-7 of this Annual Report.

On 11 March 2020, The World Health Organisation declared COVID-19 a global pandemic. The pandemic has caused unprecedented significant economic uncertainty to the broader economy as well as the real estate market. The Board and management acted swiftly in response through transitioning the business to digital viewings and digital auctions when physical activities were restricted. As these restrictions have eased in most parts of the country, we continue to conduct our business with the safety of all our stakeholders being of paramount importance.

Directors

The following persons were Directors of McGrath Limited during the year ended 30 June 2020:

Mr. Peter Lewis

Chair and Independent Non-executive Director.

- Appointed 19 February 2018.

Mr. John McGrath

Executive Director.

Mr. Andrew Robinson

Independent Non-executive Director.

- Appointed 19 February 2018.

Mr. Wayne Mo

Non-executive Director.

- Appointed 27 June 2018.

Company Secretary

Melissa Jones

- Appointed 15 February 2018.
- Resigned 26 February 2020.

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).

Phil Mackey

- Appointed 26 February 2020.

Phil has over 30 years of company secretarial and commercial experience, including multi-jurisdictional board practice as both a company secretary and a director. Phil is a Fellow of the Governance Institute Australia and a Graduate Member of the Australian Institute of Company Directors.

Dividends

No dividends were declared and paid during the year (2019: \$nil). No final dividends for the year ending 30 June 2020 were declared.

Significant changes in state of affairs

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

Subsequent events

On 22 May 2020, the Consolidated Entity entered into a conditional agreement to sell the assets and rent roll of Parramatta Company owned office. The agreement became unconditional on 1 July 2020. Depending on the properties under management that transfer during the period 1 July 2020 to 1 October 2020, proceeds on sale is anticipated to be in the range of \$0.8 million to \$1.2 million plus additional deferred payments of between \$0.3 million to \$0.6 million.

On 11 August 2020 the Consolidated Entity entered into a conditional agreement to acquire the assets and rent roll of a business in St Ives.

Geoff Lucas has resigned as CEO of the Group on 24 August 2020. Edward Law has been appointed as CEO effective 24 August 2020. The key terms of Mr Law's remuneration package include fixed salary (including statutory superannuation) of \$500,000 pa plus annual STI of 50% of fixed remuneration and annual LTI of 50% of fixed remuneration which are dependent upon reaching agreed performance metrics. The terms of Mr Lucas's termination include the lapsing of his options and a payment of 6 months base salary will be included in the financial statements for the year ended 30 June 2021.

As at 30 June 2020 no amounts have been recognised in relation to these transactions.

At the date of approving the financial statements there remains market uncertainty caused by the impact of the COVID-19 pandemic. The directors have considered developments since 30 June 2020 and are of the view that there is no material change to assumptions in the financial statements.

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 improving agent productivity, agent attraction, franchise office roll-outs and 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 \$163,758 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	136,662
Andrew Robinson	52,631
Wayne Mo	-
John McGrath	37,127,378

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 FY20 for the McGrath Limited Board and key management personnel, is included in the remuneration report on pages 10-21 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 2020 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 25.

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
24 August 2020



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 2020 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

K Hopkins

Karen Hopkins
Partner

Sydney
24 August 2020



McGrath Limited and Controlled Entities

ACN. 608 153 779

Financial Statements For The Year Ended 30 June 2020

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Financial Statements

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Revenue	A1	91,638	82,699
Other Income	A2	2,173	-
Cost of sales		(37,847)	(34,530)
Employee benefits expenses	A5	(28,429)	(30,212)
Directors' fees		(205)	(219)
Professional fees		(1,838)	(1,224)
Doubtful debts		(461)	(2,250)
Occupancy ¹		(2,436)	(6,942)
IT expenses		(4,555)	(4,956)
Communications ¹		(1,368)	(2,141)
Advertising and promotions		(1,255)	(1,854)
Other expenses		(3,576)	(4,796)
Loss on sale of assets	B2	-	(6)
Onerous contract expenses		-	(3,694)
Earnings before interest, tax, depreciation and amortisation and impairment (EBITDA)		11,841	(10,125)
Depreciation and amortisation expenses ¹	B2, B3, B4	(8,267)	(4,525)
Impairments	B4	-	(3,365)
Finance income		91	221
Finance costs ¹		(1,856)	(27)
Net finance (costs)/income		(1,765)	194
Profit/(Loss) before income tax		1,809	(17,821)
Income tax (expense)/benefit	E1	(1,088)	2,248
Profit/(Loss) after income tax expense/(benefit)		721	(15,573)
Total comprehensive income/(loss) attributable to owners of the Company		721	(15,573)
Basic earnings/(losses) per share (cents)	A6	0.43	(9.33)
Diluted earnings/(losses) per share (cents)	A6	0.41	(9.33)

¹The Consolidated Entity has initially applied AASB 16 from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. Following adoption depreciation expense for the right-of-use asset and interest expense on the lease liability is presented separately in the statement of profit or loss and other comprehensive income. See Note E9(d).

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 2020

	Notes	2020 \$'000	2019 ¹ \$'000
CURRENT ASSETS			
Cash and cash equivalents	A4	17,273	10,289
Trade and other receivables	B1	15,465	19,209
Assets held for sale	B5	1,170	-
Other assets	E2	3,288	2,812
TOTAL CURRENT ASSETS		37,196	32,310
NON CURRENT ASSETS			
Trade and other receivables	B1	1,292	1,999
Property, plant and equipment	B2	3,696	1,961
Right-of-use assets ²	B3	21,199	-
Intangible assets	B4	15,853	12,341
Deferred tax assets	E1	556	974
TOTAL NON CURRENT ASSETS		42,596	17,275
TOTAL ASSETS		79,792	49,585
CURRENT LIABILITIES			
Trade and other payables	B6	19,037	13,036
Liabilities held for sale	B5	1,123	-
Lease liabilities ²	B3	4,448	-
Provisions	E3	2,579	2,673
TOTAL CURRENT LIABILITIES		27,187	15,709
NON CURRENT LIABILITIES			
Trade and other payables	B6	154	507
Lease liabilities ²	B3	19,727	-
Provisions	E3	2,555	2,521
TOTAL NON CURRENT LIABILITIES		22,436	3,028
TOTAL LIABILITIES		49,623	18,737
NET ASSETS		30,169	30,848
EQUITY			
Contributed equity	E4	108,416	108,416
Share-based payment reserve	E4	938	819
Accumulated losses		(79,185)	(78,387)
TOTAL EQUITY		30,169	30,848

¹ The Consolidated Entity has initially applied AASB 16 from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. Note E9(d).

² Following the adoption of AASB 16, the Consolidated Entity has presented right-of-use assets and lease liabilities separately from other assets and liabilities in the statement of financial position.

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 2020

	Notes	Contributed equity	Accumulated losses	Share based payment reserve	Total equity, attributable to owners of the Company
		\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2019		108,416	(78,387)	819	30,848
Adjustment on initial application of AASB 16 (net of tax) ¹	E9(d)	-	(1,519)	-	(1,519)
Adjusted balance at 1 July 2019		108,416	(79,906)	819	29,329
Profit after income tax expense		-	721	-	721
Total comprehensive income for the period		-	721	-	721
Share based payment transactions	A5	-	-	119	119
Transactions with owners, recorded directly in equity		-	-	119	119
Balance at 30 June 2020		108,416	(79,185)	938	30,169
Balance at 30 June 2018		103,549	(61,826)	670	42,393
Adjustment on initial application of AASB 9 (net of tax)		-	(988)	-	(988)
Adjusted balance at 1 July 2019		103,549	(62,814)	670	41,405
Loss after income tax benefit		-	(15,573)	-	(15,573)
Total comprehensive loss for the period		-	(15,573)	-	(15,573)
Issue of Equity	E4	4,916	-	-	4,916
Aqualand placement costs	E4	(49)	-	-	(49)
Share based payment transactions	A5	-	-	149	149
Transactions with owners, recorded directly in equity		4,867	-	149	5,016
Balance at 30 June 2019		108,416	(78,387)	819	30,848

¹ The Consolidated Entity has initially applied AASB 16 from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. Note E9(d).

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 2020

	Notes	2020 \$'000	2019 ¹ \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		105,474	92,967
Receipts from other income		1,491	-
Payments to suppliers and employees		(85,095)	(95,448)
Interest paid ²		(1,856)	(27)
Interest received		91	221
Income taxes received/(paid)		-	1,320
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	A4	20,105	(967)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	B2	(3,049)	(1,390)
Purchase of intangibles	B4	(6,081)	(3,149)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(9,130)	(4,539)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	E4	-	4,867
Payment for lease liabilities ²		(3,991)	-
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES		(3,991)	4,867
Net increase/(decrease) in cash and cash equivalents		6,984	(639)
Cash and cash equivalents at the beginning of the financial year		10,289	10,928
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	A4	17,273	10,289

¹ The Consolidated Entity has initially applied AASB 16 from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note E9(d).

² The Consolidated Entity has classified:

- cash payments for the principal portion of lease payments as financing activities
- cash payments for the interest portion as operating activities
- short-term lease payments, payments for leases of low value assets and variable lease payments excluded in the measurement of the lease liability within operating activities.

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

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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

The consolidated financial statements of McGrath Limited (the Company) as at and for the year ending 30 June 2020 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 24 August 2020.

The notes are set out in the following 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 access 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.

Notes to the Financial Statements for the year ended 30 June 2020

A Financial performance and cash flows

A1 Revenue

	2020 \$'000	2019 \$'000
Company owned sales commission and fees	58,565	47,527
Company owned property management fees	20,428	19,403
Franchise service fees	7,749	8,136
Other revenue	4,896	7,633
Total revenue	91,638	82,699

Recognition and Measurement

Company owned sales commission is generated from undertaking residential and project property sales on behalf of property vendors. Sales commission is generally based on a percentage of the property's value and is recognised as revenue on completion of the performance obligation to sell the property which is at the point-in-time of the unconditional exchange of the sales contracts between vendor and buyer. Receipt of residential sales commission earned is on settlement. Receipt of project sales commission is generally 50% on exchange and 50% on settlement. Company owned sales commission includes marketing fees which represents the revenue generated from marketing campaigns. Marketing fees are recognised when the agency agreement has been executed and are primarily paid upfront.

Company owned property management fees are generated from the management of residential properties on behalf of owner clients. The revenue stream generates earnings through leasing fees earned upon successful letting of a property and charging a commission to manage a let property. Leasing fees are based on a fixed fee and is billed on the completion of the performance obligation at a point-in-time of the tenant and landlord executing the tenancy agreement and the tenant having access to the property. Management rental fees are based on a percentage of rental income and are recognised over the period the performance obligation for managing the property is performed. Management fees are therefore invoiced and collected monthly.

Franchise fees are fees in consideration for the ongoing access to use the systems, marks, images and other intellectual property of McGrath in connection with the operation of the sale of real estate and property management. Franchise fees are calculated as a percentage of the franchises sales commissions and property management fees earned and are recognised on the same basis as the Consolidated Entity recognises Company owned sales and Company owned property management fees detailed above.

Other revenues include mortgage brokerage commissions, auction services, training and events and other network services. Mortgage brokerage commissions are recognised at the point-in-time of loan settlement, revenue from auctions are recognised at the point-in-time the auction is conducted, and training and event fees are recognised as revenue over-time when the performance obligation of providing the training or event is complete.

A2 Other Income

	2020	2019
	\$'000	\$'000
Government Grants	2,173	-
	2,173	-

Government grants are recognised when there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods in which the expenses are recognised. When the grant relates to an asset, it is recognised in the profit or loss in equal amounts over the expected useful life of the related asset.

The Company has elected to present Government Grants as other income in the statement of profit or loss.

The Government Grants recognised in current year relates to the JobKeeper subsidy for the period 30 March 2020 to 30 June 2020, in response to the COVID-19 pandemic. The Company expects to receive a further three months of JobKeeper until 27 September 2020.

The Company recognised \$908 thousand as a receivable, with monthly declaration and reporting requirements to satisfy JobKeeper eligibility fulfilled subsequent to 30 June 2020.

A3 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.

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

A3 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.

	Company owned sales ¹	Company owned property management	Franchise services	Total reportable segments	Other segments	Consolidated total
2020	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	58,565	20,428	7,749	86,742	4,896	91,638
Segment profit/(loss) before interest, tax, depreciation and amortisation	10,939	7,462	3,627	22,028	(27)	22,001
Unallocated corporate costs						(10,160)
EBITDA						11,841
Depreciation and amortisation	(3,901)	(2,534)	(52)	(6,487)	(1,324)	(7,811)
Finance costs	(1,292)	(164)	(20)	(1,476)	(340)	(1,816)
Unallocated corporate depreciation and amortisation						(456)
Unallocated corporate net finance income						51
Profit before income tax						1,809

	Company owned sales ¹	Company owned property management	Franchise services	Total reportable segments	Other segments	Consolidated total
2019 ²	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	47,527	19,403	8,136	75,066	7,633	82,699
Segment profit/(loss) before interest, tax, depreciation and amortisation ²	(2,675)	5,350	3,317	5,992	(5,435)	557
Unallocated corporate costs						(10,682)
EBITDA						(10,125)
Depreciation and amortisation	(36)	(2,067)	-	(2,103)	(2,018)	(4,121)
Impairments	-	-	-	-	(3,365)	(3,365)
Unallocated corporate depreciation and amortisation						(404)
Unallocated corporate net finance income						194
Loss before income tax						(17,821)

¹ The Company owned sales revenue from external customers includes sales and project commissions of \$38.3 million (2019: \$29.1 million) and \$20.1 million in marketing revenue (2019: \$18.1 million).

² The Consolidated Entity has initially applied AASB 16 from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note E9(d).

A4 Cash and cash flow related information

	2020 \$'000	2019 \$'000
Cash at bank	5,410	4,090
Short-term deposits	11,863	6,199
Cash and cash equivalents	17,273	10,289

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/(loss) before income tax

	2020 \$'000	2019 \$'000
Profit/(Loss) before income tax	1,809	(17,821)
Adjustments for:		
Depreciation and amortisation expense	8,267	4,525
Impairments	-	3,365
Doubtful debts	461	2,250
Share-based payment transactions	119	149
Gain on sale of property, plant and equipment	-	6
Onerous contract expenses	-	3,694
Income tax received	-	1,320
Net cash inflow/(outflow) from ordinary activities before changes in working capital	10,656	(2,512)
Payables and other liabilities	6,139	(428)
Trade receivables and other assets	3,310	1,973
Net cash inflow/(outflow) from operating activities	20,105	(967)

A5 Employee benefit expenses

	2020	2019
	\$'000	\$'000
Wages and salaries	24,736	26,204
Leave provisions	1,799	1,968
Contributions to defined contribution plans (superannuation)	1,894	2,040
	28,429	30,212

Recognition and Measurement

Wages, salaries, annual leave and sick leave

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

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 (superannuation)

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 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.

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

	2020	2019
	\$'000	\$'000
Wages and salaries	119	149

A6 Earnings per share

(a) Basic earnings per share

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

(i) Profit/(Loss) attributable to ordinary shareholders (basic)	2020	2019
	\$'000	\$'000
Profit/(Loss) attributable to owners of the Company	721	(15,573)
(ii) Weighted-average number of ordinary shares	2020	2019
	Number	Number
<i>In thousands of shares</i>		
Shares on issue at close 1 July	167,932	156,364
Share cancellation ¹	(1,082)	-
Aqualand placement	-	11,568
Shares on issue at 30 June	166,850	167,932
Weighted-average number of ordinary shares at 30 June	167,104	166,950
Basic earnings/(losses) per share (cents)	0.43	(9.33)

(b) Diluted earnings per share

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

(i) Profit/(Loss) attributable to ordinary shareholders (diluted)	2020	2019
	\$'000	\$'000
Profit/(Loss) attributable to owners of the Company	721	(15,573)
(ii) Weighted-average number of ordinary shares	2020	2019
	Number	Number
<i>In thousands of shares</i>		
Weighted-average number of ordinary shares (basic)	167,104	166,950
High performing agent share plan ¹	-	-
Performance Rights and options ²	8,358	-
Weighted-average number of ordinary shares at 30 June	175,462	166,950
Diluted earnings/(losses) per share (cents)	0.41	(9.33)

¹ High performing agents (HPA) who achieved specified commission thresholds in FY16 were invited to purchase shares. The number 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. On 25 September 2019, 1,082,598 ordinary shares were cancelled due to conditions not being met.

² 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 EPS, EBITDA, TSR and continuity of service obligations. The performance rights are dilutive in the period to June 2020 as their potential conversion to ordinary shares will decrease the earnings per share.

The Consolidated Entity presents basic and diluted earnings/(losses) per share. Basic earnings/(losses) per share is calculated by dividing the profit/(loss) attributable to ordinary shareholders of McGrath by the weighted average number of ordinary shares outstanding. The diluted earnings/(losses) per share is determined by adjusting the profit/(loss) 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 earnings/(losses) per share. The diluted earnings/(losses) 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.

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B Financial Position

B1 Trade and other receivables

	Notes	2020 \$'000	2019 \$'000
Current			
Trade receivables	(i)	13,256	19,352
Doubtful debts provision	(ii)	(2,056)	(4,481)
		11,200	14,871
Contract assets	(iii)	3,292	3,937
Loans - other	(iv)	65	401
Government grants	(v)	908	-
		15,465	19,209
Non-current			
Trade receivables	(i)	687	1,775
Contract assets	(iii)	-	224
Loans - other	(iv)	605	-
		1,292	1,999

Recognition and Measurement

Receivables and other loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at their transactional price and subsequently amortised cost using the effective interest method less any impairment losses raised for doubtful debts based on expected lifetime credit losses. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired.

(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 expected uncollectible amounts over the life of the receivables. Where settlement is due more than 12 months later, the receivable is classified as non-current.

(ii) Provision for doubtful debts is based on Consolidated Entity's expectation of uncollectable debts. Bad debts are written off when identified.

(iii) Contract assets largely relates to the Consolidated Entity's right to franchise fees not yet billed at reporting date.

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

(v) The Government grants receivable in the current year relates to the JobKeeper subsidy for the period 25 May to 30 June 2020, in response to the COVID-19 pandemic.

Information about the Group's trade receivable exposure to credit and market risks, and impairment losses are included in Note C1.

B2 Property, plant and equipment

	Note	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
Consolidated Entity, year ended 30 June 2020				
Cost				
At 1 July 2019		8,686	10,738	19,424
Additions ¹		1,210	1,839	3,049
Asset held for sale	B5	(96)	(301)	(397)
Disposals		(771)	(696)	(1,467)
At 30 June 2020		9,029	11,580	20,609
Accumulated depreciation				
At 1 July 2019		(7,878)	(9,585)	(17,463)
Depreciation charge for the year		(965)	(349)	(1,314)
Asset held for sale	B5	96	301	397
Disposals		771	696	1,467
At 30 June 2020		(7,976)	(8,937)	(16,913)
Carrying amounts				
At 1 July 2019		808	1,153	1,961
At 30 June 2020		1,053	2,643	3,696

¹During the year, the Consolidated Entity acquired \$3.049 million of leasehold assets and equipment which included \$747 thousand for the Double Bay office, \$523 thousand for the Pyrmont office, \$274 thousand for the Millers Point office and a further \$1.505 million for existing company offices.

The disposal of assets during the year relates to the Head office move from Edgecliff to Pyrmont and the closure of the Pymble office.

		Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
Consolidated Entity, year ended 30 June 2019				
Cost				
At 1 July 2018		8,391	9,670	18,061
Additions ¹		322	1,068	1,390
Disposals		(27)	-	(27)
At 30 June 2019		8,686	10,738	19,424
Accumulated depreciation				
At 1 July 2018		(7,038)	(9,520)	(16,558)
Depreciation charge for the year		(861)	(65)	(926)
Disposals		21	-	21
At 30 June 2019		(7,878)	(9,585)	(17,463)
Carrying amounts				
At 1 July 2018		1,353	150	1,503
At 30 June 2019		808	1,153	1,961

¹The Consolidated Entity acquired \$700 thousand of leasehold assets and \$125 thousand of plant and equipment at Mowbray Road, Willoughby.

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; and
- Leasehold improvements - remaining lease term.

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 the 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 Leases

The Consolidated Entity has lease contracts for office premises and office equipment.

The office leases typically have a term of 3-5 years with an option to renew after that date. The leases have a mix of fixed annual increases and increases based on price indices. The Consolidated Entity is restricted from entering into a sub-lease arrangement with some leases.

The office equipment lease has a term of 5 years and has a fixed and variable lease payment. The variable lease payment is based on excess usage charge and is expensed in the period incurred.

The Consolidated Entity has office and equipment leases of terms less than 12 months and has applied the short term lease exemption for these leases and therefore not recognising right-of-use assets and lease liabilities for these leases.

Presented below is information about leases where the Consolidated Entity is a lessee.

Right-of-use assets

	Note	Property \$'000	Equipment \$'000	Total \$'000
At 1 July 2019 (transition adjustment)	E9(d)	21,203	1,623	22,826
Additions		4,837	-	4,837
Remeasurement		(595)	(461)	(1,056)
Asset held for sale	B5	(912)	-	(912)
Depreciation charge for the year		(4,210)	(286)	(4,496)
At 30 June 2020		20,323	876	21,199

During the year the Consolidated Entity has entered into several new office premise lease contracts. The Consolidated Entity has applied judgement to determine the lease term for lease contracts which include renewal options and has remeasured several right-of-use asset to align with business needs and due to negotiations by management.

Lease liabilities

		Property \$'000	Equipment \$'000	Total \$'000
At 1 July 2019 (transition adjustment)	E9(d)	23,854	1,625	25,479
Additions		4,837	-	4,837
Remeasurement		(600)	(467)	(1,067)
Payments		(5,491)	(315)	(5,806)
Asset held for sale	B5	(1,084)	-	(1,084)
Interest expense		1,765	51	1,816
At 30 June 2020		23,281	894	24,175
Current		4,176	272	4,448
Non current		19,105	622	19,727
At 30 June 2020		23,281	894	24,175

B3 Leases (continued)

Amounts recognised in the profit and loss

		2020
Leases under AASB 16	Note	\$'000
Depreciation expense of right-of-use assets		4,497
Interest expense on lease liabilities		1,816
Expense relating to short-term leases		102
Variable lease payments	E9(d)	(147)
		<u>6,268</u>

Leases under AASB 117	2019
	\$'000
Lease Expense - Occupancy	4,857
Lease Expense - Communications	334
Lease Expense - Onerous contract expenses	672
	<u>5,863</u>

Amounts recognised in the statement of cash flows

Cash outflows for leases	(5,411)
Cash outflow relating to short-term leases	(102)
	<u>(5,513)</u>

Extension options

The Consolidated Entity has several office lease contracts which include extension and termination options exercisable only by the Company. These options are negotiated by management to provide flexibility in managing the leased asset portfolio and to align with the business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised. In determining the lease liability, the Company has assessed that all options will be exercised. If there is a significant event or change in circumstances where it is reasonably certain the Company will not exercise the options, the Company will remeasure the right-of-use asset and lease liability accordingly.

The estimated potential undiscounted future lease payments should the Company exercise extension options which have been assessed as not being exercised would result in an increase in the lease liability of \$2.762 million.

B4 Intangible assets

	Note	Property management rights \$'000	Software \$'000	Total \$'000
Consolidated Entity, year ended 30 June 2020				
Cost				
At 1 July 2019		24,277	14,336	38,613
Additions ¹		4,685	1,542	6,227
Asset held for sale	B5	(1,062)	-	(1,062)
At 30 June 2020		27,900	15,878	43,778
Accumulated amortisation				
At 1 July 2019		(13,148)	(13,124)	(26,272)
Amortisation charge for the period		(2,124)	(333)	(2,457)
Asset held for sale	B5	804	-	804
At 30 June 2020		(14,468)	(13,457)	(27,925)
Carrying amounts				
At 1 July 2019		11,129	1,212	12,341
At 30 June 2020		13,432	2,421	15,853

¹ Four rent rolls, three in NSW and one in QLD, totalling \$4.7 million were acquired during the reporting period including \$146 thousand in trade and other payables. The software additions include \$1.1 million on a new website.

		Property management rights \$'000	Software \$'000	Total \$'000
Consolidated Entity, year ended 30 June 2019				
Cost				
At 1 July 2018		22,372	13,092	35,464
Additions ¹		1,905	1,244	3,149
At 30 June 2019		24,277	14,336	38,613
Accumulated amortisation				
At 1 July 2018		(11,090)	(8,218)	(19,308)
Amortisation charge for the period		(2,058)	(1,541)	(3,599)
Impairments ²		-	(3,365)	(3,365)
At 30 June 2019		(13,148)	(13,124)	(26,272)
Carrying amounts				
At 1 July 2018		11,282	4,874	16,156
At 30 June 2019		11,129	1,212	12,341

¹ Three rent rolls, two in NSW and one in QLD, totalling \$1.9 million were acquired during the 2019 financial year.

² The impairment charge relates to in-house software development costs capitalised during prior years. During 2019 financial year, external software developers were engaged to provide enhanced software applications. It was assessed that these applications would supersede the in-house software development costs previously capitalised.

B4 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 on a straight line basis over their useful life.

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 indicators exists, then the asset's recoverable amount is estimated. In assessing the recoverable amount the Company considers the determination of cash-generating units and compares the carrying amount against its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In assessing the recoverable amount the Company has used key assumptions which represent management's assessment of future market conditions in real estate.

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

B5 Assets and liabilities held for sale

	2020 \$'000	2019 \$'000
Assets		
Property, plant and equipment	-	-
Right-of-use assets	912	-
Intangible assets	258	-
Assets held for sale	1,170	-
Liabilities		
Lease liabilities	(1,084)	-
Provisions	(39)	-
Liabilities directly associated with assets held for sale	(1,123)	-

Recognition and Measurement

Non-current assets, or disposal groups comprising of assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered through sales rather than through continue use. These assets, or disposal groups, are measured at the lower of their carrying amount immediately prior to being classified as held for sale and their fair value less costs to sell. Impairment losses resulting from classification as held for sale are recognised in the profit and loss. Once classified as held for sale, the intangibles, right-of-use assets and property plant and equipment are not subject to depreciation or amortisation.

On 22 May 2020, the Consolidated Entity entered into a conditional agreement to sell the assets and rent roll of Parramatta. The agreement became unconditional and settled on 1 July 2020.

There were not write-downs as the carrying amount of the disposal assets did not fall below the fair value less costs to sell. There were no gains or losses recognised in the profit or loss and other comprehensive income with respect to the sale of these assets.

B6 Trade and other payables

	2020 \$'000	2019 \$'000
Current		
Trade payables	3,330	2,567
Other payables	4,172	1,642
Accrued expenses	8,891	6,087
Accrued sales commission	1,997	1,758
Contract Liability	647	982
	19,037	13,036
Non-current		
Accrued sales commission	154	507
	154	507

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.

Contract liability relates to considerations received for performance obligations not yet satisfied and fulfilled.



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.

C1	Financial risk management	50
C2	Capital management	53
C3	Dividends paid and proposed	53
C4	Key management personnel	54
C5	Related party transactions	55

C Risk, capital management and related parties

C1 Financial risk management

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. When assessing the risk exposure, the Company took into consideration the impact of COVID-19 on the market.

The Consolidated Entity has exposure to the following financial risks:

- (A) Credit risk
- (B) Liquidity risk
- (C) Market risk

(A) 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 and contract 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.

Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. The Consolidated Entity measures the impairment of financial assets based on the expected credit losses over the lifetime of the financial asset.

When determining whether the credit risk of a financial asset and estimating expected credit losses, the Consolidated Entity considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Consolidated Entity's historical experience, informed credit assessment and forward-looking information.

The Consolidated Entity assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and days past due. Share risk characteristics predominantly align with the segment that has generated the revenue.

Company Owned residential property management receivables are considered low risk as the monies owed are extracted from cash disbursements received – on settlement for residential property and from rental disbursements for property management.

Project receivables are different to residential sales in that, mostly due to the compounding effect of a longer period of time between exchange and settlement, they hold higher market and customer risk, but also development risk. Management provide for expected future credit losses for projects through an assessment of specific individual project development risks, and for customer and market risk through a general application of actual past failure rates and future expected failure rates based on judgement.

Franchise receivable risk fundamentally holds a similar risk profile to the Company Owned residential sales, but is then elevated as it hinges on the ability of individual Franchises to pay their debts as they become due. Management provide for expected future credit losses for Franchises through the assessment of specific risks attached to individual Franchises based on their aged debt, past payment history, current circumstances and their ability to produce income.

C1 Financial risk management (continued)

(A) Credit Risk (continued)

Impairment of financial asset (continued)

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

	2020 Gross \$'000	2020 Provisions \$'000	2019 Gross \$'000	2019 Provisions \$'000
Not past due	6,246	-	17,800	-
Past due 0-30 days	4,217	(115)	981	-
Past due 31-90 days	2,704	(35)	1,069	(434)
Past due 90 days +	5,646	(1,906)	5,839	(4,047)
	18,813	(2,056)	25,689	(4,481)

Trade and other receivables are written off when there is no reasonable expectation of recovery.

Cash and Cash Equivalents

The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA- to AA+ based on rating agency Moody's Investors Services.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Consolidated Entity considers that its cash and cash equivalents have a low credit risk based on the external credit ratings.

(B) 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 cash reserves 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 1 Year \$'000	1 to 2 Years \$'000	Greater than 2 years \$'000
30 June 2020					
Trade & other payables	19,191	19,191	19,037	154	-
Lease Liabilities	24,175	24,175	4,448	4,344	15,383
	43,366	43,366	23,485	4,498	15,383
30 June 2019					
Trade & other payables	13,543	13,543	13,036	507	-
	13,543	13,543	13,036	507	-

C1 Financial risk management (continued)

(C) 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 the reporting date the interest rate profile of the interest bearing financial assets and liabilities is:

	Carrying amount		Weighted average floating interest rate	
	2020 \$'000	2019 \$'000	2020 %	2019 %
Financial assets:				
Cash at bank	5,410	4,090	0.00%	0.00%
Short term deposits	11,863	6,199	1.36%	1.91%
Total financial assets	17,273	10,289		

Interest rate sensitivity

A change of 100 basis points in interest rates would have increased or decreased the Consolidated Entity's profit/(loss) by \$66,797 (2019: \$110,370).

Other Market risks

At 30 June 2020 the Consolidated Entity did not hold any available-for-sale equity securities assets (2019: 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

	2020 \$'000	2019 \$'000
Declared and paid during the year	-	-
Dividend Payout Ratio	0%	0%
Dividend franking account	\$'000	\$'000
Amount of franking credits available to shareholders	3,060	4,761

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

Recognition and Measurement

Dividends and distributions are recognised when declared and approved.

C4 Key management personnel

Details of key management personnel

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

Executive Director

J. McGrath	Executive Director
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Executives

G. Lucas ¹	Chief Executive Officer	Appointed 27 February 2018
H. Herman	Chief Financial Officer	Appointed 24 June 2019
C. Mourd	Head of Franchise Services	Appointed 13 June 2017
R. Fearnley	Head of Property Management	Appointed 11 September 2017

¹On 24 August 2020 Geoff Lucas has resigned as CEO of the Group. Edward Law has been appointed as CEO effective 24 August 2020. Refer to Note D3.

(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 Note A5) is as follows.

	2020	2019
	\$	\$
Long term and Short term employee benefits	2,712,457	2,885,163
Post-employment benefits	134,074	148,849
Share-based payments	122,028	62,910
	<u>2,968,559</u>	<u>3,096,922</u>

Nil dividends have been paid during the year (2019: \$nil), which include amounts paid to directors and other key management personnel.

(b) 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.

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. These transactions amount to be less than \$10 thousand in the current and prior year.

Other related party transactions between subsidiaries occur due to the Consolidated Entity using centralised bank accounts in managing their treasury operations. Refer to Note 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.

Other than the above there were no related party transactions during the financial year.



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	57
D2	Contingent liabilities	57
D3	Events subsequent to reporting date	57

D Unrecognised items

D1 Commitments for expenditure

At the reporting date, the Consolidated Entity has nil capital expenditure commitments (2019: \$nil).

D2 Contingent liabilities

Bank guarantees

Bank guarantees have been issued in regard to operating leases totalling \$2,135,895 (2019: \$1,697,890).

At 30 June 2020, the available guarantee facility was \$2,500,000 (2019: \$2,000,000).

D3 Events subsequent to reporting date

On 22 May 2020, the Consolidated Entity entered into a conditional agreement to sell the assets and rent roll of Parramatta Company owned office. The agreement became unconditional on 1 July 2020. Depending on the properties under management that transfer during the period 1 July 2020 to 1 October 2020, proceeds on sale is anticipated to be in the range of \$0.8 million to \$1.2 million plus additional deferred payments of between \$0.3 million to \$0.6 million. The assets and liabilities associated with the sale were classified as held for sale, as disclosed in Note B5. As at 30 June 2020 no amounts have been recognised in relation to this transaction.

On 11 August 2020 the Consolidated Entity entered into a conditional agreement to acquire the assets and rent roll of a business in St Ives. As at 30 June 2020 no amounts have been recognised in relation to these transactions.

Geoff Lucas has resigned as CEO of the Group on 24 August 2020. Edward Law has been appointed as CEO effective 24 August 2020. The key terms of Mr Law's remuneration package include fixed salary (including statutory superannuation) of \$500,000 pa plus annual STI of 50% of fixed remuneration and annual LTI of 50% of fixed remuneration which are dependent upon reaching agreed performance metrics. The terms of Mr Lucas's termination include the lapsing of his options and a payment of 6 months base salary will be included in the financial statements for the year ended 30 June 2021.

At the date of approving the financial statements there remains market uncertainty caused by the impact of the COVID-19 pandemic. The Company has considered developments since 30 June 2020 and are of the view that there is no material change to assumptions in the financial statements.

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.

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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.

	June 2020 \$'000	June 2019 \$'000
Income tax benefit		
<i>Current tax expense</i>		
Adjustments in respect of income tax of previous years	-	97
	-	97
<i>Deferred tax benefit</i>		
Origination and reversal of temporary differences	1,098	(3,173)
Adjustments in respect of deferred tax of previous years	(10)	828
	1,088	(2,345)
Total income tax expense/(benefit)	1,088	(2,248)
<i>Reconciliation of income tax benefit</i>		
Profit/(Loss) before tax	1,809	(17,821)
At the statutory income tax rate of 30% (2019: 30%)	543	(5,346)
Adjustments in respect of previous years income tax	(10)	925
Tax losses not recognised	406	2,076
Non deductible expenses:		
Other	149	97
Income tax expense/(benefit)	1,088	(2,248)

E1 Taxation (continued)

Balance and movement in deferred tax assets and liabilities

	Net deferred tax balance 1 July 2019 ¹	Recognised in profit or loss	Recognised in equity	Net deferred tax balance 30 June 2020	Deferred tax assets	Deferred tax liabilities
Property management rights	(2,205)	296	-	(1,909)	-	(1,909)
Sales commission revenue	(3,450)	465	-	(2,985)	-	(2,985)
Equity transaction costs	570	(533)	-	37	37	-
Capitalised expenses	2	12	-	14	14	-
Provisions	3,118	(538)	-	2,580	2,580	-
Accruals	170	362	-	532	532	-
Sales commission costs	511	(25)	-	486	486	-
Software assets	1,585	(903)	-	682	682	-
Property, plant and equipment	673	(375)	-	298	298	-
Leases ¹	670	151	-	821	821	-
	1,644	(1,088)	-	556	5,450	(4,894)

¹ The balance at 1 July 2019 includes the effect of adopting AASB 16 (see Note E9(d)).

	Net deferred tax balance 1 July 2018 ¹	Recognised in profit or loss	Recognised in equity	Net deferred tax balance 30 June 2019	Deferred tax assets	Deferred tax liabilities
Property management rights	(2,697)	492	-	(2,205)	-	(2,205)
Sales commission revenue	(4,329)	879	-	(3,450)	-	(3,450)
Equity transaction costs	1,108	(538)	-	570	570	-
Capitalised expenses	-	2	-	2	2	-
Provisions	1,402	1,716	-	3,118	3,118	-
Accruals	53	117	-	170	170	-
Sales commission costs	622	(111)	-	511	511	-
Software assets	510	1,075	-	1,585	1,585	-
Property, plant and equipment	-	673	-	673	673	-
	(3,331)	4,305	-	974	6,629	(5,655)

¹ The balance at 1 July 2018 includes the effect of adopting AASB 9.

Tax losses

The Consolidated Entity has tax effected capital tax losses where no deferred tax asset is recognised on the consolidated statement of financial position of \$0.9 million (30 June 2019: \$0.9 million) which are available for offset against future capital gains subject to continuing to meet relevant statutory tests.

The Consolidated Entity has tax effected tax losses of \$4.4 million (2019: \$4.1 million) where no deferred tax asset is recognised on the consolidated statement of financial position which are available for offset against future taxable income.

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

	2020	2019
	\$'000	\$'000
Current:		
Prepayments	2,843	2,318
Stock on hand	141	190
Other	304	304
	<u>3,288</u>	<u>2,812</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.

E3 Provisions

	2020	2019
	\$'000	\$'000
Current:		
Provision for annual leave	1,573	1,394
Provision for long service leave	417	112
Provision for onerous contracts ¹	589	1,167
Balance at 30 June	<u>2,579</u>	<u>2,673</u>
Non-current:		
Make-good provision	1,711	889
Provision for long service leave	233	426
Provision for onerous contracts ¹	611	1,206
Balance at 30 June	<u>2,555</u>	<u>2,521</u>
(a) Aggregate employee entitlements	<u>2,223</u>	<u>1,932</u>
(b) Average number of employees	<u>305</u>	<u>382</u>

¹In 2016 the Consolidated Entity entered into a non-cancellable contract for developing an integrated customer relationship management (CRM) tool and operations software. Due to strategic changes the Consolidated Entity discontinued the software development and the use of the related licences and an onerous provision was recognised. The contracts will expire in 2022 and the obligation for the discounted future payments at year end is \$1.2 million.

Recognition and Measurement

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.

E4 Capital and reserves

	2020	2019
	\$'000	\$'000
166,849,934 fully paid ordinary shares (2019: 167,932,532).	108,416	108,416

Contributed capital movement schedule

	\$'000	Shares
On issue at 1 July 2019	108,416	167,932,532
Cancelled shares	-	(1,082,598)
Balance at 30 June 2020	108,416	166,849,934

During the year, the awards under the Equity Incentive Plan did not vest as the service conditions were not met. These shares were advised as cancelled to ASX on 26 September 2019.

Prior year contributed capital movement schedule

	\$'000	Shares
On issue at 1 July 2018	103,549	156,364,490
Placement Aqualand	4,916	11,568,042
Aqualand placement costs	(49)	-
Balance at 30 June 2019	108,416	167,932,532

On 1 August 2018, 11,568,042 shares were issued at \$0.425 per share as part of a strategic relationship with the Aqualand Group. The transaction costs were accounted for as a deduction from equity.

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, net of tax, from the proceeds. 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

	2020	2019
	\$'000	\$'000
Balance at 1 July	819	670
Share-based payment expense	119	149
Balance at 30 June	938	819

The share-based payment reserve relates to the HPA share plan disclosed in Note A6 and the LTIP plan disclosed in Note 5 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	
	2020	2019	2020	2019
	%		\$	
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
Smollen Property (Pymble) Pty Ltd	100	100	100	100
Pymble Property Unit Trust	100	100	100	100
			7,570,667	7,570,667

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:

	2020	2019
	\$	\$
<i>Receivables</i>		
McGrath Sales Pty Limited	9,563,382	10,244,578
MG Logistics Pty Limited	19,366,523	19,170,801
McGrath Auctions Unit Trust	25,388	25,388
McGrath Sales (VIC) Pty Ltd	48,123	48,123
Australian Portfolio Management Unit Trust	665,338	665,338
McGrath Operations Limited	2,978,480	2,978,480
	<u>32,647,234</u>	<u>33,132,708</u>
<i>Payables</i>		
McGrath Australasia Pty Ltd	27,229	26,736
McGrath Sales (QLD) Pty Ltd	15,249	15,249
McGrath Bulimba Sales Unit Trust	38,051	38,051
NDH Property Unit Trust	19,904	19,904
HH Property Unit Trust	80,239	19,067
Engage Property Management Unit Trust	335,841	335,616
	<u>516,513</u>	<u>454,623</u>

E6 Parent entity disclosures

	2020	2019
	\$'000	\$'000
Result of parent entity		
Loss after income tax expense	(1,038)	(27,875)
Total loss and other comprehensive income for the year	<u>(1,038)</u>	<u>(27,875)</u>
Financial position of parent entity at year end		
Current assets	32,647	33,133
Total assets	32,684	33,396
Current liabilities	(3,131)	(2,924)
Total liabilities	<u>(3,131)</u>	<u>(2,924)</u>
Net assets	<u>29,553</u>	<u>30,472</u>
Total equity of parent entity comprising of:		
Contributed equity	108,416	108,416
Share based payment reserve	938	819
Accumulated losses	(79,801)	(78,763)
Total equity	<u>29,553</u>	<u>30,472</u>

No capital expenditure commitments contracted for at reporting date (2019: \$ nil).

E7 Auditor's remuneration

	2020	2019
	\$	\$
Audit and other services - KPMG		
Audit and review of financial statements	240,000	248,000
Total	240,000	248,000
Other services - KPMG		
Tax services	36,595	25,321
Assurance related	32,405	-
Total other services	69,000	25,321

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

	2020	2019
	\$'000	\$'000
Statement of comprehensive income		
Revenue and other income	31,352	28,031
Cost of sales	(7,441)	(5,802)
Employee benefits expense	(11,780)	(13,146)
Directors' fees	(205)	(219)
Professional fees	(1,035)	(134)
Doubtful debts	(182)	(266)
Occupancy	(1,504)	(3,591)
IT expenses	(3,498)	(4,557)
Communications	(1,018)	(1,234)
Advertising and promotions	(340)	(300)
Other expenses from ordinary activities	(806)	(1,638)
Loss on disposal of assets	-	(6)
Onerous contract expenses	-	(3,336)
Earnings before interest, tax, depreciation and amortisation and impairment (EBITDA)	3,543	(6,198)
Depreciation and amortisation expenses	(4,486)	(1,399)
Impairments	-	(35,931)
Finance income	82	230
Finance costs	(1,367)	(27)
Net finance costs	(1,285)	203
Loss before income tax	(2,228)	(43,325)
Income tax (expense)/benefit	(665)	4,394
Loss attributable to the owners of the closed group	(2,893)	(38,931)

E8 Deed of cross guarantee (continued)**Closed Group** consolidated statement of financial position as at 30 June

	2020	2019
	\$'000	\$'000
Statement of financial position		
CURRENT ASSETS		
Cash and cash equivalents	17,231	10,245
Trade and other receivables	23,348	26,504
Other assets	2,030	1,655
Current tax assets	230	230
TOTAL CURRENT ASSETS	42,839	38,634
NON CURRENT ASSETS		
Receivables	613	1,476
Intangible assets and goodwill	2,439	1,019
Other financial assets	1	1
Property, plant and equipment	3,124	1,848
Right-of-use assets	16,548	-
Deferred tax assets	2,378	2,735
TOTAL NON CURRENT ASSETS	25,103	7,079
TOTAL ASSETS	67,942	45,713
CURRENT LIABILITIES		
Trade and other payables	39,161	32,424
Lease liabilities	2,890	-
Provisions	2,602	2,390
TOTAL CURRENT LIABILITIES	44,653	34,814
NON CURRENT LIABILITIES		
Trade and other payables	154	507
Lease liabilities	15,566	-
Provisions	2,094	2,143
TOTAL NON CURRENT LIABILITIES	17,814	2,650
TOTAL LIABILITIES	62,467	37,464
NET ASSETS	5,475	8,249
EQUITY		
Contributed equity	108,416	108,416
Share based payment reserve	938	819
Retained losses	(103,879)	(100,986)
TOTAL EQUITY	5,475	8,249

E9 General accounting policies

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 55 Pyrmont Street, Pyrmont NSW 2009.

(i) Compliance with IFRS

The consolidated financial statements of the Consolidated Entity also comply with International Financial Reporting Standards (IFRS) and Interpretations 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.

(c) Changes in accounting policies and disclosures

New and amended standards adopted

The Consolidated Entity has adopted AASB 16 Leases from 1 July 2019. A number of other new or amended standards became effective from 1 January 2019 but they do not have a material effect on the Consolidated Entity's financial statements for the reporting period.

- (i) AASB 2017-6 Amendments to Australian Accounting Standards: Prepayment Features with Negative Compensation;
- (ii) AASB 2017-7 Amendments to Australian Accounting Standards: Long-term Interests in Associates and Joint Ventures;
- (iii) AASB 2018-1 Amendments to Australian Accounting Standards: Annual improvements 2015-2017 Cycle;
- (iv) AASB 2018-2 Amendments to Australian Accounting Standards: Plan Amendment, Curtailment or Settlement; and
- (v) Interpretation 23 Uncertainty over Income Tax Treatments.

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

E9 General accounting policies (continued)

(d) New and amended standards adopted

AASB 16 Leases

Definition

AASB 16 Leases replaces AASB 117 Leases along with three Interpretations (IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases-Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Previously, leases were classified as either finance or operating leases, in accordance with AASB 117 Leases, and charged to the profit and loss on a straight line basis over the life of the asset.

The adoption of AASB 16, from 1 July 2019, has resulted in recognising a right-of-use asset and a related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The lease liability is initially measured at the present value of the future lease payments discounted at the Consolidated Entity's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. The interest cost is charged to the profit or loss over the lease period and the associated right-of-use asset is depreciated over the lease term on a straight-line basis.

In addition, the Consolidated Entity will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Consolidated Entity will include these onerous payments under the lease in its lease liability.

The Consolidated Entity has adopted AASB 16 from 1 July 2019 using the modified retrospective transition method. Under this approach the cumulative impact of initial application is recognised in retained earnings on 1 July 2019, with no restatement of comparative information required.

In applying AASB 16 for the first time, the Consolidated Entity has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- exemption of short-term leases, with a term less than 12 months and leases of low-value;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Transition

As a result of finalising the implementation of AASB 16 the following items on balance sheet have been recognised in the opening balance sheet on 1 July 2019:

Impact on application	As reported 30 June 2019	AASB 16 Transition Adjustment	Opening Balance 1 July 2019
	\$'000	\$'000	\$'000
Current assets			
Other assets	2,812	(407)	2,405
Non current assets			
Right-of-use assets	-	22,826	22,826
Deferred tax assets	974	670	1,644
Current liabilities			
Trade and other payables	13,036	(301)	12,735
Lease liabilities	-	4,040	4,040
Provisions	2,673	(570)	2,103
Non current liabilities			
Lease liabilities	-	21,439	21,439
Total adjustment on equity:			
Retained earnings-Accumulated losses	(78,387)	(1,519)	(79,906)

E9 General accounting policies (continued)

(d) New and amended standards adopted (continued)

Lease Liabilities

The Consolidated Entity leases offices and equipment. The office rental leases are for fixed periods of 2 to 10 years with extension options. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. On adoption of AASB 16, these leases are recognised on the balance sheet as lease liabilities. The Consolidated Entity has applied judgement to determine the lease term for lease contracts which include renewal options. The assessment of whether the Consolidated Entity is reasonably certain to exercise renewal options impacts the lease term, which significantly affects the amount of the lease liabilities and right-of use assets recognised.

At the date of transition, the present value of the lease liability comprised of:

- fixed payments offset by any lease incentives;
- variable lease payments linked to an index or rate;
- consideration of exercising renewal extension options; and
- discounting using the weighted average lessee's incremental borrowing rate as of 1 July 2019. For lease liabilities classified as property the weighted average rate applied is 7.25% and for lease liabilities classified as equipment the weighted average rate applied is 4.85%.

Under AASB 16, payments made are allocated between lease liability and finance costs, with finance costs charged to interest expense over the life of the lease. Payments associated with short-term leases and low value assets are recognised as an expense in the profit and loss on a straight line basis.

Reconciliation of 30 June 2019 operating leases to 1 July 2019 lease liability	\$'000
Operating lease commitments disclosed as at 30 June 2019	15,852
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(1,691)
Add/(less): adjustments as a result of a different treatment of extension and termination options	11,318
Lease liability recognised as at 1 July 2019	25,479
 Current lease liabilities	 4,040
Non-current lease liabilities	21,439
	<u>25,479</u>

Right-of-use assets

At the date of transition, the cost of the right-of-use assets comprised of:

- initial measurement of the liability;
- any lease payments pre-commencement date, offset by any lease incentives received; and
- reliance on previous assessments on leases which were considered onerous.

Under AASB 16, right-of-use assets will be depreciated over the shorter of the asset's useful life and the life of the lease on a straight line basis and will be tested for impairment in accordance with AASB 136 Impairment of Assets.

The Company has categorised the right-of-use assets into the following two categories:

	Opening Balance 1 July 2019
	\$'000
Property	21,203
Equipment	1,623
Total right-of-use assets	<u>22,826</u>

E9 General accounting policies (continued)

(d) New and amended standards adopted (continued)

AASB 16 Leases - COVID-19 Rent Related Concessions

COVID-19 has led many lessors to provide relief to lessees through deferring or relieving them of amounts that would otherwise be payable. AASB 16 requires lessees to assess whether changes to lease contracts are lease modifications and, therefore resulting in remeasuring the lease liability using a revised discount rate.

AASB 2020-4 Amendments to Australian Accounting Standards – COVID-19 Related Rent Concessions amends AASB 16 Leases and became effective from 1 June 2020.

The amendment provides practical relief to lessees in accounting for rent concessions arising as a result of COVID-19, by including an additional practical expedient in AASB 16 which allows entities to elect not to account for the rent concessions as modifications.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

The Consolidated Entity has elected to apply the practical expedient to all of the COVID-19-related rental concessions it has obtained as lessee.

The impact on the financial statements as a result of applying the practical expedient is as follows:

- Reduction in lease payments due to waivers have been recognised as a negative variable lease payment of \$155 thousand in profit or loss (occupancy).

(e) Standards issued but not yet adopted

The following new and amended standards and interpretations that are issued but not yet effective are not expected to have a significant impact on the Group's consolidated financial statements:

- AASB 17 Insurance Contracts;
- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128;
- AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections;
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material;
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework;
- AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform;
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia;
- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current; and
- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments.

(f) Significant accounting judgements, estimates and assumptions

The preparation of the Company's consolidated financial statement requires management to make a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses and the accompanying disclosures. The estimates and assumptions are based on historical experience and are assessed on an continual basis.

Due to the COVID-19 pandemic the Company has applied significant judgement and estimates to the following:

- Provision of doubtful debt;
- Going concern;
- Assessment of impairment of assets; and
- Financial risk management.

The Company has used key assumption which represent management's assessment of future trends in real estate. The key assumptions have included predicted property values, volume growth, sales agent numbers, commission rates achieved and costs that have been based on historical data from internal and external sources.

(g) Going Concern

The consolidated financial statements have been prepared on a going concern basis. The Company has assessed the impact of the COVID-19 pandemic and although there is continued uncertainty in the market, the Company remains confident it will continue to trade on a going concern basis and be able to meet its debts as and when they fall due for at least a period of 12 months from the date of the financial statements. In reaching this conclusion, the Company applied significant judgement and considered the following factors:

- 12 month forecast cashflow with sensitivity analysis and stress testing different scenarios;
- the Company has no debt facility;
- the Company has a sufficient cash balance of \$17.3 million at 30 June 2020;
- the Company has net assets of \$30.2 million; and
- the Company's ability to adapt digitally to the restrictions.

Directors' Declaration for the Year Ended 30 June 2020

In the opinion of the directors of McGrath Limited:

(a) the consolidated financial statements and notes that are set out on pages 26-73 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 2020 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 Chief Executive Officer 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
24 August 2020



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 Company).

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

- Giving a true and fair view of the **Group's** financial position as at 30 June 2020 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 2020;
- 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 (including Independence Standards)* (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:

- Recoverability of property management rights intangible assets
- Recoverability of current trade receivables and non-current trade receivables

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

This matter was 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 this matter.

Recoverability of property management rights intangible assets (\$13,432k)

Refer to Note B4 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The recoverability of the Group's property management rights (intangible assets) is a Key Audit Matter due to the:</p> <ul style="list-style-type: none"> • significance of the balance (being 17% of total assets); and • presence of impairment indicators and higher estimation uncertainty as a result of the business disruption impact of COVID-19 global pandemic. <p>We focused on the significant assumptions the Group applied in their fair value less costs of disposal models, including:</p> <ul style="list-style-type: none"> • determination of Cash Generating Units (CGUs) – the Group has a large number of operating individual locations and regional areas and therefore, requires judgement by the Group in determining the CGUs the intangible assets belong to, based on the smallest group of assets to generate largely independent cash inflows; and • market multiples – reflects the value of a property management right in terms of its ratio to property management fees. COVID-19 has resulted in less transactional evidence and other market data points increasing the estimation uncertainty. <p>We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Assessing the Group's determination of their CGUs based on our understanding of the operations of the Group's business and how independent cash inflows are generated, against the requirements of the accounting standards; • Understanding the Group's process and assessing the appropriateness of the fair value less costs of disposal method to test the intangible assets for impairment against the requirements of the accounting standard; • Assessing the Group's allocation of corporate assets to CGUs for reasonableness and consistency based on the requirements of the accounting standards; • Assessing the integrity of the fair value less costs of disposal models used, including checking the accuracy of the underlying calculation formulas and key inputs. This included checking a sample of property management fees used within the fair value less costs of disposal models to underlying agreements; • Considering the sensitivity of the models by varying key assumptions, such as market multiples, within a reasonably possible range. We considered the interdependencies of key assumptions when performing the sensitivity analysis and what the Group consider to be reasonably possible. We did this to identify those CGUs at higher risk of impairment and to focus our further procedures; and • Working with our valuation specialists to benchmark the market multiples used in the Group's models against comparable market transactions.

Recoverability of current trade receivables (\$11,200k) and non-current trade receivables (\$687k)

Refer to Note B1 and C1 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The recoverability of trade receivables is a Key Audit Matter due to the:</p> <ul style="list-style-type: none"> • significance of the balance to the overall financial statements (being 15% of total assets); • level of judgement required by us to assess the impact of recent COVID-19 uncertain market conditions on the Group's provisioning for property sales on exchange; and • estimation uncertainty in the Group's determination of recoverability of project debtors. This is due to the long time frame between exchange and settlement and the uncertain COVID-19 economic environment potentially impacting the likelihood of development projects being completed by the contractual sunset date (development risk) and the purchaser settling (sales risk). <p>A subset of trade receivables are project debtors which relate to the project sales commission income from off-the-plan apartment sales (development projects). Project debtors relate to the project sales commission income from off-the-plan apartment sales which is recognised on unconditional exchange, with payments due:</p> <ul style="list-style-type: none"> • 50% on unconditional exchange; and • 50% on settlement. <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"> 1. Sales risk: the risk the purchaser will not settle. This is influenced by availability of finance and property market movements between exchange and settlement; and 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 financing available to the developer and delays in construction completion beyond the contract sunset date. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Understanding the Group's process and testing the design of key controls such as the preparation and review by the Group of their monitoring report to identify doubtful debts; • Assessing the appropriateness of the methodology to monitor and apply individual and collective provisions for receivables against the requirements of the accounting standards; • Selecting a specific sample of outstanding receivables from the Group's receivables aging profile and inspecting the underlying recoverability documentation. This included inquiries with the Group on the nature of the transaction and checking consistency to customer credit terms and our understanding of industry practice in a COVID-19 economic environment; and • Checking current year write-off of debtor amounts to assess the accuracy of previous Group provision for doubtful debts and to inform our evaluation of the current year provision for doubtful debts. <p>Additionally, for project debtors, our procedures included:</p> <ul style="list-style-type: none"> • Obtaining the Group's monitoring report and identifying projects which met 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. We then challenged the Group's identification of the projects which were included/excluded from the provision; • Inquiring with the Head of Projects and finance team to understand the Group's analysis of the project status, sales and development risks; • Evaluating the Group's judgements in relation to sales risk with publicly available industry data for identification of matters which impact sales risk, such as market price deterioration and market uncertainty as a result of COVID-19; and • Comparing the Group's judgements of future recovery to our analysis of historical trends for recovery of off-the-plan apartment sales commission and our knowledge of how COVID-19 may impact these trends.

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. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do 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 and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. 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 and Company 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:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 2020, 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 21 of the Annual Financial Report referenced to in the Director's report for the year ended 30 June 2020.

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

KPMG

Karen Hopkins
Partner

Sydney
24 August 2020

Shareholder information

The information set out below was prepared as at 10 August 2020 (unless indicated otherwise) and applies to McGrath's securities (ASX code: MEA).

As at 10 August 2020 there were 166,849,934 fully paid ordinary shares on issue.

Substantial shareholders

As disclosed in substantial holding notices lodged with the ASX as at 10 August 2020:

Shareholders	Date of notice	Number of shares	Percentage of issued equity % ¹
AL Capital Holdings Pty Ltd as trustee for the AL Capital No 1 Unit Trust and Yunhui Lin	28/10/2019	31,119,678	18.53
Shane Smollen Pty Limited as trustee for The Smollen Property Family Trust	14/08/2018	12,413,085	7.39
Argo Investments	03/08/2018	10,000,000	5.95
John McGrath and Fondorru	01/08/2018	37,127,378	22.11
Central T Pty Ltd ATF Central Trust	22/06/2018	9,419,291	6.02

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

Perpetual Limited and subsidiaries ceased to be a substantial shareholder from 6 August 2019.

Range of shareholders – fully paid ordinary shares

Range	Number of holders	Number of securities
1 to 1,000	554	292,141
1,001 to 5,000	514	1,571,859
5,001 to 10,000	289	2,397,685
10,001 to 100,000	464	14,903,849
100,001 and over	94	147,684,400
Total number of shareholders	1,915	166,849,934

Number of security holders holding less than a marketable parcel (being 2,702 securities at the closing market price of \$0.185 on 10 August 2020) : 802

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	0	0
10,001 to 100,000	0	0
100,001 and over	5	2,538,188
Total number of holders	5	2,538,188

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	9,400,000
Total number of holders	1	9,400,000

20 largest shareholders (as of 10 August 2020)

No.	Shareholder	Number of shares	Percentage of issued equity %
1	Citicorp Nominees Pty Limited	32,236,494	19.32
2	Fondorru Pty Ltd	21,195,450	12.70
3	John Damian McGrath	15,059,928	9.03
4	Smollen Property Pty Limited	12,413,085	7.44
5	Argo Investments Limited	10,000,000	5.99
6	Central T Pty Ltd	9,419,291	5.65
7	HSBC Custody Nominees (Australia) Limited	6,530,624	3.91
8	JP Morgan Nominees Australia	5,229,971	3.13
9	Invia Custodian Pty Limited	4,297,614	2.58
10	Mr Grant Charles Beaumont	1,933,552	1.16
11	Lindway Investments Pty Limited	1,238,000	0.74
12	Mr Alex Jordan	1,140,000	0.68
13	Mr Irwin David Klotz	1,100,000	0.66
14	Radiata Super Pty Ltd	1,008,621	0.60
15	Mr Junchen He	944,312	0.57
16	Mr John Damian McGrath	872,000	0.52
17	Courtney Holdings Pty Ltd	827,539	0.50
17	Tracey Dixon Investment Pty Ltd	827,539	0.50
17	Peter Chauncy Investments Pty Ltd	827,539	0.50
17	Paranchi Investment Pty Ltd	827,539	0.50
18	N B T Pty Ltd	818,148	0.49
19	Cav & Associates Pty Ltd	780,468	0.47
20	Dalelan Pty Limited	745,000	0.45
Top 20 holders of Shares		130,272,714	78.09
Balance of Shares		36,577,220	21.91
Total Shares on issue		168,849,934	100.00

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 Options 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

Edward Law

CHIEF FINANCIAL OFFICER

Howard Herman

COMPANY SECRETARY

Phil Mackey

REGISTERED OFFICE

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