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

BY ELECTRONIC LODGEMENT

2022 Annual Report

Please find attached for release to the market, McGrath Limited's *Annual Report* for the year ended 30 June 2022.

-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 111 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
2022 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 or the Group.

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, auction services and real estate training.

McGrath Limited and Controlled Entities

A.C.N. 608 153 779

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Joint letter from the Chair and CEO

Dear Shareholders,

We are pleased to announce McGrath Limited posted growth in our underlying EBITDA of \$19.1 million for the 2022 financial year - representing an 8 per cent lift on the previous year's underlying EBITDA of \$17.7 million.

The underlying EBITDA result was within the range of guidance provided at the company's trading update on May 23, 2022, while NPAT of \$11.7 million was lower than the previous year as a result of one-off items in that period.

The financial year was a story of two halves, with the first half results benefiting from buoyant market conditions, while the second half was impacted by a range of external factors. These factors included the Federal Election, successive rises by the Reserve Bank of Australia in the cash rate to counter higher inflation, which flowed on to mortgage rate rises has caused a slowing of the property market.

Property listing volumes and prices have been negatively impacted by the changed market conditions and we expect mortgage rates will rise further during the 2023 financial year off the back of higher inflation.

Historically Australians have paid on average higher mortgage interest rates than current, so it is not the size of the rate but the rapid succession of cash rate lifts, which are currently having a negative impact on the market.

We believe we have already seen most of the property price reductions during this cycle and buyers should re-emerge to take advantage of the slight correction in what were unsustainable, boom conditions in property.

Amid the volatile conditions, our sales businesses across the East Coast of Australia performed well, while our premium property management business - contributed strongly to solid results.

The recent change in our management team herald a new era for the growth of the McGrath business and the continued restoration of value for our shareholders, with a series of initiatives now being put in place to this end.

These initiatives include the ongoing payment of fully franked dividends (subject to the business's performance) and the continuation of the successful share on-market buyback program.

In addition, we are working on a key strategic initiative to attain and attract top agent talent. This involves transitioning to a franchise model which will also provide more predictable and stable levels of income. We will be offering equity participation and ownership to some of our existing and potential agents, featuring the conversion of selected company owned offices to franchises which could also involve the sale of some property management assets.

We have recently opened new franchise offices in Ivanhoe, Launceston and Hobart and converted the Rouse Hill company owned business to a franchise.

Your company is in a very strong financial position with no borrowings, \$34.7 million in cash and \$49.6 million worth of net assets.

The market correction presents us with a range of opportunities to grow our footprint of offices and agent numbers under our franchise model and we will continue to investigate a range of acquisition opportunities that will complement our existing businesses.

While other capital management options are being considered, we continue to focus on business improvement initiatives and organic growth strategies across our multiple business units.

In concert with acting on industry consolidation opportunities, we are working on further improvements in our agent productivity, website and other digital technology initiatives.

Our management is also enhancing the scale of our mortgage home loan business by partnering with Oxygen management to grow this business.

We have a renewed focus on talent and technology delivering our customers superior results in what is a weaker market which will see a soft landing from the unsustainable growth rates over the last two years.

Our team of property professionals continue to conduct business with focus, dedication and integrity, which will maintain McGrath's long-term position as the market leader.

Our well capitalised balance sheet will ensure that the company can withstand the market volatility and will allow us to take advantage of opportunities to grow stakeholder value during the current financial year.

On behalf of the Board and our Executive Leadership Team, we would like to sincerely thank our team members and franchise partners for their dedication, hard work and commitment to our company in what has been a challenging but rewarding 12 months.

Yours sincerely,



Peter Lewis
Chair



John McGrath
Managing Director and CEO

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

- Auction service group generates earnings based on a fixed fee per auction;
- Training services organise a number of Australian residential real estate conferences and receives revenue from fees paid by attendees, exhibitors and sponsors; and
- 44% investment in the mortgage broking business, Oxygen Investment Pty Limited.

Office locations

As at 30 June 2022 the network comprised 29 Company owned offices and 79 Franchise offices. The spread of offices is across the Eastern seaboard as seen in the graphic in Figure 1 below. There was a net increase of one office in the 12 months since 30 June 2021 with 4 openings, 1 transfer from Company owned to Franchise services and 3 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.

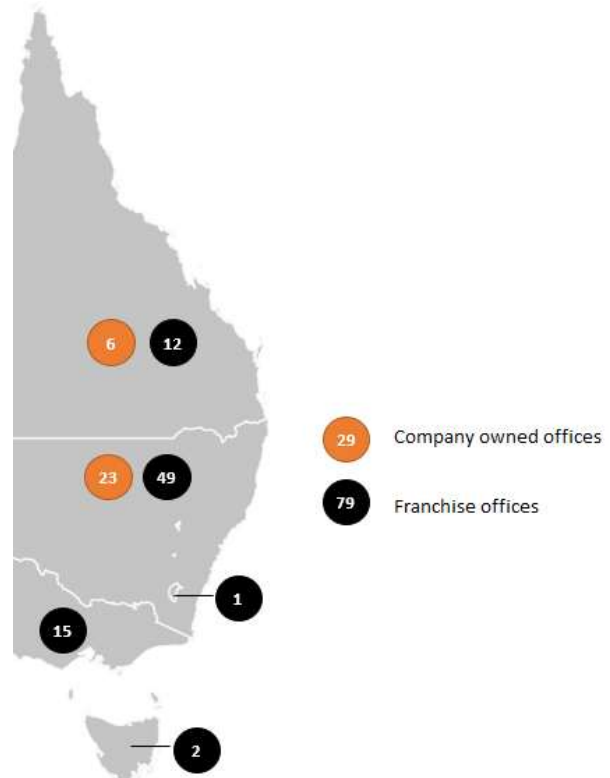


Figure 1: McGrath office Network

Income Statement

To assist in the interpretation of the performance of the Consolidated Entity, the information below shows the reconciliation of the statutory and underlying revenue and profit after income tax (NPAT).

	June 2022	June 2021
	\$'000	\$'000
Statutory revenue	112,417	122,359
Less change in commission structure	-	(11,419)
Underlying revenue	112,417	110,940
Statutory profit before income tax	16,107	21,098
Income tax expense	(4,379)	(2,057)
Statutory profit after income tax	11,728	19,041
Less Government Grant	-	(2,094)
Less gain on disposal of intangible asset	(342)	(2,248)
Less gain on partial sale of Oxygen business	-	(3,121)
Add AASB 16 Leases impact	(5)	405
Add income tax expense on the reconciling items	103	1,501
Underlying profit after income tax	11,484	13,484

The reconciling items adjust for Government Grants received, gain on sale of Company owned office to Franchise office and the adoption of the lease accounting standards, AASB 16 Leases, adopted from 1 July 2019.

Prior year underlying revenue has been adjusted to reflect the impact of the new agent remuneration structure to enable better comparison to current period results. Under the new package, which was introduced on 1 July 2021 to retain and attract top agent talent, agents are entitled to receive all commissions at settlement, instead of a proportion being payable at a later date. Assuming this revised remuneration structure was in operation in FY21, revenue and cost of sales would have been reduced by \$11.419 million. Underlying revenue has increased by \$1.477 million from \$110.940 million to \$112.417 million, an increase of 1.3% on FY21, with further detail provided below in the segment revenue.

The statutory NPAT has decreased by \$7.313 million from \$19.041 million to \$11.728 million. The decrease is primarily due to FY21 reconciling items which included the following: \$2.094 million Government Grant recognised for the period 1 July 2020 to 27 September 2020, \$2.248 million from the gain on sale of Blacktown and Parramatta Company owned office to Franchise office, \$3.121 million gain resulting from the partial sale of the Oxygen mortgage brokerage business. The decrease is partially offset by the tax expense relating to the reconciling items. The reconciling items in FY22 primarily relate to the \$342 thousand gain on sale of the Rouse Hill Company owned office to Franchise office.

The information below shows the reconciling items from statutory results to the underlying results for the year ending 30 June 2022.

	Statutory June 2022 \$'000	Reconciling amounts \$'000	Underlying June 2022 \$'000	Underlying June 2021 \$'000
Revenue ¹	112,417	-	112,417	110,940
Other Income	557	(557)	-	-
Cost of sales ¹	(44,783)	-	(44,783)	(40,699)
Gross profit	68,191	(557)	67,634	70,241
Share of profit of an associate	96	-	96	3
Employee benefits expenses	(27,487)	-	(27,487)	(29,865)
Other expenses	(15,330)	(5,852)	(21,182)	(22,717)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	25,470	(6,409)	19,061	17,662
Depreciation and amortisation	(8,271)	4,669	(3,602)	(3,678)
Earnings before interest and tax (EBIT)²	17,199	(1,740)	15,459	13,984
Net finance (expense)/income	(1,092)	1,393	301	56
Profit/(Loss) before income tax	16,107	(347)	15,760	14,040
Income tax expense	(4,379)	103	(4,276)	(556)
Profit/(Loss) after income tax expense	11,728	(244)	11,484	13,484
Basic earnings/(losses) per share (cents)	7.22	(0.15)	7.07	8.08

¹ Due to the new company owned sales agent remuneration package, which was introduced on 1 July 2021, for comparative purposes prior year underlying revenue has been restated from \$122.359 million to \$110.940 million and prior year underlying cost of sales has been restated from \$52.118 million to \$40.699 million, with gross profit remaining unchanged.

² For FY23 reporting period, the Company will be transitioning to EBIT as a key metric, and will remove the reconciling items relating to AASB 16 Leases.

The reconciling item of \$557 thousand in other income relates to \$342 thousand gain on sale of assets and rent roll of the Rouse Hill Company owned office to a Franchise office and \$215 thousand of lease income.

The impact of AASB 16 Leases resulted in a decrease of \$210 thousand to profit before income tax which consists of \$4.669 million of depreciation expenses and \$1.393 million of interest expenses less \$5.852 million in occupancy and communication expenses.

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

Segment revenue and EBITDA

There are no reconciling amounts between Statutory and Underlying Revenue in the year ended 30 June 2022.

Segment EBITDA has been impacted as detailed below.

The application of AASB 16 Leases has impacted EBITDA by \$6.067 million which has been allocated across all segments with company owned sales being impacted by \$4.431 million and the other operating segments being jointly impacted by \$1.636 million.

The \$342 thousand gain on sale of the assets and rent roll is included in the Corporate EBITDA reconciling amount.

	Statutory June 2022 \$'000	Reconciling Amounts \$'000	Underlying June 2022 \$'000	Underlying June 2021 \$'000
Revenue				
Company owned sales ¹	68,666	-	68,666	70,338
Company owned property management	19,562	-	19,562	19,899
Franchise services	16,213	-	16,213	13,413
Other operating segments	7,976	-	7,976	7,290
Total Revenue	112,417	-	112,417	110,940
EBITDA				
Company owned sales	18,376	(4,431)	13,945	15,493
Company owned property management	5,605	(462)	5,143	5,816
Franchise services	9,386	(79)	9,307	8,147
Other operating segments	1,138	(886)	252	503
Corporate	(9,035)	(551)	(9,586)	(12,297)
Total EBITDA	24,470	(6,409)	19,061	17,662

¹ Underlying prior year company owned sales revenue has been restated for comparative purposes from \$81.757 million to \$70.338 million to reflect the new agent remuneration package which was introduced on 1 July 2021.

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

The following relates to underlying results, as presented above. The results are not that of statutory profit and were not subject to audit. The segment results for FY22 exclude the impact of adoption of AASB 16 and gain on sale of the Rouse Hill office and rent roll.

Company Owned Sales and Project Marketing

Company owned sales generated an EBITDA of \$13.9 million, down 10.0% on prior year. The decrease was driven by a reduction in the number of properties exchanged during the year which was offset by an increase in average selling price.

During the year, there was no net movement in offices, due to the opening of one office, Paddington NSW, and the transfer of Rouse Hill office from Company owned to Franchise office.

Company owned property management

Company owned properties management generated an EBITDA of \$5.143 million, down 11.6% on prior year which is mainly due to lower reletting revenues adversely impacted by COVID lockdowns.

Franchise services

Our franchise services generated an EBITDA of \$9.3 million, up 14.2% on prior year. The increase was primarily driven by an increase in average selling price.

During the year, there has been 3 new office openings and 1 office transfer from Company owned to Franchise services and 3 office closures.

Other Operating Segments

Other operating segments comprise Auction Services, TRET, investment in Oxygen Home Loans, 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.

Auction Services

Auction Services provides auctioneers to the Company owned and Franchise segments. Auction services accounted for 40% of all properties listed in FY22.

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 of the year, AREC, attracts real estate talent Australia wide.

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 COVID-19 pandemic has continued to impact the global and Australian economy and the ability of businesses to operate. Whilst the impact of the pandemic on the real estate industry has been less severe than other industries, there are challenges in the domestic and global macroeconomic environment associated with events relating to COVID-19 that are beyond the control of McGrath. Going forward, McGrath's operations and those of our clients may be impacted by COVID-19 through any continuation of restrictions such as social distancing, quarantines, health authority actions or other related measures. Any of these factors may impact our operational and financial performance. There are a number of actions McGrath could consider to mitigate the risk which could 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 to create additional liquidity.
- 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.
- 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 which could include some equity participation, designed to assist in attracting and retaining high performing residential sales agents.
- 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.
- 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.
- Regulatory risks** – McGrath currently has business operations in New South Wales, Queensland, Victoria, Tasmania 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.

Environment, Social and Governance (ESG)

Good environmental practices and the impact that operations have on the environment are of great importance to McGrath. The Company is committed to adopting responsible environmental practices and to building a sustainable next generation business.

The Board is responsible for corporate governance and is committed to developing and implementing appropriate policies while adhering to a fundamental commitment to create and sustain long-term value for its shareholders and stakeholders.

McGrath is committed to providing a healthy and safe workplace for all people involved in its business operations and is committed to employment equality and gender diversity. In addition, it is focused on how it manages its relations with its employees, financial stakeholders and the communities in which it operates.

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 (4th 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 2022:

Peter Lewis

Chair and Independent Non-executive Director.

- Appointed Chair 19 February 2018.

Peter is Chair of the Remuneration and Nomination Committee from 18 February 2022 and a member of the Audit and Risk Committee.

Peter is currently a non-executive director of the Australian Broadcasting Corporation and Chair of their Audit and Risk Committee, a non-executive director of BoozeBud Holdings and is an advisory board member of Anacacia Capital and Gravity Media Group. Peter previously worked as Chief Financial Officer for the Seven Group of companies for 15 years.

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

Andrew Robinson

Independent Non-executive Director.

- Appointed 19 February 2018.
- Retired 18 February 2022.

During Andrew's service period he has held the role of 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 specialisation 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 Audit and Risk Committee from 18 February 2022 and member of the Remuneration and Nomination Committee.

Wayne was appointed to the McGrath Board as the nominee of Aqualand Group, one of Australia's premier residential property development and investment groups. Wayne is CEO of AL Capital 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 (SUFE). 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.

Shane Smollen

Non-executive Director.

- Appointed 3 September 2020.

Shane is also a member of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee.

Shane was appointed to the McGrath Board with a depth of property experience and a focus on results, leadership, and ethics. Having owned one of the country's leading franchise networks prior to selling to McGrath in 2015, Shane turned his focus to property development. As a director of Central Element, he has been heavily involved in developing premium residential, commercial and hotel projects across Sydney and regional centres.

Shane holds a Bachelor of Business from Queensland University of Technology.

Juliana Nguyen

Independent Non-executive Director.

- Appointed 28 January 2022.

Juliana is also a member of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee.

Juliana has over 20 years international experience in marketing, advertising, commercial and general management roles across a range of industries with companies at different stages of growth, from multinationals to founder-led technology companies in Australia, Asia Pacific, Europe and the US. Juliana is a customer centric executive, focusing in transforming brands and businesses, with previous positions, including Regional Marketing Director, APAC at Airbnb; Marketing Director, ANZ at Nike; Global Chief Marketing Officer at N26 and Managing Director, Vietnam at TBWA\Worldwide.

John McGrath

Managing Director and Chief Executive Officer

- Appointed Executive Director on 8 September 2015 and on 8 April 2022 appointed Managing Director and Chief Executive Officer.

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.

Movement in Directors

The above directors held office during the whole financial year and continue to do so at the date of this report except for:

- Juliana Nguyen – appointed 28 January 2022.
- Andrew Robinson – retired 18 February 2022.

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 2022 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	16	16	3	3	2	2
A. Robinson	10	10	3	3	1	1
W. Mo	16	16	3	3	2	2
S. Smollen	16	16	3	3	2	2
J. Nguyen	8	8	1	1	1	1
J. McGrath	14	14	0	3	0	2

Role and responsibilities of the Board

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

The responsibilities of the Board are detailed in the Board Charter on McGrath's website.

The Board's conduct is also governed by McGrath's constitution. Both the Board Charter and McGrath's constitution are available on McGrath's website under About Us / Investor Centre www.mcgrath.com.au/about/investorcentre.

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

The Directors of McGrath Limited present the Remuneration Report for the Company and its controlled entities for the year ended 30 June 2022. This report forms part of the Directors' Report and has been audited in accordance with section 300A of the *Corporations Act 2001*.

The report details the remuneration arrangement for the Company's key management personnel (KMP). KMP are those persons who directly or indirectly, have authority and responsibility for planning, directing and controlling the major activities of the Group.

Key management personnel

The table below outlines the KMP of the Group and their movements during FY22.

Name	Position	Term as KMP
Non executive directors		
Peter Lewis	Chair, Independent Non-executive Director	Full financial year
Andrew Robinson	Independent Non-executive Director	Ceased 18 February 2022
Wayne Mo	Non-executive Director	Full financial year
Shane Smollen	Non-executive Director	Full financial year
Juliana Nguyen	Independent Non-executive Director	Appointed 28 January 2022
Executive director		
John McGrath	Executive Director	Ceased 8 April 2022
	Chief Executive Officer and Managing Director	Appointed 8 April 2022
Senior executives		
Edward Law	Chief Executive Officer	Ceased 8 April 2022
Howard Herman	Chief Financial Officer	Full financial year
Anthony Meaker	Commercial Director	Appointed 8 April 2022
Christopher Mourd	Head of Franchise Network	Full financial year
Rob Fearnley	Head of Company Owned Property Management	Full financial year
Michael Murray	Head of Company Owned Sales	Appointed 1 July 2022

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 50% 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 executives with the interests of shareholders by providing an opportunity for the participants to receive an equity interest in McGrath, which is set at a maximum of 60% 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.

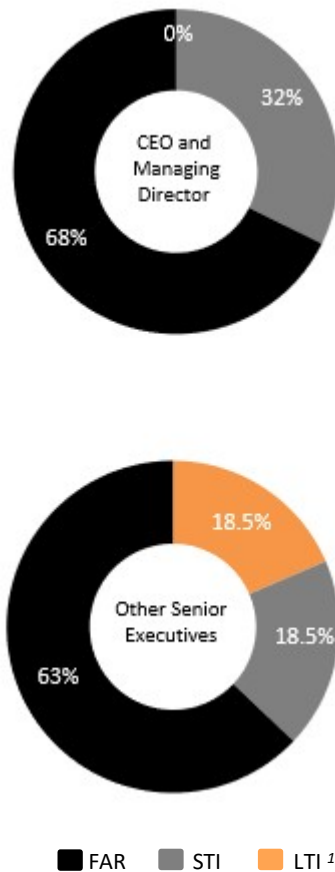
Figure 1: Remuneration framework

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. 	Maximum of 60% of total fixed remuneration.	Annual EPS target has been 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 FY22 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



¹ Based on the value granted during the year, determined using the fair value of performance rights or share options at grant date.

The actual remuneration mix achieved by KMP is shown in figure 11.

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 executive 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

	2022	2021	2020	2019	2018
Profit/(Loss) for the year attributable to owners of McGrath Limited (\$'000)	11,728	19,041	721	(15,573)	(63,103)
Underlying EBITDA ¹ (\$'000)	19,061	17,662	3,704	(6,431)	5,033
Underlying NPAT ¹ (\$'000)	11,484	13,484	(556)	(9,707)	(1,482)
Basic earnings/(losses) per share (cents)	7.22	11.41	0.43	(9.33)	(44.34)
Dividend payments (\$'000)	5,840	834	-	-	1,548
Dividend payout ratio (%) ²	50%	4%	0%	0%	(2)%
Closing share price (\$ as at 30 June)	0.365	0.585	0.190	0.225	0.375

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 director and senior executives 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				Variable remuneration		Total
		Short-term		Long-term		Short-term	Long-term	
		Salary ¹	Termination Benefit	Annual and long service leave ²	Post-employment benefits ³	STI	LTI ⁴	
Executive Director								
J. McGrath ⁵ Managing Director and Chief Executive Officer	2022	482,404	-	46,605	23,568	-	-	552,577
	2021	470,007	-	46,605	21,694	-	-	538,306
Senior Executives								
H. Herman Chief Financial Officer	2022	332,737	-	32,651	23,568	36,491	80,889	506,336
	2021	332,737	-	32,651	21,694	118,110	89,626	594,818
A. Meaker ⁶ Commercial Director	2022	74,430	-	7,085	5,434	2,306	17,616	106,871
	2021	-	-	-	-	-	-	-
C. Mourd Head of Franchise Network	2022	379,692	-	36,813	23,568	75,037	90,597	605,707
	2021	350,288	-	36,813	21,694	98,917	152,430	660,142
R. Fearnley Head of Company Owned Property Management	2022	236,883	-	23,371	23,568	-	54,749	338,571
	2021	233,849	-	23,371	21,694	23,756	84,505	387,175
M. Murray ⁷ Head of Company Owned Sales	2022	257,002	-	25,825	23,568	-	9,122	315,517
	2021	-	-	-	-	-	-	-
Former Senior Executives								
E. Law ⁸ Chief Executive Officer	2022	440,594	-	44,769	23,568	-	-	508,931
	2021	383,871	-	38,146	21,106	245,625	123,101	811,849
G. Lucas ⁹ Chief Executive Officer	2022	-	-	-	-	-	-	-
	2021	308,906	250,000	34,916	16,271	-	-	610,093
Total KMPs	2022	2,203,742	-	217,119	146,842	113,843	252,973	2,934,510
	2021	2,079,658	250,000	212,502	124,153	486,408	449,662	3,602,383

¹ Salary includes base salary and changes to annual leave and long service leave taken during the period.

² Reflects the net cost of annual and long service leave accrued.

³ Reflects the cost of superannuation.

⁴ Reflects the performance rights granted under the long-term incentive plan as set out in pages 16-17.

⁵ J. McGrath was appointed Managing Director and Chief Executive Officer on 8 April 2022.

⁶ A. Meaker was appointed Commercial Director on 1 October 2016 and has been considered a KMP effective 8 April 2022, due to assignment of additional Group responsibilities. The fixed and variable remuneration components have been apportioned to the period A. Meaker has been considered a KMP.

⁷ M. Murray was appointed Head of Company Sales on 1 July 2021.

⁸ E. Law appointed Chief Executive Officer of the Group on 24 August 2020 and resigned on 1 February 2022 with a six month notice period served. No termination benefits were paid and the performance rights under the FY21 and FY22 LTI plan lapsed.

⁹ G. Lucas resigned as Chief Executive Officer of the Group on 24 August 2020 with a six month notice period served. A termination benefit of \$250,000 was paid. G. Lucas's options lapsed.

Contractual arrangement with CEO

Component	Detail
Fixed annual remuneration	\$521,500 (inclusive of statutory superannuation)
Contract duration	Ongoing contract
Notice by the individual/company	6 months
Termination of employment (without cause)	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.
Termination of employment (with cause) or by the individual	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 executive team (where appropriate).

Contractual arrangement with members of the senior executive team

Component	Detail
Fixed annual remuneration	Range between \$280,000 to \$420,000
Contract duration	Ongoing contract
Notice by the individual/company	Up to 6 months
Termination of employment (without cause)	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. LTI Subject to company performance hurdles being met, as detailed in figure 7, 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.
Termination of employment (with cause) or by the individual	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 executive team (where appropriate). 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.

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 executive team will be entitled to an STI award up to a maximum percentage of their FAR (the maximum earning potential is typically 30% and 50% for the CEO, 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. 60% 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. Typically, 20 to 25% weighting.</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>Non-financial measures – specific strategic objective targets.</td><td>Typically, 25 to 30% weighting but may be up to 40% 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.</td></tr></table>	Category	Measure	Reason for selection	Financial	Group Financial Measure: EBITDA. 60% 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. Typically, 20 to 25% weighting.	Encourages and rewards performance at a divisional level or specific financial measure that is under direct control of the executive or manager.	Non-financial measures – specific strategic objective targets.	Typically, 25 to 30% weighting but may be up to 40% 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. 60% 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. Typically, 20 to 25% weighting.	Encourages and rewards performance at a divisional level or specific financial measure that is under direct control of the executive or manager.									
	Non-financial measures – specific strategic objective targets.	Typically, 25 to 30% weighting but may be up to 40% 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 executive 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.										

FY22 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 2022	Awarded	Forfeited
	\$	\$	%	%
J. McGrath	248,966	-	-	100
E. Law	250,000	-	-	100
H. Herman	111,159	36,491	33	67
A. Meaker ²	24,338	2,306	12	88
C. Mourd	124,500	75,037	60	40
R. Fearnley	75,978	-	-	100
M. Murray	86,913	-	-	100

¹ Amounts include superannuation.

² A. Meaker was appointed Commercial Director on 1 October 2016 and has been considered a KMP effective 8 April 2022. The total STI opportunity and awarded amount have been apportioned to the period A. Meaker has been considered a KMP.

5. Long-term incentive overview

Figure 7: Structure of the long-term incentive plan

Members of the senior executive LTI Plan

Feature	Description																														
Maximum opportunity	Certain members of the senior executive 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 60% of total 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>Year</th><th>Category</th><th>Weighting</th><th>Conditions and vesting</th></tr><tr><td>2022-2020</td><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>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 for each of the following years:</div><div>Financial Year 2021 and 2022</div><table><tr><th>Performance achieved</th><th>Percentage of awards vesting</th></tr><tr><td>Below target EPS</td><td>Nil</td></tr><tr><td>Between target and stretched EPS</td><td>100%-200% on a straight-line basis</td></tr><tr><td>Above stretched EPS</td><td>200%</td></tr></table><div>Financial Year 2020</div><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></td></tr></table> <tr><td>Delivery of LTI</td><td><div>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.</div><div>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.</div></td></tr>	Year	Category	Weighting	Conditions and vesting	2022-2020	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>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 for each of the following years:</div> <div>Financial Year 2021 and 2022</div> <table><tr><th>Performance achieved</th><th>Percentage of awards vesting</th></tr><tr><td>Below target EPS</td><td>Nil</td></tr><tr><td>Between target and stretched EPS</td><td>100%-200% on a straight-line basis</td></tr><tr><td>Above stretched EPS</td><td>200%</td></tr></table> <div>Financial Year 2020</div> <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 target EPS	Nil	Between target and stretched EPS	100%-200% on a straight-line basis	Above stretched EPS	200%	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%	Delivery of LTI	<div>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.</div> <div>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.</div>
Year	Category	Weighting	Conditions and vesting																												
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Delivery of LTI	<div>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.</div> <div>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.</div>																														

LTI awarded

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

Members of the senior executive LTI Plans

The terms and conditions of each grant of performance rights affecting remuneration in the current and future reporting periods are detailed in figure 8.

Figure 8: Terms and conditions of performance rights

Performance Plan	Grant date	Vesting date	Service hurdle	Performance hurdle	Issued price per right at grant date ¹	Value per right at grant date ²	Exercise price	% vested
FY22 LTI Plan	19 October 2021	30 September 2024	3 years	EPS	0.5480	0.4660	Nil	N/A
FY21 LTI Plan	25 January 2021	30 September 2023	3 years	EPS	0.4999	0.5100	Nil	N/A
FY20 LTI Plan	23 March 2020	31 August 2022	3 years	EPS	0.2175	0.1600	Nil	N/A
FY19 LTI Plan	21 December 2018	31 August 2021	3 years	EPS	0.2900	0.2900	Nil	19.4%

¹ The issue price is based on the volume weighted average share price of the Company for the 10 days prior to grant date.

² For accounting purposes, the fair value at grant is shown above, in accordance with AASB 2: Share-Based Payment. The fair value of the performance right has been independently valued using the Black-Scholes methodology.

The table below shows the movement of performance rights held by each KMP from the beginning to 30 June 2022.

Figure 9: Performance Rights movement schedule

Performance Rights		EPS				
		Opening Balance ¹	Granted	Lapsed ²	Other ³	Closing Balance 30 June 2022 ⁴
		Number	Number	Number	Number	Number
Senior Executives						
H. Herman	FY22 LTI Plan	-	202,845	(67,615)	-	135,230
	FY21 LTI Plan	222,764	-	-	89,105	311,869
	FY20 LTI Plan	521,316	-	-	85,182	606,498
A. Meaker ⁵	FY22 LTI Plan	191,606	-	(63,869)	-	127,737
	FY21 LTI Plan	280,561	-	-	14,028	294,589
	FY20 LTI Plan	532,663	-	-	40,231	572,894
C. Mourd	FY22 LTI Plan	-	227,190	(75,730)	-	151,460
	FY21 LTI Plan	249,499	-	-	99,800	349,299
	FY20 LTI Plan	583,883	-	-	95,405	679,288
	FY19 LTI Plan	143,578	-	-	35,895	(179,473)
R. Fearnley	FY22 LTI Plan	-	137,621	(45,874)	-	91,747
	FY21 LTI Plan	151,134	-	-	60,454	211,588
	FY20 LTI Plan	351,736	-	-	57,474	409,210
	FY19 LTI Plan	65,734	-	-	16,434	(82,168)
M. Murray	FY22 LTI Plan	-	158,460	(52,820)	-	105,640
Former Senior Executives						
E. Law	FY22 LTI Plan	-	456,204	(456,204)	-	-
	FY21 LTI Plan	501,002	-	(501,002)	-	-

¹ The opening balance is 1 July 2021, unless stated otherwise.

² The service conditions and performance metrics were not achieved.

³ A stretched EPS was achieved. Refer to figure 7 for further details.

⁴ The performance rights held at 30 June 2022 are all exercisable.

⁵ A. Meaker was appointed Commercial Director on 1 October 2016 and has been considered a KMP effective 8 April 2022 due to assignment of additional Group responsibilities. The opening balance reflects the number of performance rights held as at 8 April 2022.

Relative proportions of fixed vs variable remuneration expense

Figure 11 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 11: Relative proportion of fixed vs variable remuneration expense

	2022				2021			
	Fixed annual remuneration ¹		STI and LTI		Fixed annual remuneration ¹		STI and LTI	
	\$	%	\$	%	\$	%	\$	%
CEO and Managing Director								
J. McGrath ²	552,577	100	-	-	538,307	100	-	-
Senior Executives								
H. Herman	388,956	77	117,380	23	387,082	65	207,736	35
A. Meaker ³	86,949	81	19,922	19	-	-	-	-
C. Mourd	440,073	73	165,634	27	408,795	62	251,347	38
R. Fearnley	283,822	84	54,749	16	278,915	72	108,261	28
M. Murray ⁴	306,395	97	9,122	3	-	-	-	-
Former Senior Executives								
E. Law ⁵	508,931	100	-	-	443,123	55	368,726	45
G. Lucas ⁶	-	-	-	-	610,092	100	-	-

¹ Fixed Annual Remuneration excludes termination pay.

² J. McGrath was appointed Managing Director and Chief Executive Officer on 8 April 2022. Prior to this appointment J. McGrath held the position of Executive Director of the Group.

³ A. Meaker was appointed Commercial Director on 1 October 2016 and has been considered a KMP effective 8 April 2022, due to assignment of additional Group responsibilities. The fixed annual remuneration, STI and LTI amounts have been apportioned to the period A. Meaker has been considered a KMP.

⁴ M. Murray was appointed Head of Company Sales on 1 July 2021.

⁵ E. Law appointed Chief Executive Officer of the Group on 24 August 2020 and resigned on 1 February 2022 with a six month notice period served. No termination benefits were paid. E Law's performance rights lapsed.

⁶ G. Lucas resigned on 24 August 2020 with a six month notice period served. A termination benefit of \$250,000 was paid. G. Lucas's options lapsed.

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.

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 in figure 12. The fees do not include reimbursement of travel costs up to \$20,000.

Figure 12: Non-executive director remuneration

Name	Year	Fees	Superannuation	Total
P. Lewis	2022	127,854	12,785	140,639
	2021 ⁵	123,592	11,741	135,333
A. Robinson ¹	2022	58,599	5,860	64,459
	2021 ⁵	88,279	8,387	96,666
W. Mo ²	2022	100,000	-	100,000
	2021	83,333	-	83,333
S. Smollen ³	2022	73,059	7,306	80,365
	2021	67,068	6,372	73,440
J. Nguyen ⁴	2022	38,826	3,883	42,709
	2021	-	-	-
Total non-executive director remuneration	2022	398,338	29,834	428,172
	2021	362,272	26,500	388,772

¹ A. Robinson retired on 18 February 2022.

² W. Mo was appointed as a non-executive director on 27 June 2018 and was paid as a director effective 1 September 2020 through a consultancy fee.

³ S. Smollen was appointed on 3 September 2020.

⁴ J. Nguyen was appointed on 28 January 2022.

⁵ A 40% reduction to director fees was applied to the month of July for the year ending 30 June 2021.

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 13: Shareholdings

Name	Held at 1 July 2021	Changes during the year	Held at 30 June 2022
Ordinary shares			
P. Lewis	136,662	-	136,662
A. Robinson	52,631	-	52,631
J. McGrath	37,127,378	-	37,127,378
S. Smollen	13,148,148	-	13,148,148
A. Meaker ¹	N/A	-	151,839
C. Mourd	-	180,473	180,473
R. Fearnley	97,646	82,168	179,814
M. Murray	55,300	-	55,300

¹ A. Meaker has been considered a KMP effective 8 April 2022. The number of shares held directly, indirectly or beneficially as at 8 April 2022 was 151,839.

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 2022

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 2022 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 net profit after providing for income tax amounted to \$11,727,655 (2021: \$19,041,499).

Principal activities and review of operations

The principal activities of the Consolidated Entity during the financial year were the facilitation of real estate sales, property management services and complementary services including auction and real estate training. 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.

Directors

The following persons were Directors of McGrath Limited during the year ended 30 June 2022:

Peter Lewis

Chair and Independent Non-executive Director.

- Appointed 19 February 2018.

Andrew Robinson

Independent Non-executive Director.

- Appointed 19 February 2018.
- Retired 18 February 2022.

Wayne Mo

Non-executive Director.

- Appointed 27 June 2018.

Shane Smollen

Non-executive Director.

- Appointed 3 September 2020.

Juliana Nguyen

Independent Non-executive Director.

- Appointed 28 January 2022.

John McGrath

Managing Director and Chief Executive Officer (formerly Executive Director).

- Appointed 8 April 2022.

Company Secretary

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

Dividends totalling \$5,839,750 were declared and paid during the year (2021: \$834,250).

A final fully franked dividend of 1.0 cents per share was declared on 22 August 2022 with a record date of 1 September 2022 and a payment date of 20 September 2022. The financial effect of these dividends has not been provided for in the annual financial statements and will be recognised in the subsequent annual financial report for the year ending 30 June 2023.

Significant changes in state of affairs

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

Subsequent events

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.

As part of this growth strategy the Consolidated Entity is working towards transitioning to a franchise model to provide more predictable and stable levels of income. McGrath will be offering equity participation and ownership to some of our existing and potential agents, featuring the conversion of selected company owned offices to franchises which could also involve the sale of some property management assets.

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 \$349,007 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
Wayne Mo	-
Shane Smollen	13,148,148
Juliana Nguyen	-
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 FY22 for the McGrath Limited Board and key management personnel, is included in the remuneration report on pages 11-21 of this Annual Financial Report.

Corporate governance

Consolidated Entity governance matters are discussed on pages 8-10 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 auditors' 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 2022 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 24.

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
22 August 2022



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 2022 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

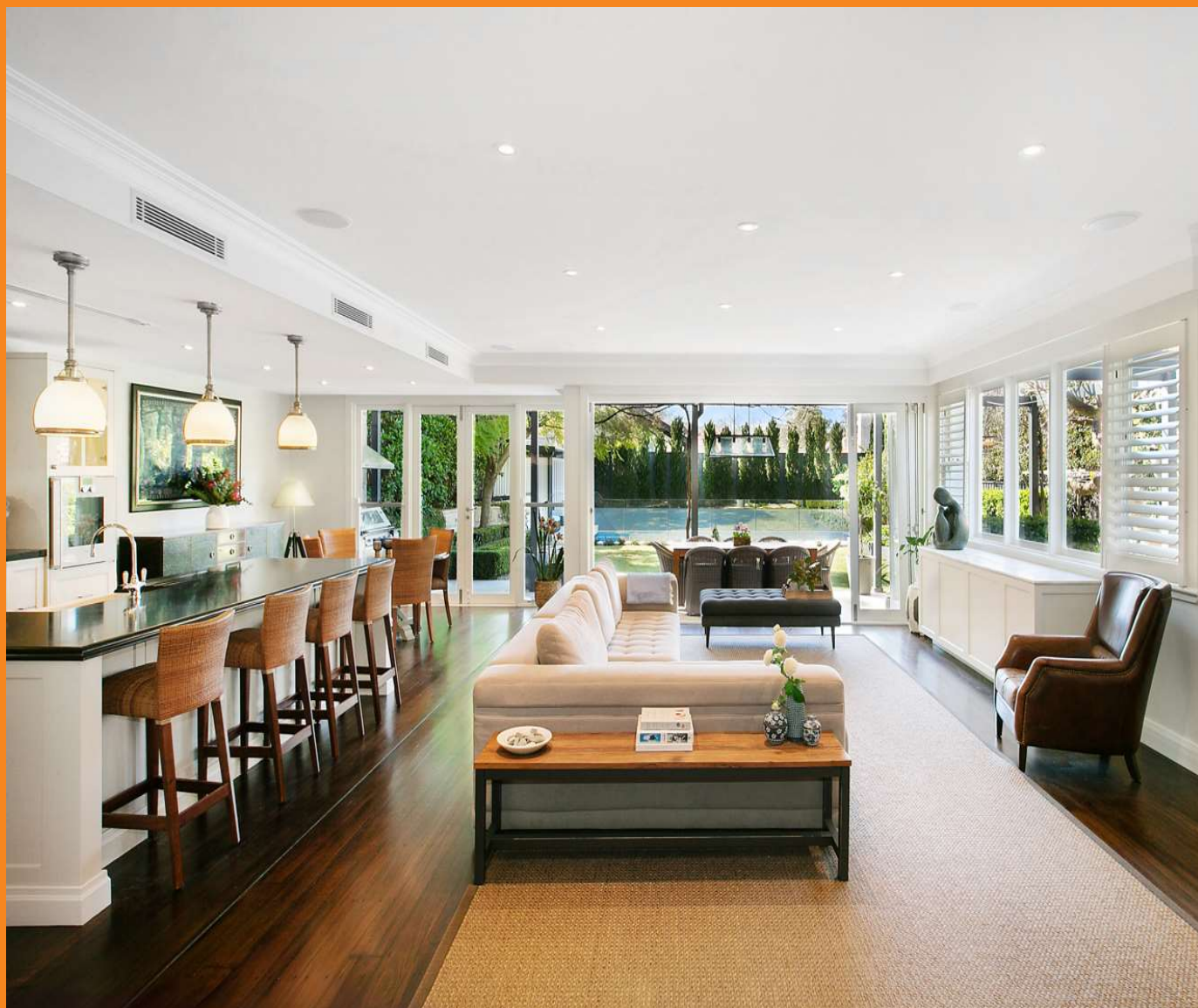
K Hopkins

Karen Hopkins

Partner

Sydney

22 August 2022



McGrath Limited and Controlled Entities

ACN. 608 153 779

Financial Statements For The Year Ended 30 June 2022

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Financial Statements

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2022

	Notes	2022 \$'000	2021 \$'000
Revenue	A1	112,417	122,359
Other income	A2	557	7,463
Cost of sales		(44,783)	(52,118)
Share of profit of an associate	B5	96	3
Employee benefits expenses	A5	(27,487)	(29,865)
Directors' fees		(398)	(362)
Professional fees		(1,550)	(2,504)
Doubtful debts		(74)	(137)
Occupancy		(1,803)	(2,045)
IT expenses		(4,336)	(4,807)
Communications		(773)	(1,328)
Advertising and promotions		(2,354)	(2,050)
Other expenses		(4,042)	(3,784)
Earnings before interest, tax, depreciation and amortisation and impairment (EBITDA)		25,470	30,825
Depreciation and amortisation expenses	B2, B3, B4	(8,271)	(8,192)
Finance income		326	207
Finance costs		(1,418)	(1,742)
Net finance costs		(1,092)	(1,535)
Profit before income tax		16,107	21,098
Income tax expense	E1	(4,379)	(2,057)
Profit after income tax expense		11,728	19,041
Total comprehensive income attributable to owners of the Company		11,728	19,041
Basic earnings per share (cents)	A6	7.22	11.41
Diluted earnings per share (cents)	A6	7.01	11.10

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 2022

	Notes	2022 \$'000	2021 \$'000
CURRENT ASSETS			
Cash and cash equivalents	A4	34,741	35,775
Trade and other receivables	B1	13,904	20,130
Assets held for sale	B7	574	-
Other assets	E2	2,312	2,433
TOTAL CURRENT ASSETS		51,531	58,338
NON CURRENT ASSETS			
Trade and other receivables	B1	3,601	3,867
Property, plant and equipment	B2	3,253	3,238
Right-of-use assets	B3	12,954	20,232
Intangible assets	B4	13,352	14,221
Investment in an associate	B5	1,799	1,703
Other financial asset	B6	6,500	-
TOTAL NON CURRENT ASSETS		41,459	43,261
TOTAL ASSETS		92,990	101,599
CURRENT LIABILITIES			
Trade and other payables	B8	17,512	23,650
Liabilities held for sale	B7	750	-
Lease liabilities	B3	4,269	4,759
Current tax liabilities		3,381	-
Provisions	E3	2,555	2,955
TOTAL CURRENT LIABILITIES		28,467	31,364
NON CURRENT LIABILITIES			
Trade and other payables	B8	507	497
Lease liabilities	B3	11,593	18,861
Provisions	E3	1,544	1,725
Deferred tax liabilities	E1	1,286	1,252
TOTAL NON CURRENT LIABILITIES		14,930	22,335
TOTAL LIABILITIES		43,397	53,699
NET ASSETS		49,593	47,900
EQUITY			
Contributed equity	E4	103,943	108,030
Share-based payment reserve	E4	1,398	1,429
Profits Reserve		24,095	18,207
Accumulated losses		(79,843)	(79,766)
TOTAL EQUITY		49,593	47,900

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 2022

	Notes	Contributed equity	Accumulated losses	Profit reserve	Share based payment reserve	Total equity, attributable to owners of the Company
		\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2021		108,030	(79,766)	18,207	1,429	47,900
Profit after income tax expense		-	11,728	-	-	11,728
Transfer to profit reserve		-	(11,728)	11,728	-	-
Total comprehensive income for the period		-	-	11,728	-	11,728
Share based payment transactions		-	-	-	106	106
Shares acquired for employee incentive scheme		(2,430)	-	-	-	(2,430)
Vesting of employee incentives scheme		214	(77)	-	(137)	-
Dividends	C3	-	-	(5,840)	-	(5,840)
Share buy-back		(1,871)	-	-	-	(1,871)
Transactions with owners, recorded directly in equity		(4,087)	(77)	(5,840)	(31)	(10,035)
Balance at 30 June 2022		103,943	(79,843)	24,095	1,398	49,593
Balance at 30 June 2020		108,416	(79,185)	-	938	30,169
Change in accounting policy	E9(c)	-	(581)	-	-	(581)
Adjusted balance at 1 July 2020		108,416	(79,766)	-	938	29,588
Profit after income tax expense		-	19,041	-	-	19,041
Transfer to profit reserve		-	(19,041)	19,041	-	-
Total comprehensive income for the period		-	-	19,041	-	19,041
Share based payment transactions		-	-	-	491	491
Shares acquired for employee incentive scheme		(386)	-	-	-	(386)
Dividends	C3	-	-	(834)	-	(834)
Transactions with owners, recorded directly in equity		(386)	-	(834)	491	(729)
Balance at 30 June 2021		108,030	(79,766)	18,207	1,429	47,900

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 2022

	Notes	2022 \$'000	2021 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		130,003	128,277
Receipts from other income		215	3,231
Payments to suppliers and employees		(105,075)	(105,328)
Interest paid		(1,418)	(1,742)
Interest received		178	182
Income taxes paid		(801)	-
NET CASH INFLOW FROM OPERATING ACTIVITIES	A4	23,102	24,620
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		-	50
Proceeds from disposal of intangible assets		460	2,036
Purchase of property, plant and equipment	B2	(958)	(298)
Purchase of intangibles	B4	(2,269)	(2,110)
Payments for debt instrument financial assets		(6,500)	-
Loans granted		(875)	(794)
Loan repayments received		1,094	275
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(9,048)	(841)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment for lease liabilities		(4,947)	(4,057)
Payment for treasury shares	E4	(2,430)	(386)
Payment for share buy-back		(1,871)	-
Dividends paid	C3	(5,840)	(834)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(15,088)	(5,277)
Net (decrease)/increase in cash and cash equivalents		(1,034)	18,502
Cash and cash equivalents at the beginning of the financial year		35,775	17,273
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	A4	34,741	35,775

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

Contents of the notes to the consolidated financial statements

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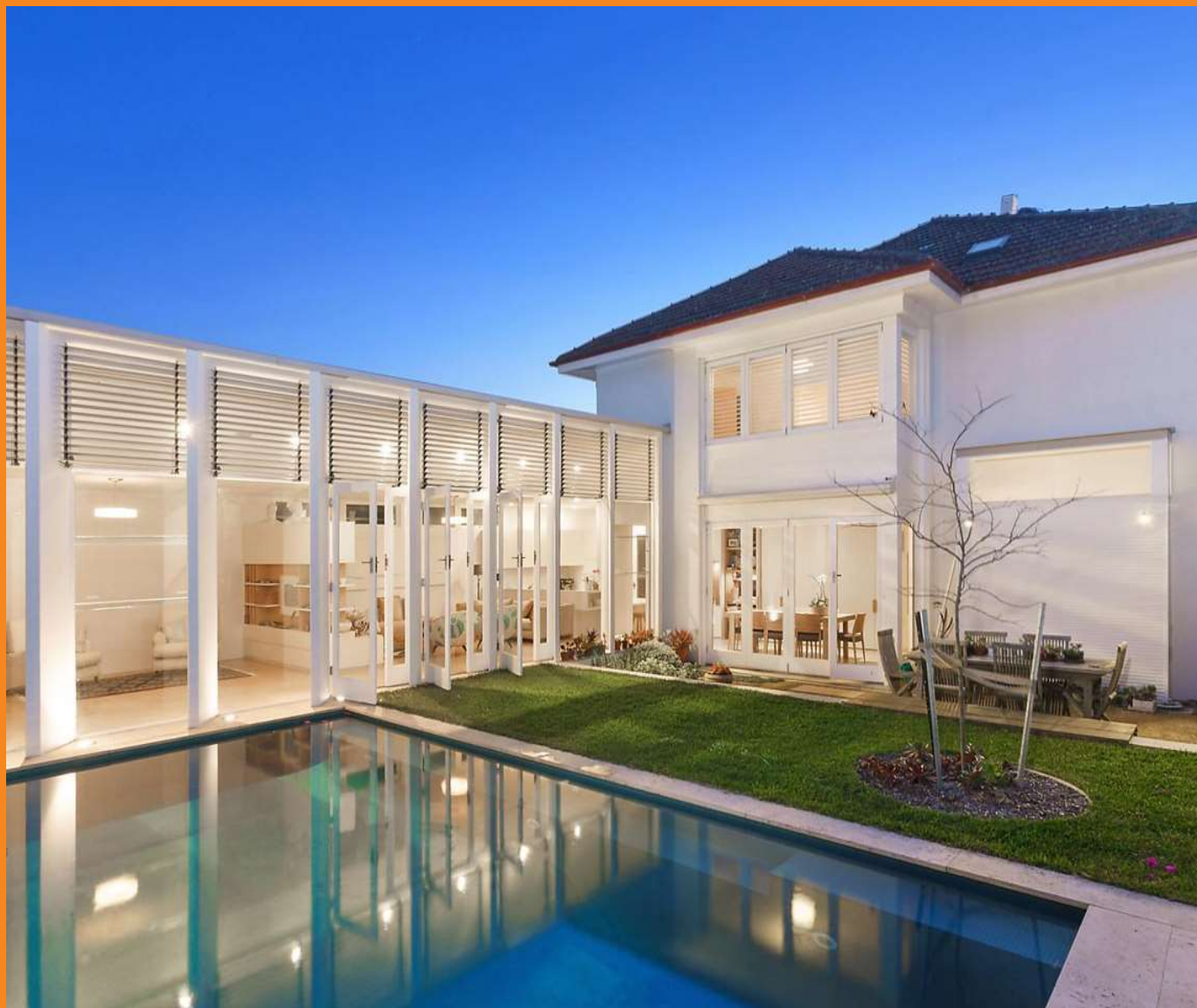
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A Financial performance and cash flows

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 2022 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 22 August 2022.

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 2022

A Financial performance and cash flows

A1 Revenue

	2022 \$'000	2021 \$'000
Company owned sales commission and fees	68,666	81,757
Company owned property management fees	19,562	19,899
Franchise service fees	16,213	13,413
Other revenue	7,976	7,290
Total revenue	112,417	122,359

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

	2022 \$'000	2021 \$'000
Government Grants	-	2,094
Gain on sale from disposal of asset	342	2,248
Lease income	215	-
Gain on sale from part divestment of Oxygen business	-	3,121
	557	7,463

In the year ending 30 June 2022 the Company recognised the following items in other income:

- \$342 thousand profit from the disposal of property management rights and property, plant and equipment of the Rouse Hill Company owned office to a Franchise office.
- \$215 thousand of lease income relating to operating office licence lease agreements.

In the year ending 30 June 2021 the Company recognised the following items are other income:

- \$2.094 million in Government Grants related to the JobKeeper subsidy for the period 1 July 2020 to 27 September 2020, in response to the COVID-19 pandemic. 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.
- \$2.248 million profit from disposal of property management rights and property, plant and equipment of Parramatta and Blacktown Company owned office to Franchise office.
- \$3.121 million gain from the 55% partial sale of the Oxygen Home Loans business which represents the fair value of the Oxygen Home Loan and the present value of the \$1.8 million deferred payment.

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 auction services, training and events, mortgage broking 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
2022	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	68,666	19,562	16,213	104,441	7,976	112,417
Segment profit before interest, tax, depreciation and amortisation	18,376	5,605	9,386	33,367	1,138	34,505
Unallocated other income ²						557
Unallocated corporate costs						(9,592)
EBITDA						25,470
Depreciation and amortisation	(4,099)	(2,572)	(62)	(6,733)	(790)	(7,523)
Finance costs	(1,039)	(114)	(20)	(1,173)	(221)	(1,394)
Unallocated corporate depreciation and amortisation						(748)
Unallocated corporate net finance income						302
Profit before income tax						16,107
2021	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	81,757	19,899	13,413	115,069	7,290	122,359
Segment profit before interest, tax, depreciation and amortisation	20,358	7,058	8,283	35,699	1,596	37,295
Unallocated other income ²						5,369
Unallocated corporate costs						(11,839)
EBITDA						30,825
Depreciation and amortisation	(3,873)	(2,782)	(53)	(6,708)	(873)	(7,581)
Finance costs	(1,231)	(142)	(19)	(1,392)	(293)	(1,685)
Unallocated corporate depreciation and amortisation						(611)
Unallocated corporate net finance income						150
Profit before income tax						21,098

¹ The Company owned sales revenue from external customers includes sales and project commissions of \$42.8 million (2021: \$59.6 million) and \$21.3 million in marketing revenue (2021: \$22.5 million).

² The unallocated corporate revenue for the year ending 30 June 2022 is the profit from the sale of property management rights and property, plant and equipment and lease income. For the year ending 30 June 2021, other income is the profit from the sale of property management rights and property, plant and equipment and the gain on sale of 55% of the Oxygen Home Loans. Refer to Note A2.

A4 Cash and cash flow related information

	2022 \$'000	2021 \$'000
Cash at bank	6,327	7,325
Short term deposits	28,414	28,450
Cash and cash equivalents	34,741	35,775

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.

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 six 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 before income tax

	2022 \$'000	2021 \$'000
Profit before income tax	16,107	21,098
Adjustments for:		
Depreciation and amortisation expense	8,271	8,192
Doubtful debts	74	137
Share-based payment transactions	(56)	491
Fair Value on Associate	(96)	(1,703)
Gain on sale of property, plant and equipment	(342)	(2,248)
Gain on remeasurement of lease liability	(77)	-
Net cash inflow from ordinary activities before changes in working capital	23,881	25,967
Payables and other liabilities	(7,096)	4,858
Trade receivables and other assets	6,317	(6,205)
Net cash inflow from operating activities	23,102	24,620

A5 Employee benefit expenses

	2022	2021
	\$'000	\$'000
Wages and salaries	23,684	26,192
Leave provisions	1,696	1,735
Contributions to defined contribution plans (superannuation)	2,107	1,938
	<u>27,487</u>	<u>29,865</u>

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

	2022	2021
	\$'000	\$'000
Wages and salaries	(56)	491

For further information on employee share based plans refer to the remuneration report on pages 18-19 of this Annual Report.

A6 Earnings per share

(a) Basic earnings per share

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

(i) Profit attributable to ordinary shareholders (basic)	2022	2021
	\$'000	\$'000
Profit attributable to owners of the Company	11,728	19,041
(ii) Weighted-average number of ordinary shares	2022	2021
	Number	Number
<i>In thousands of shares</i>		
Shares on issue at close 1 July	166,850	166,850
Effect on treasury shares held	(3,836)	-
Effect of share cancellation	(587)	-
Weighted-average number of ordinary shares at 30 June	162,427	166,850
Basic earnings per share (cents)	7.22	11.41
Shares on issue at 30 June	162,160	166,850

(b) Diluted earnings per share

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

(i) Profit attributable to ordinary shareholders (diluted)	2022	2021
	\$'000	\$'000
Profit attributable to owners of the Company	11,728	19,041
(ii) Weighted-average number of ordinary shares	2022	2021
	Number	Number
<i>In thousands of shares</i>		
Weighted-average number of ordinary shares (basic)	162,427	166,850
Performance Rights ¹	4,833	4,737
Weighted-average number of ordinary shares at 30 June	167,260	171,587
Diluted earnings per share (cents)	7.01	11.10

¹ 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 and continuity of service obligations. The performance rights are dilutive in the period to June 2022 as their potential conversion to ordinary shares will decrease the earnings per share. For further information on the Long-Term Incentive Plan refer to the remuneration report on pages 18-19 of this Annual Report.

The Consolidated Entity presents basic and diluted earnings per share. Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of McGrath by the weighted average number of ordinary shares outstanding. The diluted earnings per share is determined by adjusting the profit 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 per share. The diluted earnings per share calculation considers the impact of potentially dilutive instruments, if any.



B Financial position

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

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B Financial Position

B1 Trade and other receivables

	Notes	2022 \$'000	2021 \$'000
Current			
Trade receivables	(i)	9,702	14,998
Doubtful debts provision	(ii)	(1,495)	(1,076)
		8,207	13,922
Contract assets	(iii)	5,644	6,096
Loans - other	(iv)	53	112
		13,904	20,130
Non-current			
Trade receivables	(i)	1,568	1,547
Contract assets	(v)	1,569	1,449
Loans - other	(iv)	464	871
		3,601	3,867

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 a combination of secured and unsecured and may be interest bearing or interest free. They are repaid on an ongoing basis from agreed payment arrangements.

(v) Non-current contract assets relates to the Consolidated Entity's rights to a deferred cash payment which is secured by a general security deed.

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 2022				
Cost				
At 1 July 2021		9,135	10,536	19,671
Additions		359	599	958
Transfer to assets held for sale	B7	(370)	(2,116)	(2,486)
Disposals ¹		(4,029)	(573)	(4,602)
At 30 June 2022		5,095	8,446	13,541
Accumulated depreciation				
At 1 July 2021		(8,208)	(8,225)	(16,433)
Depreciation charge for the year		(314)	(528)	(842)
Transfer to assets held for sale	B7	361	2,024	2,385
Disposals ¹		4,029	573	4,602
At 30 June 2022		(4,132)	(6,156)	(10,288)
Carrying amounts				
At 1 July 2021		927	2,311	3,238
At 30 June 2022		963	2,290	3,253

¹During the year ended 30 June 2022 a review of the asset register resulted in the disposal of assets which were full depreciated and had a net book value of zero.

		Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
Consolidated Entity, year ended 30 June 2021				
Cost				
At 1 July 2020		9,029	11,580	20,609
Additions		232	66	298
Disposals ¹		(126)	(1,110)	(1,236)
At 30 June 2021		9,135	10,536	19,671
Accumulated depreciation				
At 1 July 2020		(7,976)	(8,937)	(16,913)
Depreciation charge for the year		(355)	(400)	(755)
Disposals ¹		123	1,112	1,235
At 30 June 2021		(8,208)	(8,225)	(16,433)
Carrying amounts				
At 1 July 2020		1,053	2,643	3,696
At 30 June 2021		927	2,311	3,238

¹The disposal of assets during the year relates to the sale of Blacktown office and the closure of Newtown office

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 2021		18,875	1,357	20,232
Additions ¹		570	-	570
Remeasurement ²		(2,978)	-	(2,978)
Transfer to assets held for sale	B7	(201)	-	(201)
Depreciation charge for the year		(4,204)	(465)	(4,669)
At 30 June 2022		12,062	892	12,954

¹During the year the Consolidated Entity has entered into one new office premise lease contract in Paddington NSW.

²The Consolidated Entity has applied judgement and remeasured several right-of-use asset to align with business needs.

	Property \$'000	Equipment \$'000	Total \$'000
At 1 July 2020	20,323	876	21,199
Additions	812	-	812
Remeasurement	2,106	745	2,851
Depreciation charge for the year	(4,366)	(264)	(4,630)
At 30 June 2021	18,875	1,357	20,232

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.

B3 Leases (continued)

Lease liabilities

	Note	Property \$'000	Equipment \$'000	Total \$'000
At 1 July 2021		22,236	1,384	23,620
Additions		570	-	570
Remeasurement		(3,054)	-	(3,054)
Payments		(5,843)	(497)	(6,340)
Interest expense		1,356	37	1,393
Transfer to liability held for sale	B7	(327)	-	(327)
At 30 June 2022		14,938	924	15,862
Current		3,750	519	4,269
Non current		11,188	405	11,593
At 30 June 2022		14,938	924	15,862

	Property \$'000	Equipment \$'000	Total \$'000
At 1 July 2020	23,281	894	24,175
Additions	812	-	812
Remeasurement	1,945	745	2,690
Payments	(5,456)	(286)	(5,742)
Interest expense	1,654	31	1,685
At 30 June 2021	22,236	1,384	23,620
Current	4,224	535	4,759
Non current	18,012	849	18,861
At 30 June 2021	22,236	1,384	23,620

B3 Leases (continued)

Amounts recognised in the profit and loss

	2022	2021
	\$'000	\$'000
Leases under AASB 16		
Depreciation expense of right-of-use assets	4,669	4,630
Interest expense on lease liabilities	1,393	1,685
Expense relating to short-term leases	33	14
Variable lease payments	(38)	(56)
	6,057	6,273

Amounts recognised in the statement of cash flows

Cash outflows for leases	(6,303)	(5,741)
Cash outflow relating to short-term leases	(33)	(14)
	(6,336)	(5,755)

Recognition and Measurement

Lease Liabilities

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.

Right-of-use assets

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.

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, except when 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 \$3.337 million (2021: \$3.063 million).

B4 Intangible assets

	Note	Property management rights \$'000	Software \$'000	Total \$'000
Consolidated Entity, year ended 30 June 2022				
Cost				
At 1 July 2021		29,995	15,735	45,730
Additions ¹		2,090	179	2,269
Transfer to assets held for sale	B7	(272)	-	(272)
Disposals		(106)	-	(106)
At 30 June 2022		31,707	15,914	47,621
Accumulated amortisation				
At 1 July 2021		(17,644)	(13,865)	(31,509)
Amortisation charge for the period		(2,201)	(559)	(2,760)
At 30 June 2022		(19,845)	(14,424)	(34,269)
Carrying amounts				
At 1 July 2021		12,351	1,870	14,221
At 30 June 2022		11,862	1,490	13,352

¹ During the year, the Consolidated Entity acquired one rent roll in NSW totalling \$2.1 million.

	Note	Property management rights \$'000	Software \$'000	Total \$'000
Consolidated Entity, year ended 30 June 2021				
Cost				
At 1 July 2020 ¹	E9(c)	27,900	15,042	42,942
Additions ²		1,271	693	1,964
Transfer of asset classified as held for sale ³		891	-	891
Disposals		(67)	-	(67)
At 30 June 2021		29,995	15,735	45,730
Accumulated amortisation				
At 1 July 2020 ¹	E9(c)	(14,468)	(13,451)	(27,919)
Amortisation charge for the period		(2,393)	(414)	(2,807)
Transfer of asset classified as held for sale ³		(783)	-	(783)
At 30 June 2021		(17,644)	(13,865)	(31,509)
Carrying amounts				
At 1 July 2020		13,432	1,591	15,023
At 30 June 2021		12,351	1,870	14,221

¹ The Consolidated Entity has changed its accounting policy in line with IFRIC agenda decisions - Software as a Service (SaaS) arrangement costs from 1 July 2020, using the retrospective approach. Under this approach, comparative information has not been restated and the cumulative effect is recognised in retained earnings at the date of initial application. Refer to Note E9(c).

² During the year, the Consolidated Entity acquired one rent roll in NSW totalling \$1.2 million. The software additions include \$0.6 million on McGrath's website.

³ On 1 July 2020, the Consolidated Entity entered into a unconditional agreement to sell the assets and rent roll of Parramatta, which were classified as held for sale at 30 June 2020. The transfer of assets classified as held for sale are property management rights which were not subsequently sold.

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 Investment in an associate

Oxygen Home Loan mortgage business was started by the Consolidated Entity in 2003 as a mortgage broking service. On 6 April 2021, the Consolidated Entity entered into a transaction which resulted in its interest in Oxygen Home Loans decreasing from 100% to 45% and Oxygen Home Loans becoming an Investment in an associate from that date. During the year ended 30 June 2022 the Company's share in Oxygen decreased to 44% as a result of additional equity being issued.

The Consolidated Entity's interest in Oxygen Home Loans is accounted for using the equity method whereby Oxygen Home Loans was valued at fair value the date control was lost.

	2022	2021
	\$'000	\$'000
Group's percentage share in equity	44%	45%
Carrying amount of investment in associate		
As at 1 July	1,703	-
As at 6 April 2021	-	1,700
Group's share of profit for the year	96	3
As at 30 June	1,799	1,703

Recognition and Measurement

An associate is an entity, other than a subsidiary, which the Consolidated Entity has significant influence but not control over. Significant influence is the power to participate in the financial and operating policy decisions.

Interest in associates are accounted for using the equity method. The initial value has been recorded at fair value at the time the Consolidated Entity lost control. Subsequent to initial recognition, the Consolidated financial statements include the Consolidated Entity's share of the associates profits and losses and Other Comprehensive Income. Dividends received or receivable are recognised as a reduction in the carry amount of the investment. The Consolidated Entity assesses evidence of impairment and if there is an indication that an investment may be impaired, then the carrying amount of the investment is tested for impairment by comparing the recoverable amount with the carrying amount.

B6 Other financial asset

On 27 January 2022, the Consolidated Entity invested in insuretech company, Honey Insurance Pty Limited (Honey). Honey is a digital home and contents insurance service which provides homeowners, landlords and renters an innovative and comprehensive insurance service.

McGrath's investment entails an investment of \$6.5 million in Honey through a convertible note. The convertible note has a maturity date of 31 December 2023 and at maturity, the Company has the option to convert the note to shares or redeem the note with an 8% interest which accrues daily from issue date. Should the Company elect to convert the note to shares, a 20% discount to the current market value of Honey is applied at maturity date.

	2022 \$'000	2021 \$'000
Non current		
Debt Instrument Financial asset		
- at fair value through profit and loss		
-convertible note	6,500	-
Total non current other financial assets	6,500	-

Management has used reasonable judgement and are of the view that as at 30 June 2022, there is no change to the fair value since acquisition date, resulting in no amount being recognised in the profit or loss for the year ended 30 June 2022.

Recognition and Measurement

McGrath classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on McGrath's business model for managing financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether McGrath has made an irrevocable election at the time of initial recognition to account for the equity instrument at fair value through other comprehensive income.

Financial assets are not reclassified subsequent to their initial recognition unless the Consolidated Entity changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Equity Instrument

On initial recognition, McGrath elects to classify each equity instrument as fair value through profit and loss (FVTPL) or fair value through other comprehensive income (FVOCI). McGrath subsequently measures all equity investments at fair value. Where McGrath has elected to present fair value gains or losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains or losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when McGrath's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value. Changes in the fair value of equity instrument financial assets classified as FVTPL are recognised in expenses in the statement of profit or loss as applicable.

The Consolidated Entity does not currently hold investments under this category.

Debt Instrument

On initial recognition, McGrath elects to classify each debt instrument as fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortised cost. McGrath seeks to align the accounting treatment of the financial asset to the nature of its contractual cashflows. Where McGrath has elected to present fair value gains or losses on financial assets in other comprehensive income, there is no subsequent reclassification of fair value gains or losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when McGrath's right to receive payments is established. Changes in the fair value of the debt instrument, financial assets classified as FVTPL are recognised in expenses in the statement of profit or loss as applicable.

B7 Assets and liabilities held for sale

	2022 \$'000	2021 \$'000
Assets		
Property, plant and equipment	101	-
Right-of-use assets	201	-
Intangible assets	272	-
Assets held for sale	574	-
Liabilities		
Lease liabilities	327	-
Trade and other payables	234	-
Provisions	189	-
Liabilities directly associated with assets held for sale	750	-
Net assets/(liabilities) directly associated with assets held for sale	(176)	-

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.

As at 30 June 2022 the Consolidated Entity entered into negotiations to sell Company owned assets and rent rolls associated with three offices with the sale expected to be completed within the year ended 30 June 2023. The assets and liabilities associated with the sale have been classified as held for sale as at 30 June 2022.

There were no write-downs as the carrying amount of the disposal assets did not fall below the fair value less costs to sell. During the financial year ended 30 June 2022 there were no gains or losses recognised in the profit or loss and other comprehensive income with respect to the sale of these assets.

B8 Trade and other payables

	2022 \$'000	2021 \$'000
Current		
Trade payables	4,216	3,212
Other payables	4,505	3,277
Accrued expenses	6,863	14,691
Accrued sales commission	1,104	1,465
Contract Liability	824	1,005
	17,512	23,650
Non-current		
Accrued sales commission	507	497
	507	497

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.

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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:

	2022 Gross \$'000	2022 Provisions \$'000	2021 Gross \$'000	2021 Provisions \$'000
Not past due	9,545	-	10,472	-
Past due 0-30 days	3,699	(33)	6,809	-
Past due 31-90 days	3,673	(70)	5,511	(8)
Past due 90 days +	2,083	(1,392)	2,280	(1,068)
	19,000	(1,495)	25,072	(1,076)

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 2022					
Trade & other payables	18,019	18,019	17,512	507	-
Lease Liabilities	15,862	15,862	4,269	3,056	8,537
	33,881	33,881	21,781	3,563	8,537
30 June 2021					
Trade & other payables	24,147	24,147	23,650	497	-
Lease Liabilities	23,620	23,620	4,759	472	18,389
	47,767	47,767	28,409	969	18,389

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	
	2022 \$'000	2021 \$'000	2022 %	2021 %
Financial assets:				
Cash at bank	6,327	7,325	0.00%	0.00%
Short term deposits	28,414	28,450	0.47%	0.53%
Financial Instrument - Convertible note	6,500	-		
Total financial assets	41,241	35,775		

Interest rate sensitivity

A change of 100 basis points in interest rates would have increased or decreased the Consolidated Entity's profit by \$302,641 (2021: \$204,105).

Fair value sensitivity of financial instrument

The convertible note is an interest bearing financial asset with an 8% interest rate payable upon redemption at maturity which is incorporated into the determination of the fair value. Management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. The use of different methodologies or assumptions could lead to different measurements of fair value. A 5% increase or decrease to the fair value using reasonable alternative valuation methodologies would increase or decrease the Consolidated Entity's profit by \$325 thousand.

Other Market risks

At 30 June 2022 the Consolidated Entity did not hold any available-for-sale equity securities assets (2021: 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, share buy-backs, issuing new shares or selling assets.

C3 Dividends paid and proposed

	2022 \$'000	2021 \$'000
Declared and paid during the year:		
Final dividend		
Final franked dividend for 2021 of 1.0 cent per share, franked at 100%, paid 21 September 2021 (FY21: Nil dividend).	1,668	-
Interim dividend		
Interim franked dividend for 2022 of 1.0 cent per share, franked at 100%, paid 23 March 2022	1,668	
Interim franked dividend for 2021 of 0.5 cent per share, franked at 100%, paid 23 March 2021		834
Special dividend		
Special dividend for 2021 of 1.5 cent per share, franked at 100%, paid 23 March 2022 (FY21: Nil dividend).	2,504	-
	<u>5,840</u>	<u>834</u>
Dividend Payout Ratio	50%	4%
Dividend franking account	\$'000	\$'000
Amount of franking credits available to shareholders	<u>1,000</u>	<u>2,702</u>

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

Subsequent to the reporting date, a final fully franked dividend of 1.0 cents per share was declared on 22 August 2022 with a record date of 1 September 2022 and a payment date of 20 September 2022. The financial effect of these dividends has not been provided for in the annual financial statements and will be recognised in the subsequent annual financial report for the year ending 30 June 2023.

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, Retired 18 February 2022
W. Mo	Non-executive Director	Appointed 27 June 2018
S. Smollen	Non-executive Director	Appointed 3 September 2020
J. Nguyen	Non-executive Director	Appointed 28 January 2022

Executive Director

J. McGrath	Executive Director	
	Managing Director	Appointed 8 April 2022
	Chief Executive Officer	Appointed 8 April 2022

Executives

E. Law	Chief Executive Officer	Appointed 24 August 2020, Resigned 1 February 2022
H. Herman	Chief Financial Officer	Appointed 24 June 2019
A. Meaker	Commercial Director	Appointed 8 April 2022
C. Mourd	Head of Franchise Services	Appointed 13 June 2017
R. Fearnley	Head of Property Management	Appointed 11 September 2017
M. Murray	Head of Company Sales	Appointed 1 July 2021

(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.

	2022	2021
	\$	\$
Long term and Short term employee benefits	2,933,033	3,140,841
Post-employment benefits	176,676	150,653
Termination benefits	-	250,000
Share-based payments	129,872	335,096
	<u>3,239,581</u>	<u>3,876,590</u>

(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.

The following table provides the total value of transactions related to key management personnel and entities over which they have control or significant influence. As at 30 June 2022 there were no outstanding balances owed to and owed by related parties.

	2022	2021
	\$'000	\$'000
Auctioneer fees	45	-
Professional fees	156	132
Rent and rental outgoings of an office	173	135

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	59
D2	Contingent liabilities	59
D3	Events subsequent to reporting date	59

D Unrecognised items

D1 Commitments for expenditure

At the reporting date, the Consolidated Entity has nil capital expenditure commitments (2021: \$nil).

D2 Contingent liabilities

Bank guarantees

Bank guarantees have been issued in regard to operating leases totalling \$2,072,938 (2021: \$2,012,784).

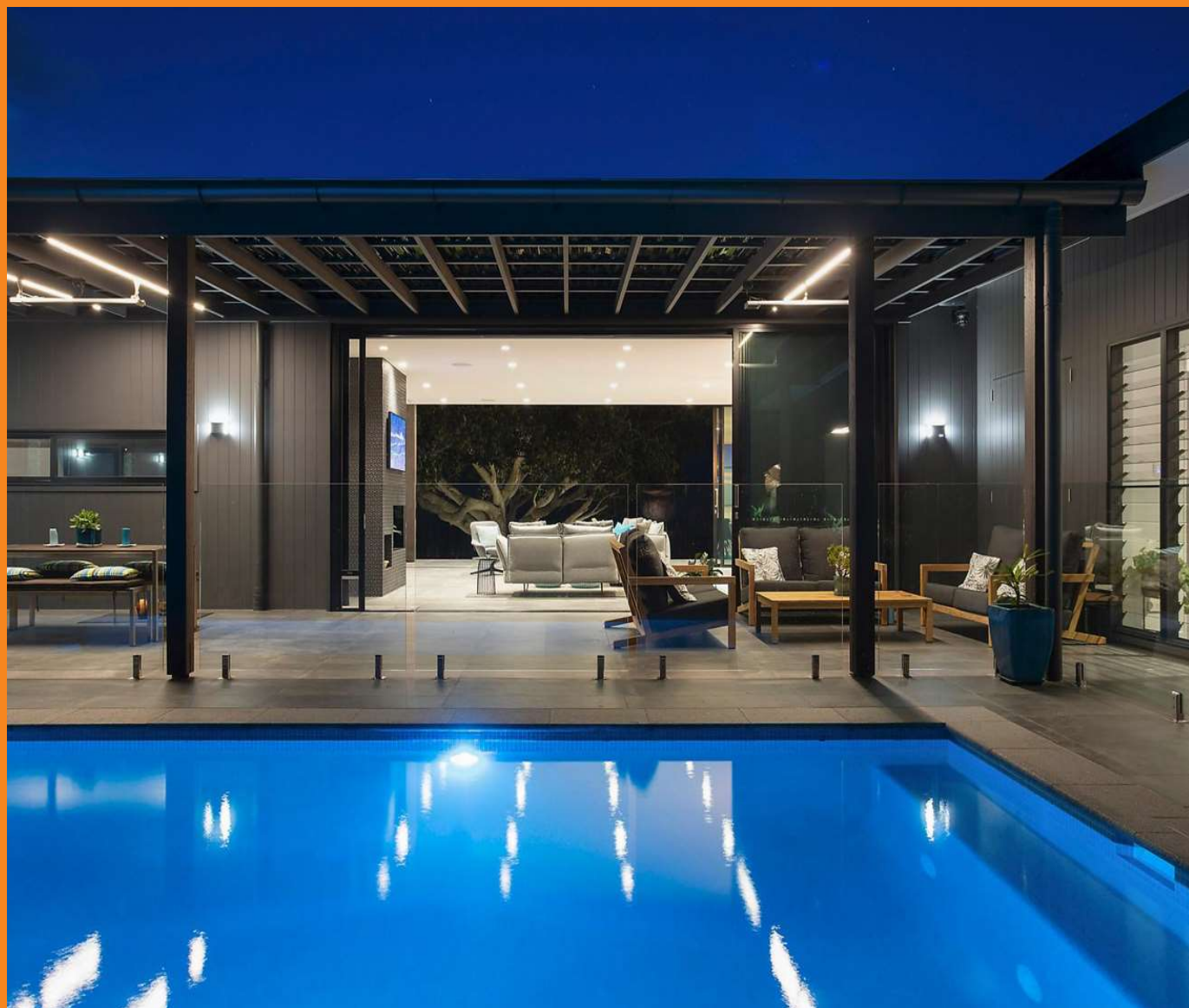
At 30 June 2022, the available guarantee facility was \$2,500,000 (2021: \$2,500,000).

The Consolidated Entity entered into a finance agreement in 2021 resulting in a contingent liability of \$1,023,693 for the year ended 30 June 2022 (2021: \$1,055,910).

D3 Events subsequent to reporting date

A final fully franked dividend of 1.0 cents per share was declared on 22 August 2022 with a record date of 1 September 2022 and a payment date of 20 September 2022. The financial effect of these dividends has not been provided for in the annual financial statements and will be recognised in the subsequent annual financial report for the year ending 30 June 2023.

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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E2	Other assets	64
E3	Provisions	64
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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 2022 \$'000	June 2021 \$'000
Income tax benefit		
<i>Current tax expense</i>		
Current year	4,463	-
	4,463	-
<i>Deferred tax benefit</i>		
Origination and reversal of temporary differences	(12)	2,173
Adjustments in respect of deferred tax of previous years	(72)	(6)
Carried forward tax losses recognised ¹	-	(110)
	(84)	2,057
Total income tax expense	4,379	2,057
<i>Reconciliation of income tax benefit</i>		
Profit before tax	16,107	21,098
At the statutory income tax rate of 30% (2021: 30%)	4,832	6,329
Adjustments in respect of previous years income tax	(72)	3
Non assessable income	(53)	(540)
Carried forward losses recognised	-	(4,437)
Fair value of investment in associates	-	510
Shares acquired for employee incentive scheme	(448)	-
Non deductible expenses	120	192
Income tax expense	4,379	2,057

The effective tax rate for the year ended 30 June 2022 is 27% due to tax deductions on shares acquired for the employee share incentive scheme.

In the year ended 30 June 2021, the 10% effective tax rate is lower than the 30% statutory tax rate due to the utilisation of carried forward tax losses. The Consolidated Entity has utilised \$14.7 million of available carried forward tax losses during the year. The carried forward tax losses have been applied against current year taxable income and the remaining carried forward tax loss balance has been recognised as a deferred tax asset. This has resulted in \$4.473 million of tax effected carried forward tax losses being recognised during the year.

E1 Taxation (continued)

Balance and movement in deferred tax assets and liabilities

	Net deferred tax balance 1 July 2021	Recognised in profit or loss	Recognised in equity	Net deferred tax balance 30 June 2022	Deferred tax assets	Deferred tax liabilities
Property management rights	(1,670)	206	-	(1,464)	-	(1,464)
Sales commission revenue	(3,971)	1,235	-	(2,736)	-	(2,736)
Fair value of investment in associates	(510)	-	-	(510)	-	(510)
Equity transaction costs	19	(17)	-	2	2	-
Capitalised expenses	12	(3)	-	9	9	-
Provisions	2,128	(372)	-	1,756	1,756	-
Accruals	680	(377)	-	303	303	-
Sales commission costs	609	(124)	-	485	485	-
Software assets	353	(115)	-	238	238	-
Property, plant and equipment	113	(93)	-	20	20	-
Leases	875	(48)	-	827	827	-
Share Based Payment	-	(98)	(118)	(216)	-	(216)
Tax losses carried forward	110	(110)	-	-	-	-
	(1,252)	84	(118)	(1,286)	3,640	(4,926)

	Net deferred tax balance 1 July 2020	Recognised in profit or loss	Recognised in equity	Net deferred tax balance 30 June 2021	Deferred tax assets	Deferred tax liabilities
Property management rights	(1,909)	239	-	(1,670)	-	(1,670)
Sales commission revenue	(2,985)	(986)	-	(3,971)	-	(3,971)
Fair value of investment in associates	-	(510)	-	(510)	-	(510)
Equity transaction costs	37	(18)	-	19	19	-
Capitalised expenses	14	(2)	-	12	12	-
Provisions	2,580	(452)	-	2,128	2,128	-
Accruals	532	148	-	680	680	-
Sales commission costs	486	123	-	609	609	-
Software assets ¹	931	(578)	-	353	353	-
Property, plant and equipment	298	(185)	-	113	113	-
Leases	821	54	-	875	875	-
Tax losses carried forward	-	110	-	110	110	-
	805	(2,057)	-	(1,252)	4,899	(6,151)

¹ The balance at 1 July 2020 includes the effect of changed its accounting policy for Software as a Service.

Tax losses

The Consolidated Entity has nil tax effected capital tax losses (30 June 2021: \$nil) where no deferred tax asset is recognised on the consolidated statement of financial position which are available for offset against future capital gains subject to continuing to meet relevant statutory tests.

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

	2022	2021
	\$'000	\$'000
Current:		
Prepayments	2,074	2,153
Stock on hand	117	139
Other	121	141
	<u>2,312</u>	<u>2,433</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

	2022	2021
	\$'000	\$'000
Current:		
Provision for annual leave	1,866	1,784
Provision for long service leave	689	560
Provision for onerous contracts ¹	-	611
Balance at 30 June	<u>2,555</u>	<u>2,955</u>
Non-current:		
Make-good provision	1,396	1,581
Provision for long service leave	148	144
Balance at 30 June	<u>1,544</u>	<u>1,725</u>
(a) Aggregate employee entitlements	<u>2,703</u>	<u>2,488</u>
(b) Average number of employees	<u>273</u>	<u>283</u>

¹ In 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.

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

	2022	2021
	\$'000	\$'000
162,158,603 fully paid ordinary shares (2021: 166,849,934).	103,943	108,030

Contributed capital movement schedule

	2022	2021
	\$'000	\$'000
Balance at 1 July	108,030	108,416
Purchase of treasury shares	(2,430)	(386)
Vesting of employee shares	214	-
Share buyback	(1,871)	-
Balance at 30 June	103,943	108,030

During the financial year ending 30 June 2022, 1,804,887 (2021: 741,948) shares were purchased on-market and 3,497,086 shares were purchased off-market by the Consolidated Entity to satisfy future share issuances under the Equity Incentive Plan. These shares are being held in trust until vesting date.

Inline with the Company's share buy-back intention as announced on 21 February 2022, during the financial year ending 30 June 2022, 4,691,331 shares were purchased on-market and cancelled.

	2022	2021
	No. of shares	No. of shares
Balance at 1 July	166,849,934	166,849,934
Cancelled shares	(4,691,331)	-
Balance at 30 June	162,158,603	166,849,934

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

	2022	2021
	\$'000	\$'000
Balance at 1 July	1,429	938
Share-based payment expense	106	491
Vesting of employee incentives scheme	(137)	-
Balance at 30 June	1,398	1,429

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 \$	
	2022	2021	2022	2021
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
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
McGrath Insuretech Investments Pty Ltd	100	0	1	0
McGrath Investment QLD/VIC Pty Ltd	100	0	1	0
McGrath Strathfield Pty Ltd	100	0	100	0
Oxygen Capital Group Pty Ltd	44	45	450	450
			7,571,218	7,571,116

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:

	2022	2021
	\$	\$
<i>Receivables</i>		
McGrath Sales Pty Limited	7,191,118	9,562,827
MG Logistics Pty Limited	7,152,217	18,637,660
McGrath Auctions Unit Trust	25,388	25,388
McGrath Sales (VIC) Pty Ltd	48,123	48,123
Total Real Estate Training Pty Limited	464,327	-
McGrath Sales Paddington Pty Ltd	4,062	-
Architype Marketing Pty Limited	2,502	-
Australian Portfolio Management Unit Trust	665,338	665,338
McGrath Operations Limited	2,978,480	2,978,480
	<u>18,531,555</u>	<u>31,917,816</u>
<i>Payables</i>		
McGrath Australasia Pty Ltd	34	27,229
McGrath Property Management Pty Limited	39,111	-
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	80,239
Engage Property Management Unit Trust	335,841	335,841
	<u>528,429</u>	<u>516,513</u>

E6 Parent entity disclosures

	2022	2021
	\$'000	\$'000
Result of parent entity		
Profit after income tax expense	5,459	4,497
Total profit and other comprehensive income for the year	<u>5,459</u>	<u>4,497</u>
Financial position of parent entity at year end		
Current assets	29,684	36,417
Total assets	29,684	36,436
Current liabilities	(523)	(3,115)
Total liabilities	<u>(523)</u>	<u>(3,115)</u>
Net assets	<u>29,161</u>	<u>33,321</u>
Total equity of parent entity comprising of:		
Contributed equity	103,943	108,030
Share based payment reserve	1,398	1,429
Profits Reserve	2,741	3,663
Accumulated losses	<u>(78,921)</u>	<u>(79,801)</u>
Total equity	<u>29,161</u>	<u>33,321</u>

No capital expenditure commitments contracted for at reporting date (2021: \$ nil).

E7 Auditor's remuneration

	2022	2021
	\$	\$
Audit and other services - KPMG		
Audit and review of financial statements	300,000	250,000
Total	300,000	250,000
Other services - KPMG		
Tax services	31,000	57,280
Assurance related	-	65,962
Total other services	31,000	123,242

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

	2022	2021
	\$'000	\$'000
Statement of comprehensive income		
Revenue and other income	29,161	45,188
Share of profit of an associate	96	3
Cost of sales	(5,189)	(10,848)
Employee benefits expense	(11,157)	(13,150)
Directors' fees	(398)	(362)
Professional fees	(516)	(1,414)
Doubtful debts	142	(79)
Occupancy	(830)	(1,083)
IT expenses	(3,390)	(3,671)
Communications	(711)	(974)
Advertising and promotions	(347)	(182)
Other expenses from ordinary activities	(206)	(279)
Earnings before interest, tax, depreciation and amortisation and impairment (EBITDA)	6,655	13,149
Depreciation and amortisation expenses	(4,395)	(4,180)
Finance income	298	192
Finance costs	(1,115)	(1,310)
Net finance costs	(817)	(1,118)
Profit before income tax	1,443	7,851
Income tax expense	(89)	(1,953)
Profit attributable to the owners of the closed group	1,354	5,898

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

	2022	2021
	\$'000	\$'000
Statement of financial position		
CURRENT ASSETS		
Cash and cash equivalents	34,699	35,733
Trade and other receivables	32,325	21,012
Other assets	2,146	2,195
Current tax assets	892	230
TOTAL CURRENT ASSETS	70,062	59,170
NON CURRENT ASSETS		
Trade and other receivables	3,152	2,982
Property, plant and equipment	2,975	2,771
Right-of-use assets	10,687	16,203
Intangible assets and goodwill	1,405	1,777
Investment in an associate	1,799	1,703
Other financial assets	1	1
Deferred tax assets	760	779
TOTAL NON CURRENT ASSETS	20,779	26,216
TOTAL ASSETS	90,841	85,386
CURRENT LIABILITIES		
Trade and other payables	65,649	51,312
Lease liabilities	3,366	3,132
Provisions	2,577	2,955
TOTAL CURRENT LIABILITIES	71,592	57,399
NON CURRENT LIABILITIES		
Trade and other payables	507	497
Lease liabilities	9,590	15,560
Provisions	1,019	1,033
TOTAL NON CURRENT LIABILITIES	11,116	17,090
TOTAL LIABILITIES	82,708	74,489
NET ASSETS	8,133	10,897
EQUITY		
Contributed equity	103,943	108,030
Share based payment reserve	1,398	1,429
Profits Reserve	7,252	5,898
Retained losses	(104,460)	(104,460)
TOTAL EQUITY	8,133	10,897

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

A number of other new or amended standards and interpretations became effective from 1 July 2021 but they do not have a material effect on the Consolidated Entity's financial statements for the reporting period.

(i) AASB 2021-3 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021;

(ii) AASB 2020-7 Amendments to Australian Accounting Standards - COVID-19 -Related Rent Concessions: Tier 2 Disclosures;

(iii) AASB 2020-8 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2; and

(iv) AASB 2020-9 Amendments to Australian Accounting Standards – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments.

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)

(c) Change in accounting policies and disclosures (continue)

Changes in accounting policy

The Consolidated Entity has changed its accounting policy with respect to the recognition of costs associated with configuration and customisation in a software as a service arrangement, as a result of IFRIC agenda decisions - Software as a Service (SaaS) arrangement costs released in April 2021.

Costs in relation to configuration or customisation of a supplier's cloud-based software under a SaaS arrangement are no longer recognised as an intangible asset. The costs of configuration or customisation of the software under a SaaS arrangement, will be expensed when the Consolidated Entity receives the configuration or customisation services in accordance with the contract.

Following IFRIC decision the Consolidated Entity has changed its accounting policy from 1 July 2020 using the retrospective approach whereby comparative information is not restated and the cumulative effect is recognised in retained earnings at the date of initial application. The Company's management has assessed the intangible software assets which are impacted by IFRIC agenda decision. This has resulted in \$830 thousand of capitalised costs for configuration and customisation in a SaaS arrangement being derecognised from the intangible assets and recognised in retained earnings as summarised in the below table.

	As reported 30 June 2020 \$'000	Change in accounting policy \$'000	Opening Balance 1 July 2020 \$'000
Intangible assets - software			
Cost	15,878	(836)	15,042
Accumulated amortisation	(13,457)	6	(13,451)
Carrying amounts	2,421	(830)	1,591
Deferred Tax asset			
Deferred Tax asset	(1,252)	249	(1,003)
Total adjustment on equity:			
Retained earnings-Accumulated losses	(79,185)	(581)	(79,766)

(d) 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:

- (i) AASB 17 Insurance Contracts and AASB 2020-5 Amendments to Australian Accounting Standards and AASB 2022-1 Amendments to Australian Accounting Standards Initial application of AASB 17 and AASB 9— Insurance Contracts;
- (ii) AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- (iii) AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128;
- (iv) AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections;
- (v) AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current;
- (vi) AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current - Deferral of effective date;
- (vii) AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments;
- (viii) AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates;
- (ix) AASB 2021-6 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards;
- (x) AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction; and
- (xi) AASB 2021-7(a-c) Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections.

E9 General accounting policies (continued)

(e) 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.

The Company has applied significant judgement and estimates, including any impact of the COVID-19 pandemic and current market conditions, to the following:

- Provision of doubtful debt;
- Going concern;
- Recoverability of property management rights;
- 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.

(f) 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 \$34.7 million at 30 June 2022;
- the Company has net assets of \$49.6 million; and
- the Company's ability to adapt digitally to the restrictions.

Directors' Declaration for the Year Ended 30 June 2022

In the opinion of the directors of McGrath Limited:

(a) the consolidated financial statements and notes that are set out on pages 25-73 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 2022 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
22 August 2022



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 2022 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 2022;
- 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 these requirements.

Key Audit Matters

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

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

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

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

Recoverability of property management rights intangible assets (\$11,862k)

Refer to Note B4 to the Financial Report

The key audit matter

The recoverability of the Group's property management rights (intangible assets) is a Key Audit Matter due to the:

- significance of the balance (being 12% of total assets); and
- presence of impairment indicators and higher estimation uncertainty as a result of the challenging economic conditions.

We focused on the significant assumptions the Group applied in their fair value less costs of disposal models, including:

- 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.

We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.

How the matter was addressed in our audit

Our procedures included:

- 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 (\$8,207k) and non-current trade receivables (\$1,568k)	
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 11% of total assets); • level of judgement required by us to assess the impact of recent inflation and interest rate rises 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 timeframe between exchange and settlement and the impact of the current economic conditions 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), 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, procurement costs 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; 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; 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 the market.

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 is 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
- 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 the 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 2022, 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 11 to 21 of the Annual Financial Report referenced to in the Directors' report for the year ended 30 June 2022.

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

22 August 2022

Shareholder information

The information set out below was prepared as at 8 August 2022 (unless indicated otherwise) and applies to McGrath's securities (ASX code: MEA).

As at 8 August 2022 there were 161,3545,809 fully paid ordinary shares on issue.

Substantial shareholders

As disclosed in substantial holding notices lodged with the ASX as at 8 August 2022:

Shareholders	Date of notice	Number of shares ¹	Percentage of issued equity % ¹	Number of shares held 30 June 2022	Percentage of issued equity % 30 June 2022 %
AL Capital Holdings Pty Ltd as trustee for the AL Capital No 1 Unit Trust and Yunhui Lin	26/11/2021	26,375,676	15.81	26,375,676	16.27
Maratea Holdings No 2 Pty Ltd as trustee for Smollen Property Family Trust held on the register under HSBC Custody Nominees (Australia) Limited	15/01/2021	13,148,148	7.88	13,148,148	8.11
Argo Investments	03/08/2018	10,000,000	5.95	8,500,000	5.24
John McGrath and Fondorru	01/08/2018	37,127,378	22.11	37,127,378	22.90

¹ Number of shares and percentage of issued equity held as disclosed in the substantial holding notices provided to the Company.

Wilson Asset Management Group ceased to be a substantial shareholder from 8 February 2022.

Range of shareholders – fully paid ordinary shares

Range	Number of holders	Number of securities
1 to 1,000	549	289,954
1,001 to 5,000	502	1,449,378
5,001 to 10,000	246	2,041,309
10,001 to 100,000	422	13,464,986
100,001 and over	112	144,105,182
Total number of shareholders	1,831	161,345,809

Number of security holders holding less than a marketable parcel (being 1,149 securities at the closing market price of \$0.435 on 8 August 2022) : 435

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	11	593,281
100,001 and over	7	4,239,585
Total number of holders	18	4,832,866

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	0	0
Total number of holders	0	0

20 largest shareholders (as of 8 August 2022)

No.	Shareholder	Number of shares	Percentage of issued equity %
1	UBS Nominees Pty Ltd	21,880,941	13.56
2	Fondorru Pty Ltd	21,195,450	13.14
3	HSBC Custody Nominees (Australia) Limited	20,112,065	12.47
4	John Damian McGrath	15,059,928	9.33
5	Argo Investments Limited	8,500,000	5.27
6	Citicorp Nominees Pty Limited	6,298,800	3.90
7	Pacific Custodians Pty Limited	5,571,742	3.45
8	National Nominees Limited	2,982,613	1.85
9	Mr Grant Charles Beaumont	2,913,131	1.81
10	Brayco Global Pty Ltd	2,900,000	1.80
11	Lindway Investments Pty Limited	1,238,000	0.77
12	Muntz Pty Ltd	1,227,000	0.76
13	Emsdale Holdings Pty Ltd	1,182,800	0.73
14	Corfam Pty Ltd	1,070,000	0.66
15	Graham Newman Pty Ltd	1,010,041	0.63
16	Smithstock Pty Ltd	902,677	0.56
17	Mr Irwin David Klotz	900,000	0.56
18	Mr John Damian McGrath	872,000	0.54
19	Courtney Holdings Pty Ltd	827,539	0.51
19	Tracey Dixon Investment Pty Ltd	827,539	0.51
19	Paranchi Investment Pty Ltd	827,539	0.51
19	Peter Chauncy Investments Pty Ltd	827,539	0.51
20	Mrs Vesna Kraus	788,457	0.49
Top 20 holders of Shares		119,915,801	74.32
Balance of Shares		41,430,008	25.68
Total Shares on issue		161,345,809	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 share buy back

The Company is currently undertaking an on-market share buy-back which commenced 29 March 2022. During the financial year ended 30 June 2022, 4,691,331 McGrath Limited shares were purchased on-market and subsequently cancelled at an average price of \$0.3975 per share.

Subsequent to 30 June 2022 for the period 1 July 2022 to 8 August 2022, 812,795 McGrath Limited shares were purchased on-market and subsequently cancelled at an average price of \$0.4040 per share.

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

Wayne Mo

Non-executive Director

Shane Smollen

Non-executive Director

Juliana Nguyen

Independent Non-executive Director

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

John McGrath

CHIEF FINANCIAL OFFICER

Howard Herman

COMPANY SECRETARY

Phil Mackey

REGISTERED OFFICE

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