

# McGRATH LIMITED AND CONTROLLED ENTITIES

Financial Report for the year ended 30 June 2015

A.B.N. 17 091 455 711

**McGrath**

# McGrath Limited and Controlled Entities

A.B.N. 17 091 455 711

## Annual Financial Report 2015

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## McGrath Limited and Controlled Entities

A.B.N. 17 091 455 711

### Corporate Information

McGrath Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:

McGrath Limited  
191 New South Head Road  
EDGECLIFF NSW 2027

All press releases and other company background information is available on our website: [www.mcgrath.com.au](http://www.mcgrath.com.au).

### What we do

McGrath is a full service real estate provider, with a thirty year history of helping our clients do business. While our main focus is selling and managing residential property, we have a range of complementary services including home loans, project marketing and commercial sales and leasing.

### Key highlights for the year

**Revenue \$86m up 19%**

**Value of property sales \$11.6b<sup>1</sup>  
Number of property sales 10,990<sup>2</sup>**

**Office network increased to 67  
with 10 new offices opened**

**Record sales month  
March 2015 \$1.4b of property sales**

<sup>1</sup> Value of property sales is defined as total value of sales transacted by the McGrath Network excluding the apportioned value attributed to external conjunction agents

<sup>2</sup> Number of property sales is defined as total number of sales transacted by the McGrath Network excluding the apportioned number attributed to external conjunction agents

## Directors' Report For the Year Ended 30 June 2015

The directors present their report together with the consolidated financial statements of the Consolidated Entity, comprising of McGrath Limited (the Company or McGrath) and its subsidiaries for the financial year ended 30 June 2015.

### Principal activities and review of operations

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

Consolidated Entity profit after providing for income tax amounted to \$7,035,044 (2014: \$9,256,214).

During the year the Consolidated Entity has expanded its office network to 67 including 12 Company owned offices. The McGrath network including franchise and company owned offices generated over \$12b in residential sales on behalf of clients from 11,760 transactions.

### Directors

The following persons were directors of McGrath Limited during or since the end of the financial year and up to the date of this report:

#### Ms. Wendy McCarthy. Non-executive Chair. AO, BA, Dip. Ed. MAICD – retired 30 June 2015

Over forty years' experience as executive and non-executive director in the public and private sectors. Wendy McCarthy is Chair of Headspace, Chair of Circus Oz, Chair of Pacific Friends of the Global Fund and non-executive director of Goodstart Early Learning and Bentham IMF. She is the Executive Director of McCarthy Management Pty Limited, and Founder of McCarthy Mentoring.

#### Mr. John McGrath. Executive Director. Chief Executive Officer.

John McGrath is a Licensed Real Estate Agent with over thirty years' experience in the real estate industry. Currently a director of REA Group as well as a number of private companies.

#### Ms. Cass O'Connor. Non-executive Director. B Bus.

Over thirty years as a corporate advisor, private equity investor and equities research analyst. Currently running her own advisory and investment firm, she has been a senior banker with Carnegie, Wylie & Company

(now Lazard Australia); Executive Director with Goldman Sachs Australia LLC; Director of Turnbull & Partners Limited and equities research analyst with Bain & Company (now Deutsche Bank). Her industry specialisations include media, telecommunications, entertainment, property, luxury consumables and the not-for-profit sector. Cass has held and continues to hold a number of directorships in Australian Stock Exchange listed, private and public sector entities.

#### Mr. Shad Hassen. Non-executive Director – appointed 15 September 2014

Shad Hassen is a licensed real estate agent and auctioneer with over twenty years' experience in the real estate sales industry and seventeen years at McGrath where he specialises in residential sales and auctioneering.

#### Ms. Bethwyn Richards. Non-executive Director – retired 15 September 2014

Bethwyn Richards is a licensed real estate agent with over fifteen years' experience in the real estate industry. She holds a BA and Post Grad in Business and has completed the Australian Institute of Company Directors course.

#### David Mackay. Non-executive Chair – appointed 21 July 2015

David has had a long career with Kellogg Company in America and internationally, retiring as Chief Executive Officer and President of Kellogg Company in 2011 after holding a number of key positions within the company. Mr Mackay is a Director of Fortune Brands Home & Security Inc. (since 2011), Keurig Green Mountain, Inc. (since 2012) and Woolworths Limited (since 2012) and has a Bachelor of Business Administration from Charles Sturt University.

### Board Meetings

During the financial year eight meetings of the board of directors were held. Attendees were:

	Eligible	Attended
W. McCarthy	8	8
J. McGrath	8	8
C. O'Connor	8	8
S. Hassen	6	6
B. Richards	2	2

### Company Secretary

#### Mr. Paul Hauenschild. CPA.

Paul Hauenschild is Company Secretary and Chief Financial Officer of McGrath Limited. He has had significant experience serving in senior finance positions in Australia and the United Kingdom prior to joining McGrath in 2006.

### Dividends

Dividends totaling \$6,428,000 were declared and paid during the year. (2014: \$1,539,000).

### Significant changes in state of affairs

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

### Subsequent events

On 2 September 2015, McGrath Limited acquired the remaining 50% interest in McGrath Auctions Unit Trust. McGrath Limited issued shares equivalent to 1% of the contributed equity of McGrath Limited as consideration for the acquisition.

On 3 October 2015, McGrath Limited entered into a binding share sale and purchase agreement (SPA) to acquire the Smollen Group, McGrath's largest franchisee. The Smollen Group is a significant real estate group that comprises 10 offices across Sydney's North West and Northern Beaches.

The SPA is conditional upon certain conditions and McGrath Limited may terminate the SPA before completion in certain circumstances. The acquisition has been structured such that McGrath will acquire 100% of the Smollen Group for an initial purchase price of \$52.5 million, payable partly in cash (\$31.5 million) and partly in shares (\$21 million). The SPA includes deferred consideration of \$17.5 million payable partly in cash (\$8.75 million) and partly in shares (\$8.75 million) the entitlement to which is subject to the Smollen Group meeting certain performance hurdles and other conditions.

Other than as detailed above, there has not arisen, in the interval between the end of the financial 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 the future financial years.

### Rounding off

The Consolidated Entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the consolidated financial statements and directors reports have been rounded off to the nearest thousand dollars, unless otherwise stated.

### Likely developments

The Consolidated Entity has a clear organic growth strategy of expanding its network via new company owned office openings and franchise office roll-outs, as well as entering new operating territories. The Consolidated Entity is currently considering its capital structure to continue its growth strategy.

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

### Environmental issues

The Consolidated Entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory. The Consolidated Entity is not subject to the reporting requirements of the National Green House and Energy Act 2007, however the Consolidated Entity monitors its green house gas and energy consumption on an annual basis.

### Indemnification and insurance of officers

#### Indemnification

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

#### Insurance

During the financial year the Consolidated Entity has paid an insurance premium of \$9,202 in respect of Directors' and Officers' liability, for current and former Directors and senior executives of the Company and directors and senior executives of its controlled entities.



### Indemnification and insurance of officers *continued*

The insurance premium relates to:

- costs and expenses incurred by the relevant Directors' or Officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Consolidated Entity.

### Directors' interests

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

	Ordinary Shares
John McGrath	27,056,252
Shad Hassen	2,081,250

No options over issued shares or interests in the Company or a controlled entity were granted to directors or key management personnel during or since the end of the financial year. An option granted to Geoff Lucas over 5% of the ordinary share capital of the Company on 1 June 2010 was exercised during the financial year.

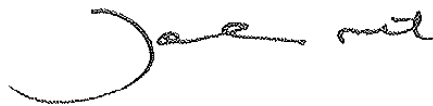
### Auditor's independence declaration

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

Signed in accordance with a resolution of the of  
Directors



David Mackay  
Chair  
19 October 2015



John McGrath  
Director and Chief Executive Officer  
19 October 2015



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

To: the directors of McGrath Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2015 there have been:

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

KPMG

KPMG

Paul Thomas  
*Partner*

Sydney

19 October 2015



# McGrath Limited and Controlled Entities

A.B.N. 17 091 455 711

*Financial Report For The Year Ended 30<sup>th</sup> June 2015*

## **Financial statements**

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## Financial statements

### Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
Revenues and other income	A1	85,855	72,321
Cost of sales		(35,168)	(26,454)
Employee benefits expense	A4	(22,467)	(18,257)
Directors' fees		(146)	(135)
Professional fees		(1,734)	(1,415)
Doubtful debts		(12)	(200)
Occupancy		(3,964)	(3,130)
Communications		(1,736)	(1,418)
Advertising and promotions		(2,105)	(1,325)
Other expenses		(5,584)	(4,259)
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>		12,939	15,728
Depreciation and amortisation expenses		(2,227)	(1,940)
Finance income		114	118
Finance costs		(448)	(479)
Net finance costs		(334)	(361)
<b>Profit before income tax expense</b>		10,378	13,427
Income tax expense	A5	(3,343)	(4,170)
<b>Profit after income tax expense</b>		7,035	9,257
Other comprehensive income		-	-
<b>Total profit and other comprehensive income for the year</b>		7,035	9,257
Profit after income tax expense attributable to:			
Owners of the Company		6,727	8,993
Non-controlling interest		308	264
<b>Profit after income tax expense</b>		7,035	9,257

## Consolidated statement of financial position as at 30 June 2015

	Notes	2015 \$'000	2014 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	A3	2,836	3,870
Trade and other receivables	B1	22,025	22,117
Other	E1	869	1,534
Current tax assets		-	15
<b>TOTAL CURRENT ASSETS</b>		<b>25,730</b>	<b>27,536</b>
<b>NON CURRENT ASSETS</b>			
Receivables	B1	225	236
Property, plant and equipment	E2	3,185	2,191
Intangible assets	B2	8,941	6,824
Deferred tax assets	A5	-	373
<b>TOTAL NON CURRENT ASSETS</b>		<b>12,351</b>	<b>9,624</b>
<b>TOTAL ASSETS</b>		<b>38,081</b>	<b>37,160</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	B3	11,685	12,919
Interest bearing loans and borrowings	B4	558	644
Provisions	E3	1,639	1,325
Current tax liabilities		1,250	2,331
<b>TOTAL CURRENT LIABILITIES</b>		<b>15,132</b>	<b>17,219</b>
<b>NON CURRENT LIABILITIES</b>			
Interest bearing loans and borrowings	B4	6,356	6,547
Provisions	E3	823	639
Deferred tax liabilities	A5	1,466	-
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>8,645</b>	<b>7,186</b>
<b>TOTAL LIABILITIES</b>		<b>23,777</b>	<b>24,405</b>
<b>NET ASSETS</b>		<b>14,304</b>	<b>12,755</b>
<b>EQUITY</b>			
Contributed equity	E4	6,333	5,083
Share-based payment reserve	E4	-	441
Profits reserve	E4	-	-
Retained profits/(accumulated losses)		7,971	7,231
Total Equity attributable to equity holders		14,304	12,755
Non-controlling interests		-	-
<b>TOTAL EQUITY</b>		<b>14,304</b>	<b>12,755</b>

## Consolidated statement of changes in equity as at 30 June 2015

	Notes	Contributed equity	Retained profits/ (accumulated losses)	Share Based Payment Reserve	Profits Reserve	Total attributable to owners of the company	Non- controlling interest	Total equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2013		5,283	(2,663)	441	2,680	5,741	(240)	5,501
Profit after income tax expense		-	8,993	-	-	8,993	264	9,257
Other comprehensive income		-	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>		-	8,993	-	-	8,993	264	9,257
Transfer from profits reserve		-	1,141	-	(1,141)	-	-	-
Return of equity		(200)	-	-	-	(200)	-	(200)
Acquisition of non-controlling interests		-	(240)	-	-	(240)	240	-
Dividends to equity holders	C3	-	-	-	(1,539)	(1,539)	-	(1,539)
Distributions to non-controlling interests		-	-	-	-	-	(264)	(264)
<b>Transactions with owners, recorded directly in equity</b>		(200)	901	-	(2,680)	(1,979)	(24)	(2,003)
Balance at 30 June 2014		5,083	7,231	441	-	12,755	-	12,755
Profit after income tax expense		-	6,727	-	-	6,727	308	7,035
Other comprehensive income		-	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>		-	6,727	-	-	6,727	308	7,035
Issue of equity		1,250	-	-	-	1,250	-	1,250
Share based payment transactions		-	441	(441)	-	-	-	-
Dividends to equity holders	C3	-	(6,428)	-	-	(6,428)	-	(6,428)
Distributions to non-controlling interests		-	-	-	-	-	(308)	(308)
<b>Transactions with owners, recorded directly in equity</b>		1,250	(5,987)	(441)	-	(5,178)	(308)	(5,486)
Balance at 30 June 2015		6,333	7,971	-	-	14,304	-	14,304

## Consolidated statement of cash flows for the year ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		87,402	75,769
Payments to suppliers and employees		(75,239)	(63,176)
Interest paid		(448)	(473)
Interest received		114	118
Income tax paid		(2,569)	(2,710)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	A3	<u>9,260</u>	<u>9,528</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(1,987)	(848)
Purchase of intangibles		(2,807)	(2,449)
Loans granted		(2,311)	(2,326)
Loan repayments received		2,575	1,867
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		<u>(4,530)</u>	<u>(3,756)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of share capital		1,250	-
Proceeds from borrowings		662	-
Repayment of borrowings		(826)	(1,049)
Repayment of finance lease principal		(114)	-
Dividends paid	C3	(6,428)	(1,539)
Distribution paid		(308)	(264)
Return of share capital		-	(200)
<b>NET CASH OUTFLOW FROM FINANCING ACTIVITIES</b>		<u>(5,764)</u>	<u>(3,052)</u>
Net increase /(decrease) in cash and cash equivalents		(1,034)	2,720
Cash and cash equivalents at the beginning of the financial year		3,870	1,150
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>	A3	<u><u>2,836</u></u>	<u><u>3,870</u></u>

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## Notes to the financial statements

The consolidated financial statements of McGrath Limited (the Company) as at and for the year ended 30 June 2015 comprise the Company and its controlled entities, (together referred to as the Consolidated Entity).

McGrath Limited is a for-profit company limited by shares incorporated in Australia. The Company's registered address is 191 New South Head Road Edgecliff NSW 2027.

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

The financial statements were approved by the Board of Directors on 8 September 2015.

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

### A: Financial performance and cash flows

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

### B: Financial position

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

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

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

### D: Unrecognised items

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

### E: Other information

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



## A Financial performance and cash flows

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

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# Notes to the Financial Statements for the year ended 30 June 2015

## Financial performance and cash flows

### A1 Revenues and other income

	2015 \$'000	2014 \$'000
Commission	54,932	47,163
Fees	30,873	25,108
Other income	50	50
Total revenue and other income	85,855	72,321

#### Recognition and Measurement

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

- Commission and related income, including franchise fee income, derived from real estate sales is recognised at the time of unconditional exchange of contracts between vendors and purchasers.
- Property management fee income is recognised when rental payments for managed properties are receipted.
- Mortgage commissions are recognised upon loan settlement.
- Interest income is recognised upon control of the right to receive the interest payment.
- Dividends and distributions are recognised when declared.

### A2 Operating segments

#### Description of segments

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

The following describes the operations of each segment:

#### Company owned sales

This represents the company owned sales offices for which McGrath earns sales 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.

Head office and corporate costs are not allocated to segments.

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

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

## A2 Operating segments (continued)

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

Assets and liabilities have not been reported on a segmented basis as the CODM is provided with consolidated information.

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	50,880	10,645	12,434	73,959	11,802	85,761
Inter-segment revenues	-	-	-	-	4,640	4,640
<b>Segment Revenue</b>	<b>50,880</b>	<b>10,645</b>	<b>12,434</b>	<b>73,959</b>	<b>16,442</b>	<b>90,401</b>
Unallocated revenue						94
Eliminations						(4,640)
<b>Consolidated Revenue</b>						<b>85,855</b>
<b>Segment profit before interest, tax, depreciation and amortisation</b>	<b>8,279</b>	<b>2,728</b>	<b>8,881</b>	<b>19,888</b>	<b>924</b>	<b>20,812</b>
Unallocated corporate costs						(7,873)
<b>EBITDA</b>						<b>12,939</b>
Depreciation and amortisation	(772)	(649)	(5)	(1,426)	(655)	(2,081)
Unallocated corporate depreciation and amortisation						(146)
Net finance costs						(334)
<b>Profit before income tax expense</b>						<b>10,378</b>
<b>2014</b>	<b>Company owned Sales \$'000</b>	<b>Company owned property management \$'000</b>	<b>Franchise services \$'000</b>	<b>Total reportable segments \$'000</b>	<b>Other segments \$'000</b>	<b>Consolidated total \$'000</b>
External revenues	43,110	9,296	9,588	61,994	10,243	72,237
Inter-segment revenues	-	-	-	-	1,674	1,674
<b>Segment Revenue</b>	<b>43,110</b>	<b>9,296</b>	<b>9,588</b>	<b>61,994</b>	<b>11,917</b>	<b>73,911</b>
Unallocated revenue						84
Eliminations						(1,674)
<b>Consolidated Revenue</b>						<b>72,321</b>
<b>Segment profit before interest, tax, depreciation and amortisation</b>	<b>11,937</b>	<b>2,571</b>	<b>8,407</b>	<b>22,915</b>	<b>(257)</b>	<b>22,658</b>
Unallocated corporate costs						(6,930)
<b>EBITDA</b>						<b>15,728</b>
Depreciation and amortisation	(603)	(891)	(9)	(1,503)	(379)	(1,882)
Unallocated corporate depreciation and amortisation						(58)
Net finance costs						(361)
<b>Profit before income tax expense</b>						<b>13,427</b>

**A3 Cash and Cashflow related information**

	2015 \$'000	2014 \$'000
Cash at bank	1,203	1,351
Short term deposits	1,633	2,519
Cash and cash equivalents	2,836	3,870

**Recognition and Measurement**

Cash and cash equivalents in the 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 statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

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

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

	2015 \$'000	2014 \$'000
Profit after income tax expense	7,035	9,257
Add non-cash items:		
Depreciation and amortisation expense	2,227	1,940
Doubtful debts expense	12	200
Impairment of other receivables	3,153	-
Other	-	5
Net cash inflow from ordinary activities before changes in assets and liabilities	12,427	11,402
Decrease/(Increase) in trade receivables	(4,262)	(3,036)
Decrease/(Increase) in prepayments	784	(710)
Decrease/(Increase) in inventories	90	9
Decrease/(Increase) in current tax assets	15	97
Decrease/(Increase) in other receivables and other assets	(2,775)	(3,899)
Increase/(Decrease) in trade and other payables	1,725	3,989
Increase/(Decrease) in provisions	498	314
Increase/(Decrease) in current tax liabilities	(1,081)	2,331
Increase/(Decrease) in deferred net tax liability	1,839	(969)
	9,260	9,528



## A4 Employee benefit expenses

	Notes	2015 \$'000	2014 \$'000
Wages and salaries	(i)	19,840	16,106
Leave provisions		1,271	1,067
Contributions to defined contribution plans		1,356	1,084
		22,467	18,257

(i) Consultants amounting to \$1,435,000 disclosed in the prior year under professional fees have been reclassified to wages and salaries to ensure comparability with the current year.

### Accounting for employee benefits

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

##### Recognition and Measurement:

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

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

#### Long service leave

##### Recognition and Measurement:

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

#### Defined contribution plans

##### Recognition and Measurement:

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

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

Contributions to a defined contribution plan that are due more than twelve months after the end of the period in which the employees render the service are discounted to their present value.

## A5 Taxation

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

	2015 \$'000	2014 \$'000
<b>Income tax expense</b>		
<i>Current tax expense</i>		
Current year	2,279	4,041
Tax losses utilised	(625)	-
(Over) / under provision for current income tax expense	(150)	1,128
	1,504	5,169
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	823	129
Tax losses derecognised	307	-
Tax losses utilised	625	-
(Over) / under provision for deferred income tax expense in the prior year	84	(1,128)
	1,839	(999)
<b>Total income tax expense</b>	<b>3,343</b>	<b>4,170</b>
<i>Reconciliation of income tax expense/(benefit)</i>		
Profit before tax	10,378	13,427
At the statutory income tax rate of 30% (2014: 30%)	3,113	4,028
Non assessable income	(93)	(78)
Non deductible expenses	129	70
Tax losses derecognised	307	-
(Over) / under provision for income tax expense in the prior year	(113)	150
<b>Income tax expense</b>	<b>3,343</b>	<b>4,170</b>

	Statement of financial position		Recognised in consolidated statement of profit or loss	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
<b>Balance and movement in deferred tax assets and liabilities</b>				
<i>Deferred tax liabilities</i>				
Unsettled sales commission income	3,268	1,954	1,314	418
	3,268	1,954		
<i>Deferred tax assets</i>				
Capitalised expenses	1	-	(1)	2
Temporary differences in provision balances	854	695	(159)	(124)
Temporary differences in accrual balances	282	213	(69)	(117)
Unsettled sales commission costs	480	291	(189)	(50)
Change in previously recognised tax losses	185	1,128	943	(1,128)
	1,802	2,327		
<b>Total net deferred tax assets/(liabilities)</b>	<b>(1,466)</b>	<b>373</b>		
<b>Movement in temporary differences recognised in income during the financial year</b>			<b>1,839</b>	<b>(999)</b>

## **A5      Taxation (continued)**

### **Tax losses**

The Consolidated Entity has income tax losses for which no deferred tax asset is recognised on the statement of financial position of \$nil (2014: \$150,000).

The Consolidated Entity also has capital tax losses for which no deferred tax asset is recognised on the statement of financial position of \$948,977 (2014: \$948,977) which are available for offset against future capital gains subject to continuing to meet relevant statutory tests.

### **Income tax**

Income tax expense comprises current and deferred tax.

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

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

Deferred tax is recognised for all taxable temporary differences except:

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

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

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

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

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

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

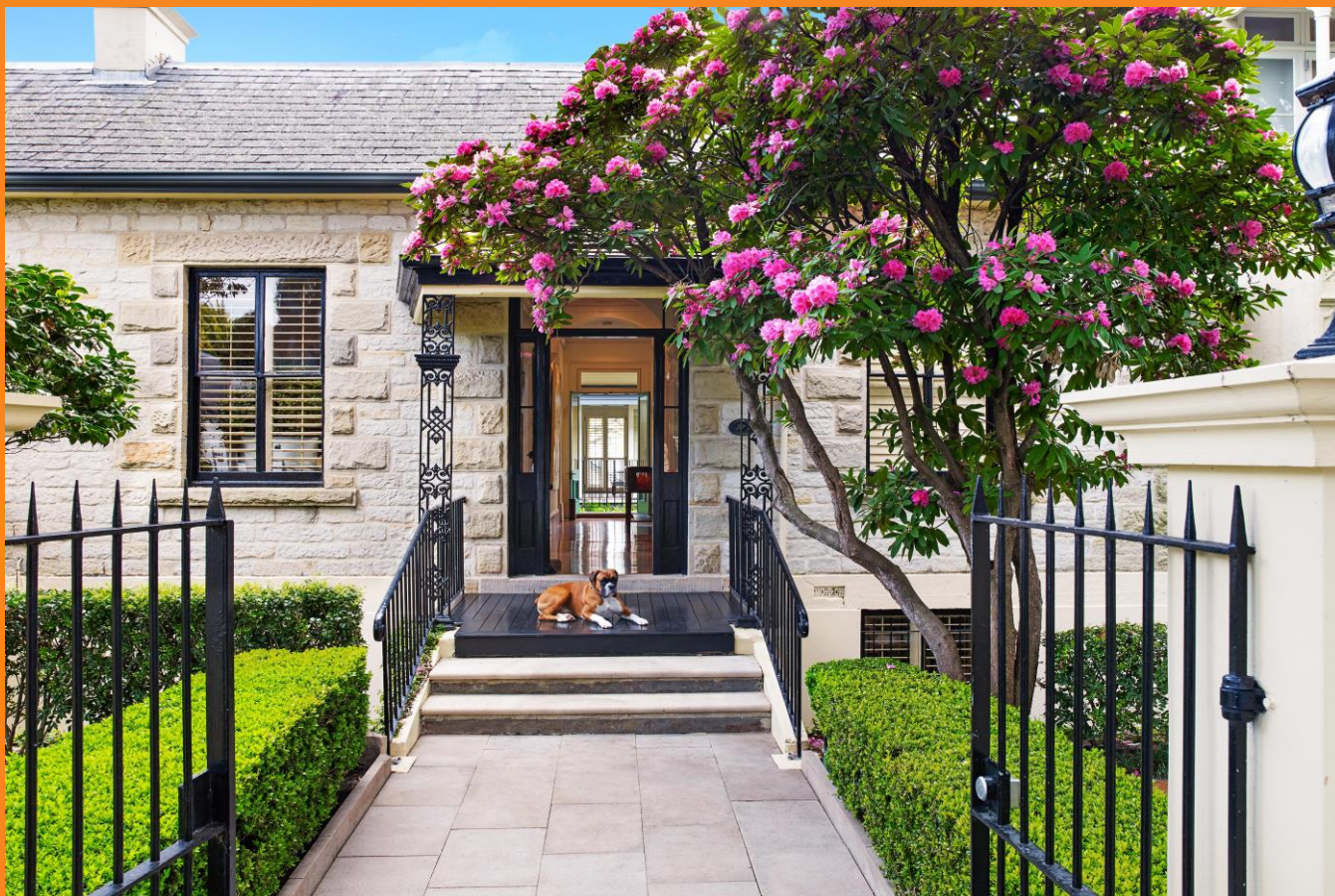
Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

### **Tax Consolidation Legislation**

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

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

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



## B Financial position

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

B1	Trade and other receivables	23
B2	Intangible assets	23
B3	Trade and other payables	25
B4	Interest bearing loans and borrowings	25

## B1 Trade and other receivables

	Notes	2015 \$'000	2014 \$'000
Current			
Trade receivables	(i)	14,490	10,232
Doubtful debts provision	(ii)	(386)	(378)
		14,104	9,854
Other Receivables	(iii)	6,342	10,432
Loans - director	(iv)	600	630
Loans - other	(v)	979	1,201
		22,025	22,117
Non current:			
Trade receivables	(i)	120	120
Loans - other	(v)	105	116
		225	236

### Recognition and Measurement

(i) Trade receivables, which are generally due on settlement or have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

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

(iii) Other receivables is predominantly related to franchise fees owing from franchise businesses which is paid the month following sales settlement.

(iv) The terms and conditions of the director loans is disclosed at Note C4 (d).

(v) The other loans are mainly other shareholder loans. The loans are unsecured and interest free and are repaid on an ongoing basis from commissions and dividends that would otherwise be paid.

## B2 Intangible assets

	Goodwill \$'000	Property Management Rights \$'000	Software \$'000	Total \$'000
<b>Year Ended 30 June 2015</b>				
<b>Consolidated Entity</b>				
<b>Cost</b>				
At 1 July 2014	-	5,685	4,153	9,838
Additions	300	664	2,349	3,313
At 30 June 2015	300	6,349	6,502	13,151
<b>Accumulated amortisation</b>				
At 1 July 2014	-	(1,436)	(1,578)	(3,014)
Amortisation charge for the year	-	(594)	(602)	(1,196)
At 30 June 2015	-	(2,030)	(2,180)	(4,210)
<b>Carrying amounts</b>				
At 1 July 2014	-	4,249	2,575	6,824
At 30 June 2015	300	4,319	4,322	8,941



## B2 Intangible assets (continued)

	Property Management Rights \$'000	Software \$'000	Training Courses \$'000	Total \$'000
<b>Year Ended 30 June 2014</b>				
<b>Consolidated Entity</b>				
<b>Cost</b>				
At 1 July 2013	5,685	4,970	62	10,717
Additions	-	2,506	-	2,506
Disposals	-	(3,323)	(62)	(3,385)
At 30 June 2014	5,685	4,153	-	9,838
<b>Accumulated amortisation</b>				
At 1 July 2013	(585)	(4,667)	(61)	(5,313)
Disposal	-	3,323	61	3,384
Amortisation charge for the year	(851)	(234)	-	(1,085)
At 30 June 2014	(1,436)	(1,578)	-	(3,014)
<b>Carrying amounts</b>				
At 1 July 2013	5,100	303	1	5,404
At 30 June 2014	4,249	2,575	-	6,824

### Recognition and Measurement

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

Expenditure on internally generated intangible assets, excluding software development costs, is not capitalised. Software Assets are amortised on a straight-line basis over three years.

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

Goodwill arising on the acquisition of businesses is measured at cost less accumulated impairment losses. Goodwill is tested annually for impairment.

At each reporting date, the Consolidated Entity reviews the carrying amount of intangibles to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cashflows, discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognised in the profit or loss. An impairment loss in respect of goodwill is not reversed. For other intangibles, an impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised.

### B3 Trade and other payables

	2015 \$'000	2014 \$'000
Current		
Trade creditors	573	1,244
Other creditors	2,957	5,099
Accrued expenses	6,353	5,133
Accrued salesman commission	1,598	922
Unearned income	204	521
	<u>11,685</u>	<u>12,919</u>

#### Recognition and Measurement

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

### B4 Interest bearing loans and borrowings

	2015 \$'000	2014 \$'000
Current		
Finance lease liability	215	-
Loans - secured	343	644
	<u>558</u>	<u>644</u>
Non current		
Finance lease liability	334	-
Loans - secured	6,022	6,547
	<u>6,356</u>	<u>6,547</u>

	Facility Limit 2015 \$'000	Facility Limit 2014 \$'000	Drawn Amount 2015 \$'000	Drawn Amount 2014 \$'000	Maturity Date
<b>Secured loan facilities</b>					
Loan facility – tranche 1	1,811	2,078	1,811	2,078	Mar 2017
Loan facility – tranche 2	4,425	4,425	4,425	4,425	Dec 2016
Loan facility – tranche 3	129	207	129	207	Mar 2017
Loan facility – tranche 4	-	256	-	256	Apr 2015
Overdraft facility	100	100	-	-	(i)
<b>Unsecured loan facilities</b>					
Other working capital loan	-	469	-	225	Dec 2014
	<u>6,465</u>	<u>7,535</u>	<u>6,365</u>	<u>7,191</u>	

The secured loan facilities are charged at the Macquarie Bank Reference Rate plus 0.6% and are secured by registered first ranking fixed and floating charges over the assets of the Consolidated Entity.

#### (i) Overdraft facility

At 30 June 2015, the Consolidated Entity had a \$100,000 overdraft facility available (2014: \$100,000). The facility, when utilised, is charged at the Macquarie Bank Reference Rate plus 2.5% and has no fixed repayment term. The facility is secured by a registered first ranking fixed and floating charge over the assets of the Consolidated Entity.

#### Recognition and Measurement

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.



## C Risk, capital management and related parties

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

C1	Financial risk management	27
C2	Capital management	29
C3	Dividends paid and proposed	29
C4	Key management personnel Disclosure	30
C5	Related party transactions	31

## C1 Financial risk management

The Consolidated Entity has exposure to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk

### Risk Management Framework

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

### Credit risk

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

### Exposure

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

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

### Impairment losses

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

	2015 Gross \$'000	2015 Impairment \$'000	2014 Gross \$'000	2014 Impairment \$'000
Not past due	21,464	-	20,898	-
Past due 0-30 days	368	-	722	-
Past due 31-90 days	389	-	348	-
Past due 90 days +	415	(386)	763	(378)
	22,636	(386)	22,731	(378)

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

	2015 \$'000	2014 \$'000
Balance at 1 July 2014	(378)	(254)
Provisions	(43)	(214)
Impairment loss recognised	35	90
Balance at 30 June 2015	(386)	(378)

## C1 Financial risk management (continued)

### Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will encounter difficulty in meeting the obligations associated with its financial liabilities. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation. The Consolidated Entity also has access to a \$100,000 overdraft facility for any short term financing needs.

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

	Carrying amount	Total Contractual cash flows	Within Year	1 to 2 Years	2 to 5 Years	Greater than 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2015						
Trade & other payables	11,685	11,685	11,685	-	-	-
Interest bearing loans and borrowings	6,914	7,475	925	6,441	109	-
	18,599	19,160	12,610	6,441	109	-
30 June 2014						
Trade & other payables	12,919	12,919	12,919	-	-	-
Interest bearing loans and borrowings	7,191	8,296	1,749	419	6,128	-
	20,110	21,215	14,668	419	6,128	-

### Market risk

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

### Interest rate risk

#### Profile

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

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

	Carrying Amount	Carrying Amount	Weighted average floating interest rate	Weighted average floating interest rate
	2015	2014	2015	2014
	\$'000	\$'000	%	%
Financial assets:				
Cash at bank	1,203	1,351	0.68%	0.88%
Short term deposits	1,633	2,519	1.27%	1.68%
Total financial assets	2,836	3,870		
Financial liabilities:				
Finance lease liability	549	-	6.15%	-
Loans	6,365	7,191	5.51%	6.38%
Total financial liabilities	6,914	7,191		



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## C1 Financial risk management (continued)

### Interest rate risk (continued)

#### Interest rate sensitivity

A change of 100 basis points in interest rates would have increased or decreased the Consolidated Entity's profit and equity by \$42,853 (2014: \$36,426).

#### Other Market risks

At 30 June 2015 the Consolidated Entity did not hold any available-for-sale equity securities assets (2014: nil) or have exposure to currency risk.

#### Net fair values

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

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

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## C2 Capital management

### Risk management

The Consolidated Entity's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders such as employees. The Consolidated Entity focuses on interrelated financial parameters, including its gearing ratio, earnings growth and borrowing capacity. The Consolidated Entity also monitors its interest coverage ratio and weighted average cost of debt. These are all taken into account when the Consolidated Entity makes decisions on how to invest its capital and evaluate its existing investments.

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

### Loan covenants

Under the terms of the borrowing facilities, the Consolidated Entity is required to comply with certain financial covenants including minimum annual earnings before interest, tax, depreciation and amortization, minimum property management commissions and minimum average term of franchise agreements.

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

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## C3 Dividends paid and proposed

	2015 \$'000	2014 \$'000
<b>Declared and paid during the year:</b>		
Dividends on ordinary shares:		
Final franked dividend for 2014: 5.41¢ (2014: nil) paid September 2014	2,483	-
Interim franked dividend for 2015: 8.60¢ (2014: 3.52¢) paid February 2015	3,945	1,539
	<u>6,428</u>	<u>1,539</u>
The tax rate at which dividends paid have been franked is 30% (2014: 30%).		
<b>Dividend franking account</b>	<b>\$'000</b>	<b>\$'000</b>
Amount of franking credits available to shareholders	<u>5,943</u>	<u>6,119</u>

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

## C4 Key management personnel disclosure

### (a) Details of key management personnel

#### Non Executive

##### Directors

W. McCarthy Chair (Retired 30 June 2015)

C. O'Connor

S.Hassen<sup>1</sup>

##### Executive Director

J. McGrath Chief Executive Officer

##### Executives

G. Lucas Chief Operating Officer

P. Hauenschild Chief Financial Officer

M. Lahood Director of Sales

G. Vouris General Manager Franchise

### (b) Compensation of key management personnel

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

	2015	2014
	\$	\$
Short term employee benefits	2,938,278	3,006,014
Post employment benefits	102,353	115,837
	<u>3,040,631</u>	<u>3,121,851</u>

Dividends have been paid during the year ended 30 June 2015 totaling \$6,428,000 (2014: \$1,539,000) which include amounts paid to Directors and other key management personnel.

### (c) Equity holdings of key management personnel

	Year	Securities held at beginning of financial year	Securities acquired during the year	Securities disposed during the year	Securities held at end of financial year
		Units	Units	Units	Units
J. McGrath	2015	27,056,252	-	-	27,056,252
	2014	27,056,252	-	-	27,056,252
S. Hassen <sup>1</sup>	2015	2,081,250	-	-	2,081,250
B. Richards <sup>2</sup>	2014	2,081,250	-	-	2,081,250
G. Lucas	2015	2,081,250	2,185,313	-	4,266,563
	2014	2,081,250	-	-	2,081,250
M. Lahood	2015	2,081,250	-	-	2,081,250
	2014	2,081,250	-	-	2,081,250
Total	2015	33,300,002	2,185,313	-	35,485,315
	2014	33,300,002	-	-	33,300,002

<sup>1</sup> Became a key management personnel on 15 September 2014 when appointed as a director

<sup>2</sup> Ceased to be a key management personnel on 15 September 2014 when retired as a director

## C4 Key management personnel disclosure (continued)

### (d) Loans to key management personnel

	Year	Cash advance balance at beginning of financial year	Advances received during the year	Repayments made during the year	Cash advance balance at end of financial year
		\$	\$	\$	\$
J. McGrath	2015	585,000	1,123,572	1,151,429	557,143
	2014	92,857	1,170,000	677,857	585,000
S. Hassen <sup>1</sup>	2015	45,000	86,428	88,571	42,857
B. Richards <sup>2</sup>	2014	7,143	90,000	52,143	45,000
G. Lucas	2015	45,000	161,428	118,571	87,857
	2014	7,143	90,000	52,143	45,000
M. Lahood	2015	45,000	86,428	88,571	42,857
	2014	7,143	90,000	52,143	45,000
Total	2015	720,000	1,457,856	1,447,142	730,714
	2014	114,286	1,440,000	834,286	720,000

The cash advance balances are unsecured, interest free and have no fixed repayment date. Repayments are made from dividend distributions due to the individual or a related entity.

<sup>1</sup> Became a key management personnel on 15 September 2014 when appointed as a director

<sup>2</sup> Ceased to be a key management personnel on 15 September 2014 when retired as a director

### (e) Key management personnel related party transactions

Several key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

### (f) Share-based payments

During the year, the share options offered to G. Lucas were exercised resulting in an increase to contributed equity of \$1,250,000.

The value of the option previously recognised within the share-based payment reserve of \$441,000 was transferred to retained profits during the year.

At 30 June 2015, there are no further share-based payment arrangements.

## C5 Related Party Transaction

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

Other related party transactions between subsidiaries occur due to the Consolidated Entity using centralised bank accounts in managing their treasury operations. Refer to Note E6 for a listing of the intercompany balances outstanding between McGrath Limited and its subsidiaries.



## D Unrecognised items

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

D1	Commitments for expenditure	33
D2	Contingent liabilities	33
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## D Unrecognised items

### D1 Commitments for expenditure

	2015 \$'000	2014 \$'000
Operating leases		
Non cancellable operating leases contracted for but not capitalised in the financial statements:		
-not later than 1 year	2,544	2,010
-later than 1 but not later than 5 years	7,194	5,308
-later than 5 years	93	375
	9,831	7,693

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

At the reporting date, the company has nil capital expenditure commitments (2014: \$1,800,000 for software development and \$250,000 for office fit out).

### D2 Contingent liabilities

#### Payroll tax assessments

During the financial year a controlled entity has settled its payroll tax liabilities related to commission income received by conjunction agents with the New South Wales Office of State Revenue. The settlement was expensed within cost of sales. The terms and conditions of the agreement are confidential. At 30 June 2015, there are no further contingent liabilities in respect of this matter.

#### Put and Call Option

On 28 March 2015, a controlled entity entered into a put and call option with a vendor to buy the McGrath sales office premises in Seaforth, New South Wales for \$1,125,000. The call option starts on 1 October 2015 and matures on 7 October 2015 and the put option matures a week later.

#### Guarantee of shareholder loans

In 2011, the Company and various subsidiaries entered into an agreement with a lender which guarantees the loan that certain minority shareholders have taken out, in order to purchase their shares in company.

To date, the Consolidated Entity has not made any guarantee payments to the lender and the probability of such a payment in future is considered low. The fair value of any loss is considered immaterial as should the shareholder default on their loan, John McGrath is entitled to buy the shares of the defaulting shareholder at fair value.

#### Bank guarantees

Bank guarantees have been issued in regard to operating leases totalling \$1,019,443 (2014: \$766,029). At 30 June 2015, the available guarantee facility was \$1,460,500 (2014: \$810,500).

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**D3 Events subsequent to reporting date**

On 2 September 2015, McGrath Limited acquired the remaining 50% interest in McGrath Auctions Unit Trust. McGrath Limited issued shares equivalent to 1% of the contributed equity of McGrath Limited as consideration for the acquisition.

On 3 October 2015, McGrath Limited entered into a binding share sale and purchase agreement (SPA) to acquire the Smollen Group, McGrath's largest franchisee. The Smollen Group is a significant real estate group that comprises 10 offices across Sydney's North West and Northern Beaches.

The SPA is conditional upon certain conditions and McGrath Limited may terminate the SPA before completion in certain circumstances. The acquisition has been structured such that McGrath will acquire

100% of the Smollen Group for an initial purchase price of \$52.5 million, payable partly in cash (\$31.5 million) and partly in shares (\$21 million). The SPA includes deferred consideration of \$17.5 million payable partly in cash (\$8.75 million) and partly in shares (\$8.75 million) the entitlement to which is subject to the Smollen Group meeting certain performance hurdles and other conditions.

Other than as detailed in this note, there has not arisen, in the interval between the end of the financial year and the date of this report, any other 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.





## E Other information

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

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## E Other information

### E1 Other assets

	2015	2014
	\$'000	\$'000
<b>Current:</b>		
Prepayments	570	1,354
Stock on hand	41	131
Other	258	49
	<u>869</u>	<u>1,534</u>

#### Recognition and Measurement

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### E2 Property, plant and equipment

	Plant and equipment	Leasehold improvements	Total
	\$'000	\$'000	\$'000
<b>Consolidated Entity</b>			
<b>Year Ended 30 June 2015</b>			
<b>Cost</b>			
At 1 July 2014	1,950	2,617	4,567
Additions	865	1,160	2,025
At 30 June 2015	<u>2,815</u>	<u>3,777</u>	<u>6,592</u>
<b>Accumulated depreciation</b>			
At 1 July 2014	(1,041)	(1,335)	(2,376)
Depreciation charge for the year	(481)	(550)	(1,031)
At 30 June 2015	<u>(1,522)</u>	<u>(1,885)</u>	<u>(3,407)</u>
<b>Carrying amounts</b>			
At 1 July 2014	909	1,282	2,191
At 30 June 2015	<u>1,293</u>	<u>1,892</u>	<u>3,185</u>

The above assets have been pledged as security for the borrowing facilities disclosed at Note B4.

## E2 Property, plant and equipment (continued)

	Plant and equipment	Leasehold improvements	Total
	\$'000	\$'000	\$'000
<b>Consolidated Entity</b>			
<b>Year ended 30 June 2014</b>			
<b>Cost</b>			
At 1 July 2013	3,307	5,786	9,093
Additions	535	313	848
Disposals	(1,892)	(3,482)	(5,374)
At 30 June 2014	1,950	2,617	4,567
<b>Accumulated depreciation</b>			
At 1 July 2013	(2,547)	(4,292)	(6,839)
Depreciation charge for the year	(386)	(469)	(855)
Disposals	1,892	3,426	5,318
At 30 June 2014	(1,041)	(1,335)	(2,376)
<b>Carrying amounts</b>			
At 1 July 2013	760	1,494	2,254
At 30 June 2014	909	1,282	2,191

### Recognition and Measurement

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

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

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

- Plant and equipment - 2.5 to 10 years
- Leasehold improvements - remaining lease term

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

#### (i) Impairment

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

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

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

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

#### (ii) Derecognition and disposal

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

### E3 Provisions

	2015 \$'000	2014 \$'000
<b>Current:</b>		
Provision for annual leave	1,345	1,044
Provision for long service leave	294	281
	<u>1,639</u>	<u>1,325</u>
<b>Non current:</b>		
Make good provision	437	357
Provision for long service leave	386	282
	<u>823</u>	<u>639</u>
(a) Aggregate employee entitlements	<u>2,025</u>	<u>1,607</u>
(b) Average number of employees	<u>322</u>	<u>269</u>

#### Make good provision

In accordance with the lease agreements entered into by McGrath each leased premises must be restored to its original condition before the end of the lease. The balance of the make good provision at 30 June is reconciled below.

	2015 \$'000	2014 \$'000
Balance at beginning of the year	357	333
Provisions made during the year	93	24
Provisions reversed during the year	(13)	-
Balance at end of the year	<u>437</u>	<u>357</u>

### E4 Capital and reserves

	2015 \$'000	2014 \$'000
45,891,563 fully paid ordinary shares (2014: 43,706,250).	<u>6,333</u>	<u>5,083</u>

#### Fully paid ordinary shares

The Company does not have authorised share capital or par value in respect of its issued shares.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholder meetings each ordinary share is entitled to one vote on show of hands, otherwise each shareholder has one vote when a poll is called.

During the year 2,185,313 shares were issued to G. Lucas under a share based payment arrangement, refer to further detail at Note C4(f).

	2015 \$'000	2014 \$'000
<b>Share-based payment reserve</b>		
Balance at beginning of the year	441	441
Transfer to retained profits	(441)	-
Balance at end of the year	<u>-</u>	<u>441</u>

The share-based payment reserve relates to the equity-settled share options disclosed at Note C4(f).

#### E4 Capital and reserves (continued)

	2015 \$'000	2014 \$'000
<b>Profits reserve</b>		
Balance at beginning of the year	-	2,680
Transfer to retained profits	-	(1,141)
Dividend declared	-	(1,539)
Balance at end of the year	-	-

#### E5 Business combinations

During the financial year, the Consolidated Entity, through its 100% owned subsidiary, McGrath Property Management Pty Ltd, acquired the rent roll businesses of two separate parties for an aggregate payment of \$663,927.

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

	2015 \$'000	2014 \$'000
Consideration	664	-
Intangible assets - property management rights	664	-

One of the acquisitions will be settled in several tranches and a refund will be finalised by 1 February 2016 for property management rights acquired that have since been lost.

During the financial year, the Consolidated Entity, through its 100% owned subsidiary, McGrath Sales Proprietary Limited, acquired the Manly and Seaforth Offices from a Franchisee for an aggregate payment of \$300,000. Details as follows:

	2015 \$'000	2014 \$'000
Consideration	300	-
Identifiable net asset and liabilities acquired	-	-
Intangible assets - goodwill	300	-

It is not considered practicable to determine the revenue and the net profit contribution from these acquisitions as the businesses were merged with those of McGrath Property Management Pty Ltd and McGrath Sales Proprietary Limited.

#### Recognition and Management

Business combinations are accounted for using the acquisition method. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. For each business combination, the acquirer measures the non-controlling interest in the acquirer either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Consolidated Entity acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entities operating or accounting policies and other pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of contingent consideration is recognised in profit or loss.

## E6 Subsidiaries and non-controlling interests

### Parent entity

The Parent entity within the Consolidated Entity is McGrath Limited.

### Controlled Entity

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

Company name	Ownership		Investment	
	%		\$	
	2015	2014	2015	2014
McGrath Sales Pty Ltd	100	100	1	1
McGrath Property Management Pty Ltd	100	100	1	1
Total Real Estate Training Pty Ltd	100	100	1	1
Architype Marketing Pty Ltd	100	100	2	2
McGrath Oxygen Home Loans Pty Ltd	100	100	1	1
MG Logistics Pty Ltd	100	100	1	1
McGrath Australasia Pty Ltd	100	100	100	100
McGrath Auctions Pty Ltd	100	100	100	100
McGrath Auctions Unit Trust	50	60	50	60
McGrath Sales (QLD) Pty Ltd	100	100	100	100
McGrath Property Management (QLD) Pty Ltd	100	100	100	100
McGrath Sales Paddington Pty Ltd	100	100	100	100
McGrath Bulimba Sales Unit Trust	100	100	100	100
McGrath Bulimba (No. 1) Pty Ltd	100	100	100	100
McGrath Bulimba Property Management Unit Trust	100	100	100	100
McGrath Bulimba (No. 2) Pty Ltd	100	100	100	100
McGrath Sales (VIC) Pty Ltd	100	100	100	100
			1,057	1,067

10% of the units of the McGrath Auctions Unit trust have been sold to a non-controlling interest on 1 July 2014.

### Balances outstanding

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

	2015	2014
<i>Receivables</i>		
McGrath Property Management Pty Ltd	18,696,944	4,757,414
Architype Marketing Pty Ltd	1,014,594	1,014,594
McGrath Australasia Pty Ltd	11,918,294	10,644,095
McGrath Auctions Unit Trust	8,320,942	7,962,593
McGrath Sales (QLD) Pty Ltd	3,110,552	3,240,003
McGrath Bulimba Sales Unit Trust	-	21,980
McGrath Bulimba Property Management Unit Trust	1,364,351	1,364,351
	44,425,677	29,005,030
<i>Payables</i>		
Total Real Estate Training Pty Ltd	3,257,843	3,257,843
McGrath Oxygen Home Loans Pty Ltd	411,529	411,529
MG Logistics Pty Ltd	8,521,673	-
McGrath Auctions Pty Ltd	100	100
McGrath Sales (VIC) Pty Ltd	100	100
McGrath Property Management (QLD) Pty Ltd	113,004	113,004
McGrath Sales Paddington Pty Ltd	502,157	502,157
McGrath Bulimba Sales Unit Trust	126,286	-
McGrath Bulimba (No. 1) Pty Ltd	100	100
McGrath Bulimba (No. 2) Pty Ltd	100	100
	12,932,892	4,284,933

Loans to and from controlled entities arise in the ordinary course of business. The balances are unsecured, non-interest bearing and are subject to no fixed repayment terms.



## E7 Parent entity disclosures

	2015 \$'000	2014 \$'000
<b>Result of parent entity</b>		
Profit after income tax expense	13,545	7,917
Other comprehensive income	-	-
Total profit and other comprehensive income for the year	13,545	7,917
<b>Financial position of parent entity at year end</b>		
Current assets	45,372	29,967
Total assets	45,557	29,967
Current liabilities	(14,527)	(6,960)
Total liabilities	(20,549)	(13,326)
Net assets	25,008	16,641
<b>Total equity of parent entity comprising of:</b>		
Contributed equity	6,333	5,083
Share based payment reserve	-	441
Retained earnings	18,675	11,117
Total equity	25,008	16,641

No capital expenditure commitments contracted for at reporting date (2014: nil).

Refer to Note D2 for disclosure of guarantees which the parent is a party to.

## E8 Auditor's Remuneration

	2015 \$'000	2014 \$'000
<b>Audit and review services - KPMG</b>		
Audit and review of financial statements	114	104
Other regulatory audit services	11	8
Total	125	112
<b>Other Services - KPMG</b>		
Assurance, taxation and due diligence services	24	13
Total other services	24	13

## E9 General accounting policies

### (a) Basis of preparation

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

#### (i) Compliance with IFRS

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

#### (ii) Historical cost convention

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

### (b) Principles of consolidation

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

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

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

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

The acquisition method of accounting is used to account for business combinations by the Consolidated Entity, refer to Note E5.

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

recorded in the consolidated statement of profit or loss and other comprehensive income.

### (c) 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.

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment in the year ending 30 June 2015 are included in the following notes:

- Note A5 – recognition of deferred tax assets: availability of future taxable profit against which carryforward tax losses can be used
- Note B1 and B2 – impairment testing of trade receivables, other receivables and intangible assets including goodwill

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

A number of new standards and amendments to standards are effective for annual period beginning after 1 July 2015, however the Consolidated Entity has not applied the following new or amended standards in preparing these consolidated financial statements that are relevant to the Consolidated Entities business:

- AASB 15 *Revenue from Contracts with Customers* contains a single model that applies to contracts with customers and two approaches for recognising revenue – at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognised. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2017. The Consolidated Entity is assessing the potential impact on its consolidated financial statements resulting from the application of this standard.

#### **(e) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Consolidated Entity substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the lower of its fair value and the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the outstanding lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Consolidated Entity will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. Lease incentives are recognised in the profit or loss as an integral part of the total lease expense.

#### **(f) Goods and services tax**

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

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

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

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

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

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

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

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

##### **(i) Loans and receivables**

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

#### **(h) Impairment of financial assets**

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

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

#### **(h) Impairment of financial assets (continued)**

##### **Loans and receivables**

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

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

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

#### **(i) Provisions**

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

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

#### **(j) Share based-payments**

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

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

#### **(k) Contributed equity**

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

## ***Directors' Declaration For the Year Ended 30 June 2015***

In the opinion of the directors of McGrath Limited:

(a) the consolidated financial statements and notes that are set out on pages 9 to 43 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2015 and of its performance, for the financial year ended on that date, and

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

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

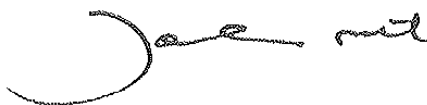
This declaration is made in accordance with a resolution of the Directors.



David Mackay

Chair

19 October 2015



John McGrath

Director and Chief Executive Officer

19 October 2015



## **Independent auditor's report to the members of McGrath Limited**

### **Report on the financial report**

We have audited the accompanying financial report of McGrath Limited (the Company), which comprises the consolidated statements of financial position as at 30 June 2015, and consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended on that date, notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note E9(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.





We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

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

*Auditor's opinion*

In our opinion:

(a) the financial report of McGrath Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note E9(a).

KPMG

KPMG

Paul Thomas  
*Partner*

Sydney  
19 October 2015