



McGrath Limited and Controlled Entities
ACN 608 153 779

Interim Financial Report
for the Half Year Ended 31 December 2022

McGrath

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A.C.N. 608 153 779

Interim Financial Report

For the half year ended 31 December 2022

Interim Financial Report

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Directors' Report

The Directors present their Financial Report for the half year ended 31 December 2022. The half year report comprises the results of McGrath Limited (the Company or McGrath) and the subsidiaries (the Consolidated Entity or the Group) that it controlled at the end of the period and from time to time throughout the period.

Principal activities and review of operations

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

Information on the operations and financial position of the Consolidated Entity is set out in the Operating and Financial Review on pages 3-6 of this Interim Financial Report.

The Consolidated Entity profit after providing for income tax for the half year ended 31 December 2022 amounted to \$1,815,944 (2021: \$6,907,000).

Directors

The following persons were Directors of McGrath Limited during the half year ended 31 December 2022:

Peter Lewis

Chair and Independent Non-executive Director.
Appointed 19 January 2018.
Chair of the Remuneration and Nomination Committee and member of the Audit and Risk Committee.

Wayne Mo

Non-executive Director.
Appointed 27 June 2018.
Chair of the Audit and Risk Committee and member of the Remuneration and Nomination Committee.

Shane Smollen

Non-executive Director.
Appointed 3 September 2020.
Member of the Audit and Risk Committee and the Remuneration and Nomination Committee.

Juliana Nguyen

Independent Non-executive Director.
Appointed 28 January 2022.
Member of the Audit and Risk Committee and the Remuneration and Nomination Committee.

John McGrath

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

Dividends

Dividends totalling \$1,610,478 were declared and paid during the half year period (2021: \$1,668,500).

Significant changes in state of affairs

There were no significant changes in the state of affairs of the Consolidated Entity during the reporting period and up to the date this report.

Subsequent events

An interim fully franked dividend of 1.0 cents per share was declared on 20 February 2023 with a record date of 28 February 2023 and a payment date of 14 March 2023. The financial effect of the interim dividend has not been provided for in the half year financial statements and will be recognised in the subsequent annual financial report for the year ending 30 June 2023.

As part of the business model change to transform to a predominately franchise business, the Consolidated Entity completed the sale of the company owned business and rent roll in Crows Nest and Willoughby and the sales business of Castle Hill to franchise ownership. As at 31 December 2022 no amounts have been recognised in relation to the transactions.

There has been no other item, transaction or event which has arisen in the interval between 31 December 2022 and the date of this report which would significantly affect 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.

Rounding of amounts

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

Auditor's Independence declaration

The Directors have received a declaration of independence from the Auditor. Refer to page 7.

Signed in accordance with a resolution of the Directors.



Peter Lewis
Chair
20 February 2023

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).

In August 2022, the company announced a change in business model to transition to predominantly a franchise operation. This transition should lead to delivering more reliable annuity income from franchisees based on a fixed percentage of total sales commissions as well as ongoing marketing fund contributions. In addition, this transition is a key strategy for attracting and retaining agent talent.

The operating segments for the period under review 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 Capital Group Pty Limited
- 30% investment in the Central Coast McGrath Franchise

Office locations

As at 31 December 2022 the network comprised 26 Company owned offices and 89 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 seven offices in the six months since 30 June 2022 with 10 openings, 3 transfers 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.

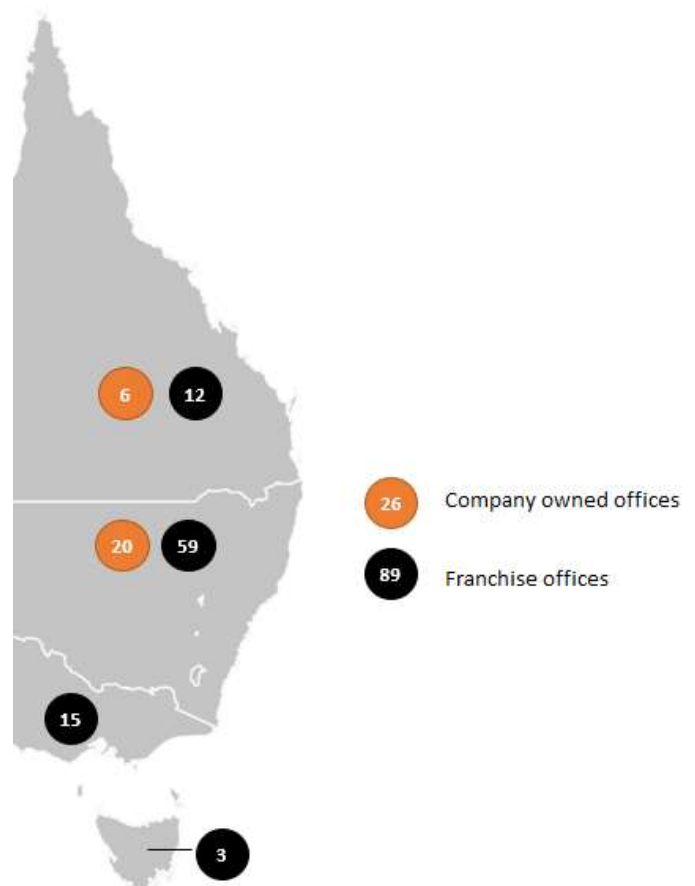


Figure 1: McGrath office Network

Income Statement

The information below shows the reconciling items from statutory results to the underlying results for the half year ended 31 December 2022.

	Statutory Dec 2022 \$'000	Reconciling amounts \$'000	Underlying Dec 2022 \$'000	Underlying Dec 2021 \$'000
Revenue	42,691	-	42,691	59,369
Cost of sales	(16,495)	-	(16,495)	(23,232)
Gross profit	26,196	-	26,196	36,137
Other income	1,247	(961)	286	-
Share of profit of an associate	294	-	294	68
Employee benefits expenses	(13,099)	-	(13,099)	(14,368)
Other expenses	(7,349)	-	(7,349)	(8,237)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	7,289	(961)	6,328¹	13,600¹
Depreciation and amortisation	(4,054)	-	(4,054)	(3,952)
Earnings before interest and tax (EBIT)	3,235	(961)	2,274	9,648
Net finance expense	(225)	-	(225)	(635)
Profit/(Loss) before income tax	3,010	(961)	2,049	9,013
Income tax expense	(1,194)	263	(931)	(2,419)
Profit/(Loss) after income tax expense	1,816	(698)	1,118	6,594
Basic earnings/(losses) per share (cents)	1.15	(0.43)	0.72	4.07

The reconciling item of \$961 thousand in other income relates to the gain on sale of assets and rent roll of the Hunters Hill and Wahroonga Company owned office to a Franchise office.

¹ The Company has transitioned to EBIT as a key metric, removing AASB 16 Leases from a reconciling item. EBITDA pre AASB 16 Leases has been represented below for comparative purposes.

	Underlying Dec 2022 \$'000	Underlying Dec 2021 \$'000
Earnings before interest, tax, depreciation and amortisation (EBITDA)	6,328	13,600
Lease Expenses	(2,951)	(3,020)
Earnings before interest, tax, depreciation and amortisation (EBITDA) pre AASB 16 Lease impact	3,377	10,580

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 half year ended 31 December 2022.

Segment EBIT has been impacted by \$961 thousand gain on sale of the assets and rent roll which is included in the Corporate EBIT reconciling amount.

	Statutory Dec 2022 \$'000	Reconciling Amounts \$'000	Underlying Dec 2022 \$'000	Underlying Dec 2021 \$'000
Revenue				
Company owned sales	24,657	-	24,657	38,406
Company owned property management	9,882	-	9,882	9,628
Franchise services	6,609	-	6,609	8,962
Other operating segments	1,543	-	1,543	2,373
Total Revenue	42,691	-	42,691	59,369
EBIT				
Company owned sales	3,088	-	3,088	8,766
Company owned property management	882	-	882	1,734
Franchise services	3,634	-	3,634	5,295
Other operating segments	(302)	-	(302)	(61)
Corporate	(4,067)	(961)	(5,028)	(6,086)
Total EBIT	3,235	(961)	2,274	9,648

Note: The segment revenue and EBIT 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 HY23 exclude the gain on sale of the Hunters Hill and Wahroonga office and rent roll.

Company Owned Sales and Project Marketing

Company owned sales generated an EBIT of \$3.1 million, down 64.8% on prior year. The decrease was driven by a 35.5% reduction in the number of properties sold and a 12.6% decrease in the average selling price. In addition, during the half year ended 31 December, 3 offices transitioned from Company owned to Franchise office.

Company Owned Property Management

Company owned properties management generated an EBIT of \$0.9 million, down 49% on prior year mainly driven by lost management on previously acquired rent roll.

Franchise Services

Our franchise services generated an EBIT of \$3.6 million, down 31.3% on prior year. The decrease was primarily driven by a 25.7% decrease in the number of properties sold, with the average selling price remaining stable. In addition, during the half year ended 31 December 2022 there were additional franchise expansion costs with 10 new office openings and 3 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 and McGrath Central Coast Franchise, 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 33% of all properties listed in HY23.

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.

- **Australian residential real estate market** – McGrath generates the majority of its income from the Australian Eastern Seaboard residential real estate market through commission revenue generated by agents on the sale of properties, property management commissions and commissions on the arranging of mortgages. The risk of a reduction in sales transaction volumes or prices is a material risk for McGrath and could be impacted by general economic conditions and factors beyond the Company's control such as housing affordability, employment, interest rates, domestic investor growth and demand, foreign investment and consumer confidence.
- **Increased competition and disintermediation** – McGrath operates in a highly competitive environment and constantly monitors the market and the competitive environment. McGrath is also potentially exposed to disintermediation whereby buyers and sellers are able to transact directly in private sale without using the services of an agent. McGrath mitigates this risk by delivering exceptional client service and providing a market-leading experience.
- **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.
- **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.

- **Cybersecurity** – The ongoing cyber security risk of McGrath includes data breach risks, privacy, identity theft and fraud. McGrath continues to mitigate these risks including updating its security operations centre, third party risk assessments and upgrading malware protection software.
- 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.



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 review of McGrath Limited for the half-year ended 31 December 2022 there have been:

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

A stylized, handwritten-style signature of the KPMG logo.

KPMG

A handwritten signature in cursive script that reads 'K Hopkins'.

Karen Hopkins
Partner

Sydney
20 February 2023

Condensed Consolidated Interim Financial Statements

Condensed consolidated statement of profit or loss and other comprehensive income for the half year ended 31 December 2022

	Notes	December 2022 \$'000	December 2021 \$'000
Revenue	3	42,691	59,369
Other income	4	1,247	447
Cost of sales		(16,495)	(23,232)
Share of profit of an associate		294	68
Employee benefits expenses		(13,099)	(14,368)
Directors' fees		(196)	(196)
Professional fees		(847)	(888)
Doubtful debts		47	(376)
Occupancy		(836)	(780)
IT expenses		(2,521)	(2,236)
Communications		(238)	(431)
Advertising and promotions		(727)	(1,346)
Other expenses		(2,031)	(1,984)
Depreciation and amortisation expenses		(4,054)	(3,952)
Earnings before interest and tax (EBIT)		3,235	10,095
Finance income		334	152
Finance costs		(559)	(787)
Net finance costs		(225)	(635)
Profit before income tax		3,010	9,460
Income tax expense		(1,194)	(2,553)
Profit after income tax expense		1,816	6,907
Total comprehensive income attributable to owners of the Company		1,816	6,907
Basic earnings per share (cents)		1.15	4.19
Diluted earnings per share (cents)		1.12	4.07

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

Condensed consolidated statement of financial position as at 31 December 2022

	Notes	December 2022 \$'000	June 2022 \$'000
CURRENT ASSETS			
Cash and cash equivalents		25,133	34,741
Trade and other receivables		13,173	13,904
Held for sale assets	6	4,137	574
Other assets		2,598	2,312
Current tax assets		266	-
TOTAL CURRENT ASSETS		45,307	51,531
NON CURRENT ASSETS			
Trade and other receivables		3,030	3,601
Property, plant and equipment		1,861	3,253
Right-of-use assets		10,357	12,954
Intangible assets		10,756	13,352
Investment in associates	7	8,399	1,799
Other financial asset		6,776	6,500
TOTAL NON CURRENT ASSETS		41,179	41,459
TOTAL ASSETS		86,486	92,990
CURRENT LIABILITIES			
Trade and other payables		15,228	17,512
Liabilities held for sale	6	2,325	750
Lease liabilities		3,765	4,269
Current tax liabilities		-	3,381
Provisions		2,122	2,555
TOTAL CURRENT LIABILITIES		23,440	28,467
NON CURRENT LIABILITIES			
Trade and other payables		1,503	507
Lease liabilities		8,778	11,593
Provisions		1,427	1,544
Deferred tax liabilities		1,286	1,286
TOTAL NON CURRENT LIABILITIES		12,994	14,930
TOTAL LIABILITIES		36,434	43,397
NET ASSETS		50,052	49,593
EQUITY			
Contributed equity		105,264	103,943
Share based payment reserve		1,122	1,398
Profits Reserve		24,301	24,095
Accumulated losses		(80,635)	(79,843)
TOTAL EQUITY		50,052	49,593

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

**Condensed consolidated statement of changes in equity for the half year ended
31 December 2022**

	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 2022	103,943	(79,843)	24,095	1,398	49,593
Profit after income tax expense	-	-	1,816	-	1,816
Issue of equity ¹	1,298	-	-	-	1,298
Share based payment transactions	-	-	-	123	123
Vesting of employee incentives scheme ²	1,191	(792)	-	(399)	-
Dividends	-	-	(1,610)	-	(1,610)
Share buy-back ³	(1,168)	-	-	-	(1,168)
Transactions with owners, recorded directly in equity	1,321	(792)	(1,610)	(276)	(1,357)
Balance at 31 December 2022	105,264	(80,635)	24,301	1,122	50,052

¹ On 4 October 2022, the Group acquired a 30% interest in MCC Sales Holdings Pty Ltd and MCC PM Holdings Pty Ltd, the McGrath Central Coast franchisee. The consideration for the acquisition was \$6.7 million, comprising of 67% cash and 33% shares in McGrath Limited. As at 31 December 2022, 60% of the consideration has been paid through \$2.7 million in cash and \$1.298 million in the issue of 3,146,055 shares in McGrath Limited with the remaining 40% deferred in October 2023 and October 2024.

² In August 2022 the FY20 Equity Incentive Plan vested as conditions were met and 2,491,827 shares were issued to qualifying employees.

³ Inline with the Company's share buy-back intention as announced on 21 February 2022, during the half year ended 31 December 2022, 2,959,235 shares were purchased on-market and cancelled.

	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	-	6,907	-	-	6,907
Share based payment transactions	-	-	-	122	122
Shares acquired for employee incentive scheme	(2,430)	-	-	-	(2,430)
Vesting of employee incentives scheme	214	(77)	-	(137)	-
Dividends	-	-	(1,668)	-	(1,668)
Transactions with owners, recorded directly in equity	(2,216)	(77)	(1,668)	(15)	(3,976)
Balance at 31 December 2021	105,814	(72,936)	16,539	1,414	50,831

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

Condensed consolidated statement of cash flows for the half year ended 31 December 2022

	Notes	December 2022	December 2021
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		49,091	65,925
Receipts from other income		316	-
Payments to suppliers and employees		(46,403)	(51,132)
Interest paid		(512)	(787)
Interest received		264	152
Income taxes paid		(4,833)	-
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		(2,077)	14,158
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of held for sale assets		1,017	-
Proceeds from property, plant and equipment		125	-
Proceeds from disposal of intangible assets		-	530
Purchase of property, plant and equipment		(128)	(357)
Purchase of intangibles		(578)	(2,205)
Purchase of investment in associate		(2,792)	-
Dividends received		201	-
Loans granted		(205)	(599)
Loan repayments received		164	518
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(2,196)	(2,113)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment for lease liabilities		(2,557)	(2,400)
Payment for treasury shares		-	(2,430)
Payment for share buy-back		(1,168)	-
Dividends paid	8	(1,610)	(1,668)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(5,335)	(6,498)
Net (decrease)/increase in cash and cash equivalents		(9,608)	5,547
Cash and cash equivalents at the beginning of the financial year		34,741	35,775
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		25,133	41,322

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

Notes to the Condensed Consolidated Interim Financial Statements for the half year ended 31 December 2022

1 Reporting entity

McGrath Limited (the "Company"), is a for-profit company limited by shares incorporated and domiciled in Australia. These condensed consolidated interim financial statements ("interim financial statements") as at and for the half year ended 31 December 2022 comprise the Company and its subsidiaries ("the Consolidated Entity").

The interim financial statements represents the results, for the Consolidated Entity, for the period from 1 July 2022 to 31 December 2022. The comparative information presented in the interim financial statements represents the financial position of the Consolidated Entity as at 30 June 2022 and the Consolidated Entity's performance for the period from 1 July 2021 to 31 December 2021.

Accounting policies of the Consolidated Entity are set out in Note 9 or in the note to which they relate. The half year financial report does not include all notes of the type normally included within an Annual Financial Report. As a result this half year financial report should be read in conjunction with the 30 June 2022 Annual Financial Report of the Group and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rule.

2 Events subsequent to reporting date

Subsequent to the reporting date, an interim fully franked dividend of 1.0 cents per share was declared on 20 February 2023 with a record date of 28 February 2023 and a payment date of 14 March 2023. The financial effect of the interim dividend has not been provided for in the half year financial statements and will be recognised in the subsequent annual financial report for the year ending 30 June 2023.

As part of the business model change to transform to a predominately franchise business, the Consolidated Entity completed the sale of the company owned business and rent roll in Crows Nest and Willoughby and the sales business of Castle Hill to franchise ownership. As at 31 December 2022 no amounts have been recognised in relation to the transactions.

There has been no other item, transaction or event which has arisen in the interval between 31 December 2022 and the date of this report which would significantly affect 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.

3 Revenue

The Consolidated Entity's main revenue streams are those described in the last annual financial statement and have been categorised into four segments based on internal operations of the Company.

	December 2022 \$'000	December 2021 \$'000
Company owned sales commission and fees	24,657	38,406
Company owned property management fees	9,882	9,628
Franchise service fees	6,609	8,962
Other revenue	1,543	2,373
Total revenue	42,691	59,369

4 Other income

	December 2022	December 2021
	\$'000	\$'000
Lease income	286	-
Gain on sale from disposal of held for sale assets	839	-
Gain on sale from disposal of property, plant and equipment	122	-
Gain on sale from disposal of intangible asset	-	447
	<u>1,247</u>	<u>447</u>

In the half year ended 31 December 2022 the Company recognised the following items in other income:

- \$286 thousand of lease income relating to operating office licence lease agreements.
- \$839 thousand gain from the disposal of held for sale assets of the Hunters Hill Company owned office to a Franchise office.
- \$122 thousand gain from the disposal of plant and equipment of the Wahroonga Company owned office to a Franchise office.

5 Operating segments

The Consolidated Entity's operations are from Australian sources and therefore no geographical segments are disclosed.

Half year ended 31 December 2022	Company owned sales ¹	Company owned property management	Franchise services	Total reportable segments	Other segments	Consolidated total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	24,657	9,882	6,609	41,148	1,543	42,691
Segment profit before interest, tax, depreciation and amortisation	4,878	2,405	3,654	10,937	(125)	10,812
Earnings before interest and tax (EBIT)	3,088	882	3,634	7,604	(302)	7,302
Gain on sale from disposal of intangible asset						1,247
Unallocated corporate costs						(4,770)
Unallocated corporate depreciation and amortisation						(544)
EBIT						3,235
Finance costs	(395)	(83)	(2)	(480)	(15)	(495)
Unallocated corporate net finance income						270
Profit before income tax						3,010

Half year ended 31 December 2021	Company owned sales ¹	Company owned property management	Franchise services	Total reportable segments	Other segments	Consolidated total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	38,406	9,628	8,962	56,996	2,373	59,369
Segment profit before interest, tax, depreciation and amortisation	10,838	2,791	5,335	18,964	353	19,317
Earnings before interest and tax (EBIT)	8,766	1,733	5,295	15,794	(61)	15,733
Gain on sale from disposal of intangible asset						447
Unallocated corporate costs						(5,717)
Unallocated corporate depreciation and amortisation						(368)
EBIT						10,095
Finance costs	(574)	(62)	(14)	(650)	(125)	(775)
Unallocated corporate net finance income						140
Profit before income tax						9,460

¹The Company owned sales revenue from external customers includes sales and project commissions of \$15.2 million (31 December 2021: \$26.7 million) and \$9.4 million in marketing revenue (31 December 2021: \$11.7 million).

6 Assets and liabilities held for sale

	Assets \$'000	Liabilities \$'000
Consolidated Entity, half year ended 31 December 2022		
At 1 July 2022	574	750
Property, plant and equipment	1,109	-
Right-of-use assets	1,261	-
Intangible assets	1,767	-
Lease liabilities	-	1,645
Trade and other payables	-	368
Provisions	-	246
Assets and liabilities sold	(353)	(354)
Transfer out of held for sale	(221)	(330)
At 31 December 2022	<u>4,137</u>	<u>2,325</u>

During the six months ended 31 December 2022 the Consolidated Entity entered into conditional agreements to sell Company owned assets and rent rolls associated with four offices to Franchise partners with these sales expected to be completed within 12 months. The assets and liabilities associated with these sales have been classified as held for sale as at 31 December 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 reporting period the Consolidated Entity sold and transitioned to franchise one office and associated rent roll with the gains recognised in the profit or loss and other comprehensive income and declassified one office from held for sale.

7 Investment in associates

On 4 October 2022, the Group acquired a 30% interest in MCC Sales Holdings Pty Ltd and MCC PM Holdings Pty Ltd, the McGrath Central Coast franchisee. The consideration for the acquisition was \$6.5 million, comprising of 67% cash and 33% shares in McGrath Limited. Of the total consideration, 60% has been paid through \$2.7 million in cash and \$1.3 million through the issue of 3,146,055 shares in McGrath Limited with the remaining 40% deferred to October 2023 and October 2024.

As at 31 December 2022, the Group equity accounted the following investments:

- 44% interest in Oxygen Capital Group Pty Ltd, a mortgage broking service; and
- 30% interest in MCC Sales Holdings Pty Ltd and MCC PM Holdings Pty Ltd.

The carrying amount of equity accounted investments and the changed in the six months to December 2022 is as follows.

	Total \$'000
Consolidated Entity, half year ended 31 December 2022	
At 1 July 2022	1,799
Additions	6,507
Profit for the period	294
Dividends paid	(201)
At 31 December 2022	<u>8,399</u>

8 Dividends paid and proposed

	December 2022 \$'000	December 2021 \$'000
Dividends declared and paid:		
Final franked dividend for 2022 of 1.0 cent per share, franked at 100%, paid 20 September 2022	1,610	
Final franked dividend for 2021 of 1.0 cent per share, franked at 100%, paid 21 September 2021		1,668
	<u>1,610</u>	<u>1,668</u>

Subsequent to the reporting date, an interim fully franked dividend of 1.0 cents per share was declared on 20 February 2023 with a record date of 28 February 2023 and a payment date of 14 March 2023. The financial effect of the interim dividend has not been provided for in the half year financial statements and will be recognised in the subsequent annual financial report for the year ending 30 June 2023.

9 General accounting policies

(a) Basis of preparation

These interim financial statements have been prepared in accordance with *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*, and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 30 June 2022 ('last annual financial statements').

They do not include all of the information required for a complete set of annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Consolidated Entity's financial position and performance since the last annual financial statements.

The accounting policies are consistent with the 30 June 2022 Annual Financial Report, except for the adoption of new and amended standards as set out below.

These interim financial statements were authorised for issue by the Company's Board of Directors on 20 February 2023.

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.

(b) Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with AASB's requires management to make a number of judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on historical experience and are assessed on an continual basis.

The Company has applied significant judgement and estimates to provision of doubtful debt, going concern, assessment of impairment of assets and financial risk management.

The Company has used key assumptions including the effect of uncertainties related to the current market conditions in its assessment of future trends in real estate.

(c) New and amended standards adopted

A number of new or amended standards and interpretations became effective from 1 January 2022 but they do not have a material effect on the Consolidated Entity's financial statements for the reporting period.

(i) AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments; and

(ii) AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current - Deferral of effective date.

Directors' Declaration for the half year ended 31 December 2022

In the opinion of the directors of McGrath Limited:

(a) the condensed consolidated financial statements and notes set out on pages 8-16 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Australian Accounting Standards AASB134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(ii) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2022 and of its performance, for the six month period 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.

Signed in accordance with a resolution of the directors.



Peter Lewis
Chair
20 February 2023



Independent Auditor's Review Report

To the shareholders of McGrath Limited

Conclusion

We have reviewed the accompanying **Interim Financial Report** of McGrath Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of McGrath Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Consolidated Entity's** financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Condensed consolidated statement of financial position as at 31 December 2022
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the half-year ended on that date
- Notes 1 to 9 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Consolidated Entity** comprises McGrath Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half-year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Company in accordance with the auditor independence requirements of 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.



Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2022 and its performance for the half year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

Karen Hopkins
Partner

Sydney
20 February 2023

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

Melissa Jones

REGISTERED OFFICE

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AUDITORS

KPMG

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Australia