



McGRATH LIMITED AND CONTROLLED ENTITIES

ACN 608 153 779

McGrath Limited and Controlled Entities

ACN 608 153 779

Appendix 4D - Half Year Report

Results for announcement to the market

Details of the reporting period and the previous corresponding reporting period

Reporting period: For the half year ended 31 December 2016

Previous period: For the half year ended 31 December 2015

Results for announcement to the market

In accordance with the ASX listing rule 4.2A, the board and management of McGrath Limited has enclosed an appendix 4D for the half year ended 31 December 2016.

		Change		Period ended 31 December 2016	Period ended 31 December 2015
		\$'000	%	\$'000	\$'000
Revenues from ordinary activities	Increased	12,939	24%	67,251	54,312
Profit from ordinary activities after tax attributable to the owners of the Company	Increased	2,338	637%	2,705	367
Net profit after tax attributable to the Consolidated Entity	Increased	2,284	543%	2,705	421
EBITDA - Statutory	Increased	6,953	262%	9,602	2,649
EBITDA - Pro forma	Decreased	(5,417)	(37%)	9,281	14,698

Note: All of the above comparisons are on a statutory basis unless stated. The Operating and Financial Review and Financial Results Presentation include comparisons to pro forma 2016 results. The pro forma basis of preparation is set out in the operating and financial review.

Refer to the attached Directors' Report and Operating and Financial Review for discussion of the results.

Dividend information

	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
Final dividend for 2016 paid September 2016	3.5	3.5	30%
Interim dividend for 2017 (to be paid 28 March 2017)	1.0	1.0	30%

Interim dividend dates

Ex-dividend date	13 March 2017
Record date	14 March 2017
Payment date	28 March 2017

Net tangible assets

	31 December 2016	31 December 2015
Net tangible assets per security (cents)	13.11	5.66
Net assets per security (cents)	69.18	65.02

Entities over which control has been gained or lost during the period

On 1 July 2016 McGrath Limited, through its wholly owned subsidiary, McGrath Sales Proprietary Limited, gained control of CP Frenchs Forest Sales Proprietary Limited.

Audit qualification or review

The Financial Statements were subject to review by the auditors and the review report is attached as part of the Interim Financial Report.

Attachments

The Interim Financial Report of McGrath Limited and its controlled entities for the half year ended 31 December 2016 is attached.



McGRATH LIMITED AND CONTROLLED ENTITIES

Half Year Financial Report

31 December 2016

ACN 608 153 779

McGrath Limited and Controlled Entities

31 December 2016 Interim Financial Report

Interim Financial Report

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Directors' Report for the half year ended 31 December 2016

The Directors present their Financial Report for the half year ended 31 December 2016. The half year report comprises the results of McGrath Limited (the Company or McGrath) and the subsidiaries (the Consolidated Entity) that it controlled at the end of the period and from time to time throughout the period.

Principal activities and financial review

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

Consolidated Entity profit after providing for income tax for the half year ended 31 December 2016 amounted to \$2,705,000 (2015: \$421,000).

Dividends

Dividends totalling \$4,777,000 were declared and paid during the half year. (2015: \$11,000,000).

Directors

The following persons were Directors of McGrath Limited during the half year ended 31 December 2016:

Ms. Cass O'Connor

Chair and Non-executive Director.

- Appointed Chair 25 August 2016.

Mr. John McGrath

Executive Director.

Ms. Elizabeth Crouch

Independent Non-executive Director.

- Appointed 25 August 2016.

Mr. Nigel Dews

Independent Non-executive Director.

- Appointed 23 November 2016.

Ms. Cath Rogers

Independent Non-executive Director.

- Appointed 23 November 2016.

Mr. David Mackay

Chairman and Independent Non-executive Director.

- Retired 25 August 2016.

Mr. Daniel Petre

Independent Non-executive Director.

- Retired 23 November 2016.

Subsequent events

In the interval between the end of the half year and the date of this report, there has not arisen 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 the future financial years.

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.

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



Cass O'Connor
Chair - 23 February 2017

Operating and Financial Review

Operations

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

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

The operating segments are:

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

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

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

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

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

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

Agents and office locations

As at 31 December 2016 the network comprised 28 Company owned offices and 68 Franchise offices with 648 agents operating within those offices. The spread of offices is across the Eastern seaboard with a high concentration in New South Wales.

The Company entered the Victorian market in the prior year, a stated objective and strategic move to bolster the national market share. The total number of offices in Victoria currently stands at 8, and the contribution was \$0.5bn in sales value for the 6 months to 31 December 2016.

Total agents has increased marginally over the period to 648. Agents in the Franchise offices increased 7% to 405 however agents in the company owned offices decreased 8% to 243. McGrath continues to have a concerted focus on talent identification, to attract, develop and retain high performing agents and emerging sales agents.

McGrath Future was launched in December 2016 and provides a compelling remuneration and longer term wealth creation framework for high performing agents. The framework includes; high performance bonus commission, recruitment trail commission and a property management equity partnership structure.

Financial overview

The Directors consider that a pro forma presentation of results is a better indicator of underlying performance than the statutory presentation. To assist in the interpretation of the underlying performance of the consolidated entity a pro forma income statement is presented below. Underlying pro forma performance is reconciled to statutory results on the following page.

Pro forma income statement

	1H 2017 \$'000	1H 2016 \$'000
Revenue	66,930	72,463
Cost of sales	(25,059)	(28,443)
Pro forma Gross profit	41,871	44,020
Employee benefits expenses	(18,349)	(18,127)
Other expenses	(14,241)	(11,195)
Pro forma earnings before interest, tax, depreciation and amortisation (EBITDA)	9,281	14,698
Depreciation and Amortisation	(3,492)	(2,434)
Impairment of software asset	(2,180)	-
Pro forma earnings before interest and tax (EBIT)	3,609	12,264
Net finance income	5	6
Pro forma profit before tax	3,614	12,270
Income tax expense	(1,230)	(3,804)
Pro forma NPAT	2,384	8,466

Pro forma segment revenues and EBITDA

	1H 2017 \$'000	1H 2016 \$'000
Revenue		
Company owned sales	46,958	53,058
Company owned property management	10,042	9,218
Franchise services	5,775	5,493
Other operating segments	4,155	4,694
Total pro forma revenue	66,930	72,463
EBITDA		
Company owned sales	10,704	16,581
Company owned property management	3,359	2,245
Franchise services	3,436	3,331
Other operating segments	(1,159)	(1,191)
Corporate	(7,059)	(6,268)
Total EBITDA	9,281	14,698

Financial overview continued

- Company owned sales generated \$3.5 billion in sales value from 2,544 sales for 1H FY17 compared to \$3.9 billion and 2,866 sales in 1H FY16. 3 offices opened in 1H FY17, all in New South Wales; Forestville, Wahroonga and Blacktown.
- Company owned property management increased the number of properties under management (leased) to 7,498 at 31 December 2016.
- Franchise services exchanged 4,222 sales during 1H FY17 with a sales value of \$3.8 billion. 1H FY17 saw another 7 franchise offices open including 4 in Victoria and 3 in New South Wales. The Forestville office transferred from franchise to company owned.
- Oxygen Home Loans settled \$443 million in mortgages during the period, slightly down on last year (3%). The book value of loans under management has increased 21% year on year to \$2.6bn. At 1H FY17, there were 32 brokers supporting the network.

Reconciliation of statutory to pro forma amounts

	1H 2017* \$'000	1H 2016* \$'000
Statutory revenues and other income	67,251	54,312
Acquisition ¹	0	18,151
Fair value adjustment of deferred consideration ²	(321)	-
Pro forma revenues and other income	66,930	72,463
Statutory NPAT	2,705	421
Acquisition ¹	0	5,285
Fair value adjustment of deferred consideration ²	(321)	0
Transaction and acquisition costs ³	0	6,764
Total pro forma adjustments impacting EBITDA	(321)	12,049
Impact of Acquisition on Depreciation and amortisation	0	(2,519)
Net finance costs	0	300
Tax effect of pro forma adjustments	0	(1,785)
Total pro forma adjustments impacting NPAT	(321)	8,045
Pro forma NPAT	2,384	8,466

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

¹ Adjustments reflect the recognition of the Smollen Group's revenue and operating expenses as though the acquisition had taken place on 1 July 2015. This adjustment included treating the Smollen Group as a company owned operation for the period 1 July 2015 to 7 December 2015. The adjustment includes two components being the recognition of revenue, operating expenses and one off transaction costs, offset by the elimination of any franchise fees recognised in this period.

² Adjustment to remove the fair value adjustment of the deferred consideration related to the acquisition of the Smollen group that was recognised in the period.

³ Adjustment to remove transaction costs incurred in respect of the IPO and acquisition costs.

Key Business Risks

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

- Australian residential real estate market – the majority of McGrath’s income is generated through commission revenue generated by agents on the sale of properties, property management commissions and commissions on mortgage broking. McGrath therefore has the potential to be adversely affected by factors that reduce sales transaction volumes or sales prices in the Australian residential real estate market or, more specifically, the particular regions in which it operates.
- Retention of agents – Agents are key to the success of McGrath’s business. The majority of Agents are independent contractors and are able to leave McGrath at short notice and potentially join other agency networks or offices. The market for quality agents is also considered to be highly competitive. The loss of key Agents could undermine McGrath’s ability to operate its business to the current standard and scale.
- Increased competition and disintermediation - the Australian residential real estate services industry is subject to vigorous competition, based on factors including commission rates, service, innovation and the ability to provide the client with an appropriate range of real estate services in a timely manner. McGrath is also potentially exposed to disintermediation, whereby buyers and sellers are able to transact directly in a private sale without utilising the services of an agent. The residential real estate services industry can also be considered to have relatively low barriers to entry, with there being a relatively low cost to establish a full licensed residential real estate services office. Agents of McGrath or Franchisees could potentially establish competing businesses in the areas in which they currently operate and have done so in the past subject to existing non-compete agreements.

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



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 for the half-year ended 31 December 2016 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.

KPMG

KPMG

Stuart Marshall
Partner

Sydney
23 February 2017

Financial statements

Condensed consolidated statement of profit or loss and other comprehensive income for the half year ended 31 December 2016

	Notes	2016 \$'000	2015 \$'000
Revenues and other income		67,251	54,312
Cost of sales		(25,059)	(20,715)
Employee benefits expense		(18,349)	(14,816)
Directors' fees		(202)	(411)
Professional fees		(958)	(6,617)
Doubtful debts		-	(71)
Occupancy		(3,861)	(2,367)
Communications		(1,479)	(855)
Advertising and promotions		(1,939)	(1,356)
Other expenses		(5,802)	(4,455)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		9,602	2,649
Depreciation and amortisation expenses	5,6	(3,492)	(1,094)
Impairment of software asset	6	(2,180)	-
Finance income		55	30
Finance costs		(50)	(203)
Net finance income/(costs)		5	(173)
Profit before income tax expense		3,935	1,382
Income tax expense		(1,230)	(961)
Profit after income tax expense		2,705	421
Other comprehensive income		-	-
Total profit and other comprehensive income for the period		2,705	421
Net Profit after income tax expense attributable to:			
Owners of the Company		2,705	367
Non-controlling interest		-	54
Profit after income tax expense		2,705	421
Basic earnings per share (cents)	4 (a)	2.00	0.60
Diluted earnings per share (cents)	4 (b)	1.88	0.60

Condensed consolidated statement of financial position as at 31 December 2016

	Notes	31 December 2016 \$'000	30 June 2016 \$'000
CURRENT ASSETS			
Cash and cash equivalents	3	5,258	12,493
Trade and other receivables		28,462	28,305
Other		2,883	2,238
Current tax assets		794	1,198
TOTAL CURRENT ASSETS		37,397	44,234
NON CURRENT ASSETS			
Receivables		4,012	3,156
Property, plant and equipment	5	9,874	7,711
Intangible assets	6	76,534	78,915
TOTAL NON CURRENT ASSETS		90,420	89,782
TOTAL ASSETS		127,817	134,016
CURRENT LIABILITIES			
Trade and other payables		15,064	16,089
Financial liabilities	7	9,263	6,099
Provisions		1,729	1,928
TOTAL CURRENT LIABILITIES		26,056	24,116
NON CURRENT LIABILITIES			
Trade and other payables		1,397	1,104
Financial liabilities	7	-	6,472
Provisions		1,649	1,276
Deferred tax liabilities		4,288	4,746
TOTAL NON CURRENT LIABILITIES		7,334	13,598
TOTAL LIABILITIES		33,390	37,714
NET ASSETS		94,427	96,302
EQUITY			
Contributed equity	10	92,132	92,132
Share-based payment reserve	10 (b)	271	74
Retained profits		2,024	4,096
Total Equity attributable to equity holders		94,427	96,302
Non-controlling interests		-	-
TOTAL EQUITY		94,427	96,302

Condensed consolidated statement of changes in equity for the half year ended 31 December 2016

	Notes	Contributed equity	Retained profits/ (accumulated losses)	Share Based Payment Reserve	Total attributable to owners of the company	Non- controlling interest	Total equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016		92,132	4,096	74	96,302	-	96,302
Profit after income tax expense		-	2,705	-	2,705	-	2,705
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the period		-	2,705	-	2,705	-	2,705
Share based payment transactions		-	-	197	197	-	197
Dividends to equity holders	10(c)	-	(4,777)	-	(4,777)	-	(4,777)
Transactions with owners, recorded directly in equity		-	(4,777)	197	(4,580)	-	(4,580)
Balance at 31 December 2016		92,132	2,024	271	94,427	-	94,427
Balance at 1 July 2015		6,333	7,971	-	14,304	-	14,304
Profit after income tax expense		-	367	-	367	54	421
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the period		-	367	-	367	54	421
Issue of equity		88,283	(1,233)	-	87,050	-	87,050
Equity raising costs deducted from equity		(3,501)	-	-	(3,501)	-	(3,501)
Dividends to equity holders	10(c)	-	(11,000)	-	(11,000)	-	(11,000)
Distributions to non-controlling interests		-	-	-	-	(54)	(54)
Transactions with owners, recorded directly in equity		84,782	(12,233)	-	72,549	(54)	72,495
Balance at 31 December 2015		91,115	(3,895)	-	87,220	-	87,220

Condensed consolidated statement of cash flows for the half year ended 31 December 2016

	Notes	2016 \$'000	2015 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		72,692	56,407
Payments to suppliers and employees		(65,147)	(51,104)
Interest paid		(50)	(203)
Interest received		55	30
Income tax paid		(1,285)	(2,180)
NET CASH INFLOW FROM OPERATING ACTIVITIES		6,265	2,950
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of controlled entities, net of cash acquired		(185)	(29,076)
Purchase of property, plant and equipment		(3,241)	(2,702)
Purchase of intangibles		(1,912)	(1,206)
Loans granted		(350)	(539)
Loan repayments received		27	2,108
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(5,661)	(31,415)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		0	66,050
Proceeds from borrowings		0	9,000
Repayment of borrowings		(3,063)	(15,366)
Repayment of finance lease principal		0	(549)
Payment of IPO related transaction costs expensed		0	(4,920)
Payment of IPO transaction costs recognised in equity		0	(3,501)
Dividends paid		(4,777)	(11,000)
Distribution paid		0	(54)
NET CASH INFLOW / (OUTFLOW) FROM FINANCING ACTIVITIES		(7,840)	39,660
Net (decrease)/increase in cash and cash equivalents		(7,236)	11,195
Cash and cash equivalents at the beginning of the period		12,493	2,836
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		5,258	14,031

Notes to the Condensed Consolidated Interim Financial Statements

1 Reporting entity

McGrath Limited (the "Company"), previously McGrath Holding Company Limited, is a company domiciled in Australia. These condensed consolidated interim financial statements ("interim financial statements") as at and for the half year ended 31 December 2016 comprise the Company and its subsidiaries ("the Consolidated Entity").

The interim financial statements represents the results, for the Consolidated Entity, for the period 1 July 2016 to 31 December 2016. The comparative information presented in the Half Year report represents the financial position of the Consolidated Entity as at 30 June 2016 and the Consolidated Entity's performance for the period 1 July 2015 to 31 December 2015.

Accounting policies of the Consolidated Entity are set out in Note 12 or in the note to which they relate.

2 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) in order to assess segment performance and in determining the allocation of resources to the segment. These segments 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 commissions revenue.

Company owned property management

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

Franchise services

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

Other

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

Corporate costs are not allocated to segments.

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

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

2 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.

Half year ended 31 December 2016	Company owned Sales \$'000	Company owned property management \$'000	Franchise services \$'000	Total reportable segments \$'000	Other segments \$'000	Consolidated total \$'000
External revenues	46,958	10,042	5,775	62,775	4,112	66,887
Inter-segment revenues	-	-	-	-	3,160	3,160
Segment Revenue	46,958	10,042	5,775	62,775	7,272	70,047
Unallocated revenue						364
Eliminations						(3,160)
Consolidated Revenue						67,251
Segment profit before interest, tax, depreciation and amortisation	10,704	3,359	3,436	17,499	(1,159)	16,340
Unallocated corporate costs						(6,738)
EBITDA						9,602
Depreciation and amortisation	(915)	(1,382)	(2)	(2,298)	(857)	(3,155)
Impairment of software asset					(2,180)	(2,180)
Unallocated corporate depreciation and amortisation						(337)
Net finance costs						5
Profit before income tax expense						3,935
Half year ended 31 December 2015	Company owned Sales \$'000	Company owned property management \$'000	Franchise services \$'000	Total reportable segments \$'000	Other segments \$'000	Consolidated total \$'000
External revenues	35,230	6,550	6,971	48,751	5,441	54,192
Inter-segment revenues	-	-	-	-	1,725	1,725
Segment Revenue	35,230	6,550	6,971	48,751	7,166	55,917
Unallocated revenue						120
Eliminations						(1,725)
Consolidated Revenue						54,312
Segment profit before interest, tax, depreciation and amortisation	8,665	1,654	4,804	15,123	(950)	14,173
Unallocated corporate costs						(11,524)
EBITDA						2,649
Depreciation and amortisation	(419)	(485)	(3)	(907)	(68)	(976)
Unallocated corporate depreciation and amortisation						(118)
Net finance costs						(173)
Profit before income tax expense						1,382

3 Cash and cash flow related information

	2016 \$'000	2015 \$'000
Cash at bank	3,242	9,392
Short term deposits	2,016	4,639
Cash and cash equivalents	5,258	14,031

Recognition and Measurement

Cash and cash equivalents in the consolidated statement of financial position comprise cash at bank and in hand 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 three months, depending on the immediate cash requirements of the Consolidated Entity and earn interest at the respective short term deposit rates.

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

	2016 \$'000	2015 \$'000
Profit after income tax expense	2,705	421
Adjustments for:		
Depreciation and amortisation expense	3,492	1,094
Impairment of software asset	2,180	-
Doubtful debts expense	-	71
Share-based payments	197	-
Fair value adjustment of deferred consideration	(346)	-
IPO transaction costs recognised in financing activities	-	4,920
Net cash inflow from ordinary activities before changes in assets and liabilities	8,228	6,506
(Decrease)/ Increase in payables and other liabilities	(731)	5,443
Increase/ (decrease) in other provisions	159	(3,619)
(Decrease) in deferred tax items	(460)	-
(Increase) in prepayments	(409)	(800)
(Increase) in receivables	(7)	(3,309)
Decrease/ (increase) in inventory	12	(25)
(Increase) in other assets	(931)	(26)
Decrease in current tax asset	404	-
(Decrease) in current tax liabilities	-	(1,220)
	(1,963)	(3,556)
Net cash inflow from operating activities	6,265	2,950

4 Earnings per share

(a) Basic earnings per share

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

(i) Profit attributable to ordinary shareholders (basic)

	31 December 2016 \$'000	31 December 2015 \$'000
Net profit attributable to owners of the company	2,705	367

(ii) Weighted-average number of ordinary shares

In thousands of shares

	2016	2015
Shares on issue at 1 July	134,153	45,892
Issue of shares – MAUT acquisition 1 September 2015	-	459
Issue of shares – share split and restructure 24 November 2015	-	46,350
Issue of shares – public float 7 December 2015	-	31,452
Issue of shares – Smollen acquisition 8 December 2015	-	10,000
Issue of shares – High Performing agent plan 13 September 2016	2,336	-
Shares on issue at 31 December	136,489	134,153
Weighted-average number of ordinary shares at 31 December	135,544	60,946

(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.

	31 December 2016 \$'000	31 December 2015 \$'000
Net profit attributable to owners of the company	2,705	367

(ii) Weighted-average number of ordinary shares

In thousands of shares

	2016	2015
Weighted-average number of ordinary shares (basic)	135,544	60,946
Convertible redeemable preference shares (CRPS) ¹	6,698	523
High performing agent share plan ²	1,312	-
Weighted-average number of ordinary shares (diluted) at 31 December	143,554	61,469

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

¹The CRPS convert to shares in two tranches. The calculation considers the potential dilutive effect of the CRPS tranche one converted at a share price of \$1.1731 and tranche two if they were to be converted at the share price at 31 December 2016 per the share purchase agreement for the Smollen Group.

² High performing agents who achieved specified commission thresholds in FY16 were invited to purchase shares. The amount of shares that each agent was eligible to purchase was determined by the commission threshold they achieved. The Company provided agents with a limited recourse loan to acquire shares. The dilutionary effect of these shares is calculated on the basis that all agents accept the invitation to purchase the shares in full. The calculation considers the potential dilutive effect of the shares if they were to be purchased at the share price at 31 December 2016.

5 Property, plant and equipment

	Plant and Equipment \$'000	Leasehold Improvement \$'000	Land and Buildings \$'000	Total \$'000
Half Year ended 31 December 2016				
Carrying amount				
At 1 July 2016	2,471	4,068	1,172	7,711
Additions	1,463	1,778	0	3,241
Assets acquired in a business combination	201	61	0	262
Depreciation charge for the period	(632)	(708)	0	(1,340)
At 31 December 2016	3,503	5,199	1,172	9,874

6 Intangible assets

	Goodwill \$'000	Property Management Rights \$'000	Software \$'000	Total \$'000
Half Year ended 31 December 2016				
Carrying amount				
At 1 July 2016	53,289	18,425	7,201	78,915
Additions	-	-	1,912	1,912
Assets acquired in a business combination	39	-	-	39
Amortisation charge for the period	-	(1,351)	(801)	(2,152)
Impairment of software asset	-	-	(2,180)	(2,180)
At 31 December 2016	53,328	17,074	6,132	76,534

The impairment charge relates to in-house software development costs capitalised during FY14 and FY15. During the reporting period, external software developers were engaged to provide enhanced software applications. It was determined, post balance-date, that these applications superseded a proportion of in-house software development costs capitalised during FY14 and FY15.

7 Financial Liabilities

	31 December 2016 \$'000	30 June 2016 \$'000
Current		
Deferred consideration	9,263	6,099
	9,263	6,099
Non current		
Deferred consideration	-	6,472
	-	6,472

The deferred consideration relates to the acquisition of the Smollen Group, and CP Frenchs Forest Sales Proprietary Limited. The deferred consideration has been presented at fair value as determined at 31 December 2016 (refer Note 8).

On 7 September 2016, a payment of \$3,062,500 was made to the Smollen Group in settlement of the cash component of the first tranche deferred consideration. The current deferred consideration, above, includes;

- \$3,062,500 for the equity component of the Smollen Group first tranche deferred consideration to be settled by the issue of 2,573,520 ordinary shares in McGrath Limited on 30 June 2017.
- \$6,125,000 for the Smollen Group second tranche deferred consideration to be settled 50% in cash and 50% in convertible redeemable preference shares in September 2017.
- \$75,000 for the CP Frenchs Forest Sales Proprietary Limited deferred consideration to be settled on or before June 2017.

The consolidated entity has no bank loans at 31 December 2016 (31 December 2015 – nil).

8 Business combinations

8(a) On 1 July 2016, McGrath acquired CP Frenchs Forest Sales Proprietary Limited.

Details of the fair value of the assets and liabilities acquired are as follows:

	\$'000
Fair value of consideration transferred	
Amount settled in cash	186
Amount of deferred consideration	100
Total consideration pre adjustment	286
Working capital adjustment	(1)
Adjusted consideration	285
Recognised amounts of identifiable net assets	
Property, plant and equipment	261
Total non-current assets	261
Payroll liabilities	(15)
Total current liabilities	(15)
Identifiable net assets	246
Goodwill on acquisition	39

The fair values of the identifiable net assets has been measured on a provisional basis. If new information is obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition, then the accounting for the acquisition will be revised.

Deferred consideration of \$100,000 was initially recognised as a liability based upon the fair value of earn outs payable in accordance with the purchase agreement. The deferred consideration is payable in cash on the achievement of gross commission income hurdles within 12 months from the date of sale.

As at 31 December 2016, the deferred consideration was revalued based on management's updated assessment of the probability of the office achieving the gross commission income hurdles resulting in a reduction of the liability and a gain of \$25,000 being recognised in the profit and loss for the period.

8(b) On 8 December 2015, McGrath completed the acquisition of the Smollen Group consisting of 10 entities. Prior to acquisition the Smollen Group represented the network's largest franchisee and consisted of 10 offices across Sydney's North Shore, North West and Northern Beaches.

	\$'000
Fair value of consideration transferred	
Amount settled in cash	31,500
Amount settled in ordinary shares	21,000
Amount of deferred consideration	12,250
Fair value adjustment of deferred consideration recognised in the profit and loss	2,657
Total consideration pre working capital adjustment	67,407
Working capital adjustment	(1,945)
Adjusted consideration	65,462
Identifiable net assets	12,473
Goodwill on acquisition	52,989

As at 31 December 2016, the deferred consideration was revalued based on management's updated assessment of the probability of the Smollen Group meeting the earn out hurdles resulting in a reduction of the liability and a gain of \$320,687 being recognised in the profit and loss for the period.

9 Related parties

(a) Details of key management personnel

Non-executive Directors

C. O'Connor	Chair and Non-executive Director	
E. Crouch	Non-executive Director	Appointed 25 August 2016
N. Dews	Non-executive Director	Appointed 23 November 2016
C. Rogers	Non-executive Director	Appointed 23 November 2016
D. Mackay	Chair and Non-executive Director	Retired 25 August 2016
D. Petre	Non-executive Director	Retired 23 November 2016

Executive Director

J. McGrath	Executive Director
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Executives

C. Judson	Chief Executive Officer	Appointed 14 July 2016
P. Hauenschild	Chief Financial Officer	
K. Stathopoulos	Director of Sales	Appointed 10 October 2016
G. Vouris	General Manager Franchise	
G. Lucas	Chief Operating Officer	Resigned 12 August 2016
M. Lahood	Director of Sales	Resigned 31 December 2016

(b) Equity holdings of key management personnel

	Financial year	Shares held at beginning of financial year	Impact of share split and restructure	Shares acquired during the year	Shares disposed during the year	Shares held at 31 December
		Shares	Shares	Shares	Shares	Shares
D. Mackay	2017	234,499	-	-	186,880	47,619
	2016	-	-	166,666	-	166,666
C. O'Connor	2017	109,238	-	16,000	-	125,238
	2016	-	-	95,238	-	95,238
D. Petre	2017	277,777	-	-	111,111	166,666
	2016	-	-	166,666	-	166,666
J. McGrath	2017	37,127,378	-	-	-	37,127,378
	2016	27,056,252	27,056,252	-	17,857,126	36,255,378
E. Crouch	2017	-	-	21,052	-	21,052
	2016	-	-	-	-	-
C. Rogers	2017	-	-	30,000	-	30,000
	2016	-	-	-	-	-
Sub Total	2017	37,748,892	-	67,052	297,991	37,517,953
	2016	27,056,252	27,056,252	428,570	17,857,126	36,683,948

9 Related parties (continued)

(b) Equity holdings of key management personnel (continued)

	Financial year	Shares held at beginning of financial year	Impact of share split and restructure	Shares acquired during the year	Shares disposed during the year	Shares held at 31 December
		Shares	Shares	Shares	Shares	Shares
G. Lucas	2017	5,787,194	-	-	70,000	5,717,194
	2016	4,266,563	4,266,563	-	2,815,932	5,717,194
P. Hauenschild	2017	69,277	-	-	-	69,277
	2016	-	-	24,277	-	24,277
M. Lahood	2017	2,788,875	-	-	-	2,788,875
	2016	2,081,250	2,081,250	-	1,373,625	2,788,875
G. Vouris	2017	24,515	-	-	-	24,515
	2016	-	-	24,515	-	24,515
K. Stathopoulos	2017	48,077	-	-	-	48,077
	2016	-	-	48,077	-	48,077
Sub Total	2017	8,717,938	-	-	70,000	8,647,938
	2016	6,347,813	6,347,813	96,869	4,189,557	8,602,938
Grand Total	2017	46,466,830	-	67,052	367,991	46,165,891
	2016	33,404,065	33,404,065	525,439	22,046,683	45,286,886

C. Judson and N. Dews do not hold shares in the Company.

Except for the movement in equity holdings of key management personnel, there have been no other new significant related party transactions during the period.

10 Capital and reserves

	31 December 2016	30 June 2016
(a) Capital	\$'000	\$'000
136,488,913 fully paid ordinary shares (30 June 2016: 134,153,229).	92,132	92,132

Issue of ordinary shares

On 13 September 2016 2,335,684 ordinary shares were issued in accordance with the terms and conditions of the High Performing Agent Plan.

	\$'000	Shares
On issue at 1 July 2016	92,132	134,153,229
Issue of shares – High performing agent plan	-	2,335,684
Balance at 31 December 2016	92,132	136,488,913

10 Capital and reserves (continued)

	\$'000	Shares
On issue at 1 July 2015	6,333	45,891,563
Issue of shares - MAUT acquisition	1,233	458,916
Issue of shares - share split and restructure	-	46,350,480
Issue of shares - public float	66,050	31,452,270
Transaction costs deducted from equity	(3,501)	-
Issue of shares - Smollen acquisition	21,000	10,000,000
Balance at 31 December 2015	91,115	134,153,229

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

(b) Share-based payment reserve

	2016 \$'000	2015 \$'000
Balance at 1 July	74	-
Provisions made during the period	197	-
Balance at 31 December	271	-

(c) Dividends paid and proposed

	31 December 2016 \$'000	31 December 2015 \$'000
Declared and paid during the period:		
Dividends on ordinary shares:		
Final franked dividend for 2015: 6.1¢ (2014: 5.41¢) paid August 2015	-	2,800
Pre IPO franked dividend for 2016: 17.7¢ (2015: nil) paid December 2015	-	8,200
Final franked dividend for 2016: 3.5¢ (2015: 6.1¢) paid September 2016	4,777	-
	4,777	11,000

The tax rate at which dividends paid have been franked is 30% (2015: 30%).

11 Events subsequent to reporting date

There has not arisen in the interval between the end of the half 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.

12 General accounting policies

Basis of preparation

These interim financial statements are general purpose financial statements that have been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001, and with IAS 34 Interim Financial Reporting.

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 consolidated annual financial statements as at and for the year ended 30 June 2016.

Accounting policies are consistent with the 30 June 2016 Annual Financial Report.

These interim financial statements were authorised for issue by the Company's Board of Directors on 23 February 2017.

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.

Significant accounting judgements, estimates and assumptions

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

The significant judgments made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 30 June 2015 with the exception of the following:

Equity

The determination as to whether costs are directly attributable to the issue of shares is a significant judgement. This 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.

Internal restructure

The Directors elected to account for the restructure as a capital re-organisation rather than a business combination. Pre-existing accounting values of assets and liabilities in McGrath Operations Limited, previously McGrath Limited's, financial statements have been used.

Business combinations

The fair value of identifiable assets and liabilities are assessed by applying judgement in their identification, classification and measurement in accordance with McGrath's accounting policies and other pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or a liability will be recognised in either profit or loss or in other comprehensive income.

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

Goodwill

Goodwill is required to be allocated to cash generating units and tested for impairment on an annual basis. Management apply judgement in determining cash generating units and allocating the goodwill arising from business combinations to these cash generating units. Management applies judgement in selecting valuation techniques and setting valuation assumptions to determine the recoverable amount. These include the assumptions used in forecasting cash flows, discount and terminal growth rates.

12 General accounting policies (continued)

Standards issued but not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Consolidated Entity. The Consolidated Entity's assessment of the impact of these new standards and interpretations is set out below:

i) AASB 9 *Financial Instruments*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model. The standard is not applicable until 1 January 2018 but is available for early adoption. Following the changes approved by the AASB in December 2014, the Consolidated Entity no longer expects any impact from the new classification, measurement and derecognition rules on the Consolidated Entity's financial assets and financial liabilities.

ii) AASB 15 *Revenue from Contracts with Customers*

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (eg 1 July 2017), ie without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application. Management is currently assessing the impact of the new rules and has identified the following areas that are likely to be affected:

- extended warranties, which will need to be accounted for as separate performance obligation, which will delay the recognition of a portion of the revenue
- consignment sales where recognition of revenue will depend on the passing of control rather than the passing of risks and rewards
- IT consulting services where the new guidance may result in the identification of separate performance obligations which could again affect the timing of the recognition of revenue, and
- the balance sheet presentation of rights of return, which will have to be grossed up in future (separate recognition of the right to recover the goods from the customer and the refund obligation)

At this stage, the Consolidated Entity is not able to estimate the impact of the new rules on the Consolidated Entity's financial statements. The Consolidated Entity will make more detailed assessments of the impact over the next twelve months. The Consolidated Entity does not expect to adopt the new standard before 1 July 2018.

iii) AASB 16 *Leases*

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. The Consolidated Entity has not yet assessed how its business would be affected by the new model. The standard must be applied for financial years commencing on or after 1 January 2019. There are no other standards and interpretations that are not yet effective and that are expected to have a material impact on the Consolidated Entity in the current or future reporting periods and on foreseeable future transactions.

Directors' Declaration For the Half Year Ended 31 December 2016

In the opinion of the directors of McGrath Limited:

(a) the condensed consolidated financial statements and notes set out on pages 8 to 22 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Australian Accounting Standards AASB 134 *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 2016 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.



Cass O'Connor

Chair

23 February 2017



Independent Auditor's Review Report

To the Shareholders of McGrath Limited

Conclusion

We have reviewed the accompanying **Half-year 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 is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Consolidated Entity's** financial position as at 31 December 2016 and of its performance for the **Half-year Period** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2016
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Interim Period ended on that date
- Notes 1 to 12 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 Period end or from time to time during the Half-year Period.

The **Half-year Period** is the 6 months ended on 31 December 2016.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

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

Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2016 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*. As auditor of McGrath Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year 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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



KPMG



S J Marshall
Partner

Sydney
23 February 2017

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

Cass O’Connor

Chair and Non-executive Director

John McGrath

Executive Director

Elizabeth Crouch

Independent Non-executive Director

Nigel Dews

Independent Non-executive Director

Cath Rogers

Independent Non-executive Director

CHIEF EXECUTIVE OFFICER

Cameron Judson

COMPANY SECRETARY

Morgan Sloper

REGISTERED OFFICE

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