

McGRATH LIMITED AND CONTROLLED ENTITIES

ACN 608 153 779

McGrath

McGrath Limited and Controlled Entities

ACN 608 153 779

Appendix 4E - Full Year Report

Results for announcement to the market

Details of the reporting period and the previous corresponding reporting period

Reporting period: For the year ended 30 June 2016

Previous period: For the year ended 30 June 2015

Results for announcement to the market

In accordance with the ASX listing rule 4.3A, the board and management of McGrath Limited (Refer to Directors' Report for detail of internal restructure) has enclosed an appendix 4E for the year ended 30 June 2016.

		Change		Year ended 30 June 2016	Year ended 30 June 2015
		\$'000	%	\$'000	\$'000
Revenues from ordinary activities	Increased	35,102	41%	120,957	85,855
Profit from ordinary activities after tax attributable to the owners of the Company	Increased	1,631	24%	8,358	6,727
Net profit after tax attributable to the Consolidated Entity	Increased	1,376	20%	8,411	7,035
EBITDA - Statutory	Increased	3,504	27%	16,443	12,939
EBITDA - Pro forma	Decreased	916	(3%)	26,244	27,160

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 2015 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 2015 paid August 2015	6.1	6.1	30%
Pre IPO dividend paid December 2015	17.7	17.7	30%
Final dividend for 2016 (to be paid 28 September 2016)	3.5	3.5	30%

Final dividend dates

Ex-dividend date	13 September 2016
Record date	14 September 2016
Payment date	28 September 2016

Net tangible assets	30 June 2016	30 June 2015
Net Tangible Assets per security (cents)	12.96	11.69

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

On 8 December 2015 McGrath Limited gained control of the Smollen Group consisting of 10 entities as outlined in the IPO Prospectus dated 12 November 2015.

Audit qualification or review

The Financial Statements were subject to audit by the auditors and the audit report is included as part of the Financial Report.

Attachments

The Financial Report of McGrath Limited and its controlled entities for the year ended 30 June 2016 is attached.



McGRATH LIMITED AND CONTROLLED ENTITIES

Financial Report
For the year ended 30 June 2016
ACN 608 153 779

McGrath

McGrath Limited and Controlled Entities

A.C.N. 608 153 779

Corporate Information

McGrath Limited is a company limited by shares, incorporated and domiciled in Australia. McGrath Limited listed on the Australian Securities Exchange on 7 December 2015 (ASX: MEA).

Its registered office and principal place of business is:

McGrath Limited
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.

In this report, McGrath Limited is referred to as the Company or McGrath and McGrath Limited the subsidiaries that it controlled at the end of the period and from time to time throughout the period are together referred to as the Consolidated Entity.

What we do

Founded in 1988 by John McGrath, McGrath has been established as one of the leading residential real estate service providers in Australia with a strong market presence in New South Wales and the Australian Capital Territory, a growing presence in Queensland and has entered the Victorian market during financial year 2016.

McGrath is an integrated residential real estate services company providing a range of services including residential property sales, property management, mortgage broking, auction services and real estate training.

McGrath Limited and Controlled Entities

A.C.N. 608 153 779

Annual Financial Report 2016

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Letter from the Chairman

Dear fellow shareholder,

On behalf of the Board of McGrath Limited (MEA), we are pleased to present our 2016 Annual Report.

After 28 years of operation, in December 2015, we offered investors the opportunity to become shareholders in McGrath Limited. Now, on behalf of your Board of Directors, I am pleased to present McGrath's first annual report as an ASX-listed company.

The financial results for the 12 months ended 30 June 2016 (FY16) reflected the challenging operating environment for the industry overall. Notwithstanding this, the company's results clearly show the resilience of the company's business model.

Key pro forma financial results for FY16 (compared to FY15) were:

- Revenue up 12% to \$137.0 million – in line with guidance range of \$136-140 million
- EBITDA down 4% to \$26.2 million – in line with guidance range of \$26-27 million
- Value of property sales up 14% to \$13.2 billion
- Number of property sales up 11% to 12,232.

Based on the Company's performance and outlook, McGrath's Board of Directors declared a fully franked dividend for the six months to 30 June 2016 of 3.5 cents per share. The record date for this dividend is 14 September 2016 and payment date is 28 September 2016.

The business has also maintained a strong balance sheet with no debt and surplus cash of \$12.5 million at 30 June 2016.

Operationally over the past 12 months, management have been busy executing to strategy. The business has expanded into Victoria, while also growing further in New South Wales and Queensland, with the number of offices growing by 20 to 87 and agents growing by 77 to 642 over FY16.

The appointment of McGrath Estate Agents as the exclusive sales agent for two phases of Property NSW's Millers Point

portfolio was a key milestone. During the 2016 financial year the McGrath Estate Agents team have achieved a 100 per cent clearance rate with 58 properties sold for \$179.9 million.

While short term market conditions remain volatile and challenging, the long term fundamentals of the real estate industry remain attractive and McGrath remains well capitalised for future growth. McGrath's Board of Directors is confident that the business will find the opportunities for continued expansion to gain market share and to continue to attract the top agents in the country.

We are confident of our ability to sustainably grow over the longer term given the strong team we have in place. The results we were able to achieve over a challenging period were due to the efforts of all our staff and franchise partners.

Our team has been further strengthened with the appointment of Cameron Judson as Joint-CEO on 14 July 2016. Together with John, Cameron will jointly lead the company as it continues its rapid growth path in key Australian markets.

I would like to thank our shareholders for their continued support. It has been a challenging period for the company since listing, but with the right business fundamentals in place and having operated for over 28 years, the Board and management look forward to delivering long term growth in shareholder value.



David Mackay
Chairman

Letter from the Joint-CEO

Dear fellow shareholder,

After establishing the business in 1988, and growing it over the past 28 years, FY16 marked the beginning of a new chapter in the history of the McGrath business with the Company's ASX listing on 7 December 2015.

Over the past 12 months, we have been able to continue to grow the McGrath network and deliver on a number of operational initiatives.

The business has expanded into Victoria, opening its first franchise offices in that market as well as another 10 in Queensland and 6 in New South Wales. The new offices included 3 new company owned offices. This is in line with our strategy of expansion and penetration into new and emerging markets across the east coast of Australia.

Property NSW's appointment of McGrath Estate Agents as the exclusive sales agent for two phases of the Millers Point program was a key milestone for the company. Our ability to achieve a 100 per cent clearance rate with 58 properties sold for \$179.9 million in FY16 is testament to the capabilities of our people and strength of our offering.

In addition:

- The McGrath network pro forma property sales volume increased 11% to 12,232 sales. Sales value increased 14% to \$13.2 billion.
- Agent numbers have increased 14% as we have continued to attract new talent to the business and increase our footprint size. We now have 642 agents in the network, 264 in company owned offices and 378 in franchise offices.
- Managed properties across our network grew to over 26,000. This represents more than \$19 billion in value of properties under management.
- Mortgage Broking – Oxygen Home Loans, total value of loans settled is \$814m, which was up 20% on FY15. As at 30 June 2016 there were 33 brokers supporting the network.

- The Australasian Real Estate Conference continues to grow with a record number of delegates in attendance at the FY16 conference and record sponsorship/exhibit revenues from the first ever sold out Expo.

Unfortunately, an unforeseen low volume of listings and sales started to emerge in the latter part of March 2016 and continued into April, particularly in the North and North Western suburbs of Sydney. As a result, we had to adjust down our Prospectus revenue and earnings forecasts and issued guidance on 18 April. Pleasingly, given the strength of our business model, we delivered an FY16 result within guidance.

I am delighted to welcome Cameron Judson as Joint-CEO, and look forward to working together with him. He brings a wealth of professional services industry experience and new perspectives to McGrath.

I would like to thank all of our staff and franchise partners for their commitment and dedication during the year. We have all worked hard to address the challenging market conditions experienced of late and appreciate your continued support.

Lastly, I would like to thank our shareholders for their continued support. Having built this business over the past 28 years and with a passionate highly driven management and agent team in place, I'm confident we can deliver long term growth in value for our shareholders.



John McGrath
Joint CEO

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 organise 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 30 June 2016 the network comprised 25 Company owned offices and 62 Franchise offices with over 600 agents operating within those offices. The spread of offices is across the Eastern seaboard as seen in the graphic in figure 1 on the following page. There is a high concentration in New South Wales, the Australian Capital Territory and Queensland markets with a growing presence in Victoria. A total of 20 offices opened in FY16.

The Company has entered the Victorian market in the financial year, a stated objective and strategic move to bolster the national market share.

Total agents have increased to 642, which is a 14% increase on FY15 and represents a 32% increase since FY14. McGrath continues to attract agents of a high calibre from opposition agencies and prides itself on the retention of agents. Autonomy, competitive commission splits, and other high performing agent initiatives are just some strategies key to maintaining retention levels.

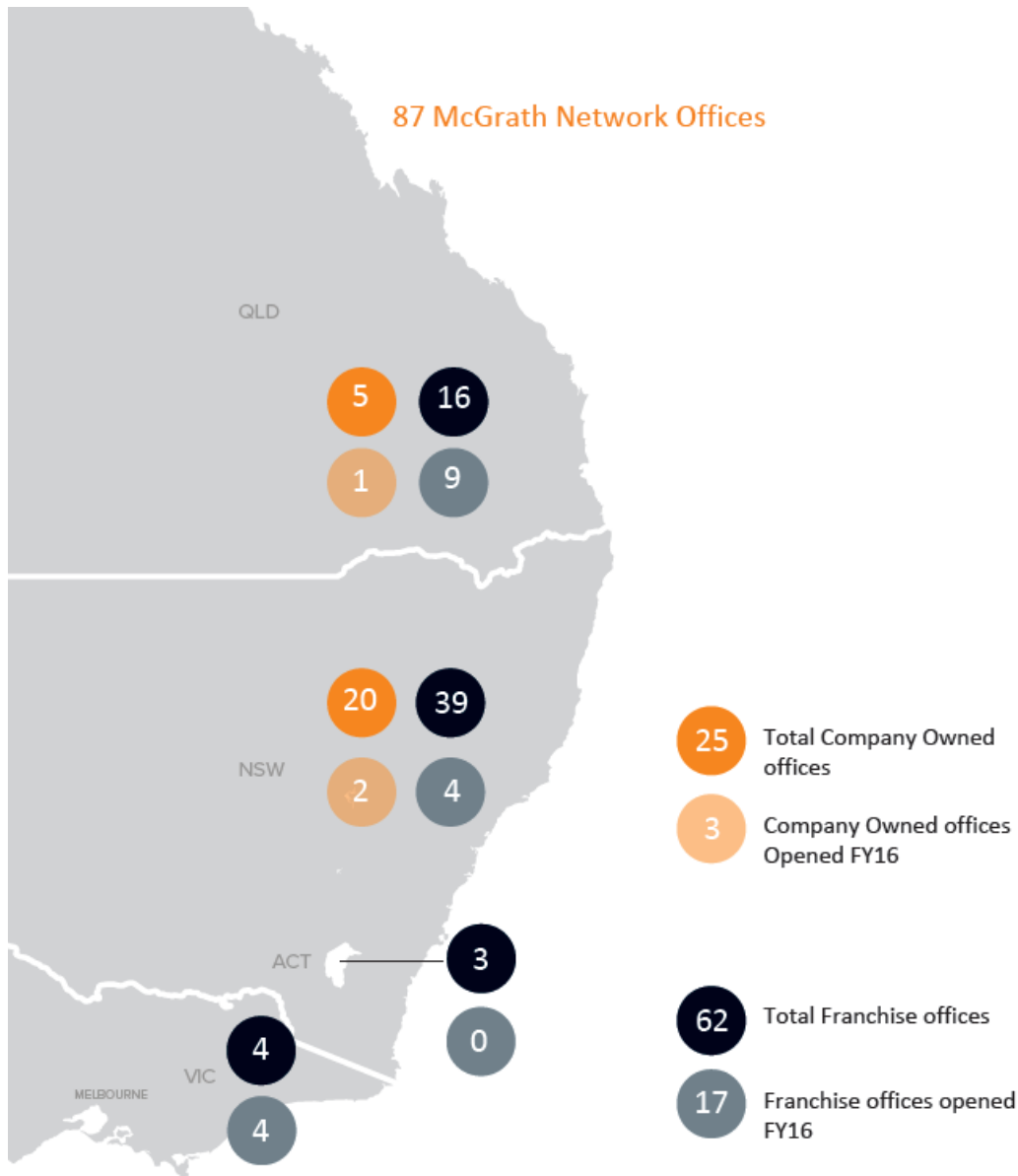


Figure 1: McGrath office Network

ASX Listing on 7 December 2015

On 7 December 2015 McGrath completed an Initial Public Offering (IPO) on the Australian Securities Exchange (ASX). The IPO raised \$65.4 million net of a sell down by existing shareholders with funds utilised as follows:

- Repayment of existing debt facilities - \$16.0 million
- Smollen group acquisition - \$31.5 million
- Working Capital \$7.2 million
- Payment of Offer, transaction and acquisition costs - \$10.7 million

Smollen Group acquisition

On 8 December 2015 McGrath completed the acquisition of the Smollen Group, representing McGrath's largest franchisee and 10 offices across Sydney's North Shore, North West and Northern Beaches. Consideration was in the form of cash, shares and deferred consideration.

The acquisition of the Smollen Group was accounted for as a business combination. As a result \$52,989,564 in goodwill and \$16,033,284 in property management rights were recognised as intangible assets on the balance sheet. Deferred consideration of \$12,570,687 has also been recognised as a current and non-current liability and is to be settled on a 50:50 cash to equity basis. Refer to Note B6 of the financial statements for more detail.

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

	2016 \$'000	2015 \$'000
Revenue	136,977	122,264
Cost of sales	(54,148)	(46,094)
Pro forma Gross profit	82,829	76,170
Employee benefits expenses	(33,927)	(29,542)
Other expenses	(22,658)	(19,468)
Pro forma earnings before interest, tax, depreciation and amortisation (EBITDA)	26,244	27,160
Depreciation	(1,929)	(1,545)
Amortisation	(3,842)	(3,158)
Pro forma earnings before interest and tax (EBIT)	20,473	22,456
Net finance income	101	154
Pro forma profit before tax	20,574	22,610
Income tax expense	(5,980)	(6,948)
Proforma NPAT	14,594	15,662

Pro forma segment revenues and EBITDA

	2016 \$'000	2015 \$'000
Revenue		
Company owned sales	96,948	87,105
Company owned property management	18,972	15,569
Franchise services	10,574	9,416
Other operating segments	10,483	10,174
Total Revenue	136,977	122,264
EBITDA		
Company owned sales	26,751	27,581
Company owned property management	5,236	4,017
Franchise services	6,287	5,826
Other operating segments	486	1,045
Corporate	(12,516)	(11,309)
Total EBITDA	26,244	27,160

- Company owned sales generated \$7.1 billion in sales volume from 5,126 sales for FY16 compared to \$6.3 billion and 4,954 sales in FY15. 3 offices opened in FY16, 2 in New South Wales, Newtown and Maroubra and 1 in Queensland, Paradise Point. Deeds of agreement have been signed for new offices in Blacktown and Wahroonga. The projects division have delivered a record year of sales with revenue up 65% against FY15 as projects have been launched in New South Wales, Queensland and Victorian markets.
- Company owned property management - the portfolio increased to over 7,000 properties under management in FY16. This was lower than forecast due to the volume of new managements not meeting targets and a higher level of churn across all portfolios.

Financial overview continued

- Franchise services exchanged 7,106 sales during FY16, generating EBITDA of \$6.3 million, which was up 8% on FY15 driven by higher GCI, higher grant fee revenue, and lower operating expenses mainly related to headcount. FY16 saw a record number of 17 franchise office openings including 9 in Queensland and 4 each in New South Wales and Victoria.
- Mortgage Broking – Oxygen Home Loans, total settlements value of \$814 million was up 20% on FY15. At the end of FY16 there were 33 brokers supporting the network.

Reconciliation of statutory to pro forma amounts

	2016* \$'000	2015* \$'000
Statutory revenues	120,957	85,854
Acquisition ¹	18,356	36,410
Fair value adjustment of deferred consideration ²	(2,336)	-
Pro forma revenues	136,977	122,264
Statutory NPAT	8,411	7,035
Acquisition ¹	5,285	11,345
Fair value adjustment of deferred consideration ²	(2,336)	-
Transaction and acquisition costs ³	6,841	254
Public company costs ⁴	0	(875)
Remuneration structures ⁵	0	(864)
Payroll tax assesment ⁶	0	4,362
Total pro forma adjustments impacting EBITDA	9,790	14,222
Impact of Acquisition on Depreciation and amortisation	(2,122)	(2,477)
Net finance costs	300	488
Tax effect of pro forma adjustments	(1,785)	(3,606)
Total pro forma adjustments impacting NPAT	6,183	8,627
Pro forma NPAT	14,594	15,662

The consolidated entity paid dividends to shareholders of \$11 million which included a final franked dividend of 6.1 cents per share relating to FY15 and a pre IPO dividend of 17.7 cents per share.

* 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.

¹ Adjustments reflect the recognition of the Smollen Group's revenue and operating expenses as though the acquisition had taken place on 1 July 2014. This adjustment included treating the Smollen Group as a company owned operation for the period 1 July 2014 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

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

⁴ Adjustment to reflect the incremental cost incurred if McGrath was a listed entity. These costs include Chairman and other Non-Executive Directors remuneration, additional compliance costs, listing fees, share registry costs, investor relations, annual general meeting and reporting costs. No adjustment to the year ended 30 June 2016 has been made as the costs are included in the statutory operating expenses. It is noted that the adjustment for the year ended 30 June 2015 is based on the actual public company costs incurred in the year ended 30 June 2016.

⁵ Included in the prospectus was an adjustment for the new remuneration structures that were proposed to be in place post the completion of the offer. No adjustment to the year ended 30 June 2016 has been made as the costs are included in the statutory operating expenses.

⁶ Adjustment to remove the impact of a payroll tax settlement and expense recognition made in FY15 relating to prior periods and associated professional fees incurred.

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.
- 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.

Corporate governance

McGrath's corporate governance framework

The Board is committed to implementing the highest standards of corporate governance appropriate for McGrath, taking into account McGrath's size, structure and nature of operations.

Since McGrath was listed on ASX in December 2015, the governance arrangements and practices of McGrath have been consistent, where possible and after having regard to McGrath's operations, with the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (Principles).

McGrath's Corporate Governance Statement is current as at 24 August 2016 and has been approved by the Board and is available on McGrath's website under About Us / Investor Centre (www.mcgrath.com.au/about/investorcentre).

Delegation to Board Committees and Management

The Board has established the:

- Audit and Risk Committee; and
- Remuneration and Nomination Committee,

to support the Board in discharging its powers and responsibilities.

The Board Charter and Committee Charters set out the responsibilities of the Board and each of the Committees.

Day-to-day management and operations are delegated to Management and Management operates within the agreed framework and reports to, and seeks approvals from, the Board as required.

Since July 2016, McGrath has had two Joint Chief Executive Officers, John McGrath and Cameron Judson. The Joint Chief Executive Officers are responsible for the overall operational and business management of McGrath.

Board of Directors

The following persons were Directors of McGrath Limited (now McGrath Operations Limited) prior to the restructure and were appointed as Directors of McGrath Holding Company Limited (now McGrath Limited) during the year ended 30 June 2016:

David Mackay

Chairman and Independent Non-executive Director.

- McGrath Operations Limited, appointed 13 July 2015
- McGrath Limited, appointed 8 September 2015

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

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.

David is a Director of Fortune Brands Home & Security Inc. (since 2011), a Director of Clorox Company Inc. (since August 2016) and has a Bachelor of Business Administration from Charles Sturt University.

David was previously a non-Executive Director of Woolworths Limited (2012 to October 2015), an independent Director of Keurig Green Mountain, Inc. (2012 to March 2016), an independent Director and non-Executive Chairman of Beam, Inc. (2011 to April 2014), Managing Director of Sara Lee Bakery in Australia (1992 to 1998) and a former Director and Board Member of the Grocery Manufacturers of Australia, the Australian Food Council, the Industry Affairs Council of the Grocery Manufacturers of America, the Executive Committee of the Biscuit and Cracker Manufacturers' Association and a member of the Global Consumer Goods Forum.

John McGrath

Joint Chief Executive Officer and Executive Director.

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

John founded McGrath in 1988 and is considered one of the most influential figures in the Australian property industry. John has grown McGrath Estate Agents to be one Australia's most successful integrated real estate service groups.

In 2003 John was awarded a Centenary Medal for service to business. In 2008, he was honored by the Real Estate Institute of NSW with the Woodrow Weight OBE Award, a lifetime achievement award for his outstanding contribution to the real estate industry.

John is a best-selling author, a Director of REA Group (since 1999), a Member of the REA Group HR Committee, and also sits on the Board of the South Sydney "Rabbitohs".

Cass O'Connor

Non-executive Director.

- McGrath Operations Limited, appointed 25 August 2000
- McGrath Limited, appointed 8 September 2015

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

Cass has over 30 years' experience as a corporate advisor, private equity investor and equities research analyst. Currently running her own advisory and investment firm, she has previously been a senior banker with Carnegie, Wylie & Company (now Lazard Australia); an 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 on the boards of ASX listed, private and public sector entities.

Cass is currently a non-Executive Director of ASX listed Prime Media Group Limited and PS&C Limited, and unlisted Goalpost Pictures Pty Ltd, among other entities. She was previously a Director of Bundanon Trust (2011 to 2015), Lifetime Care and Support Authority of NSW (2006 to 2012), Motor Accidents Authority of NSW (2010 to 2012), WorkCover Authority of NSW (2011 to 2012) and other government and private sector entities.

Cass holds a Bachelor of Business from the University of Technology Sydney and is a Graduate of the Australian Institute of Company Directors.

Daniel Petre

Independent Non-executive Director.

- McGrath Limited, appointed 13 October 2015

Daniel is the Chair of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee.

Daniel has over 30 years of experience in Australia's technology industry having founded AirTree Ventures, ecorp Pty Ltd and netus Pty Ltd. Daniel has held leadership positions in technology based businesses, including working at Microsoft's headquarters in the U.S.

Daniel has served on a range of not for profit boards and is currently on the Sydney Theatre Company Board amongst other advisory roles.

Daniel is currently a Director of Oneview Healthcare.

Daniel was previously a Director of Nine Entertainment Company Holdings Ltd (2010 to 2011), Publishing and Broadcasting Limited (1997 to 2001) and was the Chairman of ecorp (1997 to 2001).

Daniel holds a Bachelor of Science with majors in Computer Science and Statistics from UNSW, a MBA from the University of Sydney and a Hon DBus from UNSW. Daniel is also a Graduate of the Australian Institute of Company Directors.

Mr. Shad Hassen

Non-executive Director.

- McGrath Operations Limited, appointed 15 September 2014, resigned 11 November 2015

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.

Attendance at meetings

The number of meetings of the Board of Directors and of each standing Board committee, of which the relevant Director was a member, held during the year ended 30 June 2016 and the number of meetings attended by each Director are detailed below:

	Board Meeting		Audit & Risk Committee Meeting		Remuneration & Nomination Committee Meeting	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
D Mackay	14	14	3	3	4	4
J. McGrath	14	13	-	-	-	-
C. O'Connor	14	14	3	3	4	4
D. Petre	8	7	3	3	4	4
S. Hassen	5	4	-	-	-	-

Role and responsibilities of the Board

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

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

Board composition and independence

The Board currently consists of an equal number of independent Non-executive Directors and non-independent Directors.

Remuneration report

Key management personnel covered in this report

Non-executive and executive directors (see pages 8-9 for details about each director)

Name	Position
David Mackay (appointed 13 July 2015)	Chairman, Independent Non-executive Director
John McGrath	Joint Chief Executive Officer, Executive Director
Cass O'Connor	Non-executive Director
Daniel Petre (appointed 13 October 2015)	Independent Non-executive Director
Shad Hassen (retired 11 November 2015)	Non-executive Director
Wendy McCarthy (retired 30 June 2015)	Chairman, Independent Non-executive Director
Bethwyn Richards (retired 15 September 2014)	Non-executive Director

Other key management personnel

Name	Position
Geoff Lucas	Chief Operating Officer
Paul Hauenschild	Chief Financial Officer
Matt Lahood	Director of Sales
Gary Vouris	General Manager of Franchise

Remuneration policy and link to performance

The Remuneration and Nomination Committee consists of a minimum of 3 members, a majority of independent Directors and an independent Director as Committee Chair.

The overall objective of the Remuneration and Nomination Committee is to assist the Board of Directors of McGrath Limited (the Company) and its subsidiaries to:

- Align the Company's remuneration approach with shareholder interests to allow the organisation to attract, motivate and retain its staff to enhance the Company's performance in a manner that supports the long-term financial soundness of the Company
- Provide appropriate corporate governance by identifying the mix of skills and individuals required in Directors to allow the Board to contribute to the successful oversight and stewardship of the Company and discharge their duties under the law diligently and efficiently.

From time to time, the committee also engages external remuneration consultants to assist with this review, see page 21 for further information.

Balancing short-term and long-term performance

Short term incentives are set at a maximum of 50% of fixed annual remuneration, to drive performance without encouraging undue risk-taking. Targets are set against financial and non-financial strategic objectives. The targets act to incentivise growth, achieve strategy and corporate objectives in line with expectations of shareholders. The minimum value of incentive is nil if targets are not met. In FY 2016 the STI was set higher than the 50% limit for 1 of the key management personnel.

The long term incentive plan (LTI) is designed to align the interests of executives and senior management with the interests of shareholders by providing an opportunity for the participants to receive an equity interest in McGrath. The 2016 LTI award, initially to be granted to the CEO and members of senior management at, or shortly after, the initial public offering of McGrath Limited will be formally granted following lodgement of the FY16 Annual Report.

A summary of McGrath's remuneration mix including fixed annual remuneration, short term incentive and the details of the 2016 LTI award is set out in figure 1.

Figure 1: Remuneration framework

COMPONENT	PERFORMANCE MEASURE	WEIGHTING	STRATEGIC OBJECTIVE/ PERFORMANCE LINK
FIXED ANNUAL REMUNERATION (FAR) Salary and other non-cash benefits +	FAR consists of base salary and superannuation and non-monetary benefits. Remuneration is structured to ensure executives are accountable for driving group strategy and corporate objectives in line with expectations of shareholders. Executives are targeted to achieve specific outcomes in these areas as part of their base salary. STI's and LTI's are used to incentivize executives to achieve targets beyond the base remuneration expectations.		Remuneration is set to ensure the attraction and retention of industry leading talent. Consideration is given to background and skillsets, seniority of role, level of responsibility, industry benchmarks, core values and cultural alignment.
SHORT TERM INCENTIVES (STI) Percentage of fixed annual remuneration +	<ul style="list-style-type: none"> • Group Financial Measure (GFM) Pro forma Earnings before Interest, Tax and Depreciation (EBITDA) • Divisional Financial Measures (DM) Divisional EBITDA Contribution which is EBITDA excluding corporate costs. • Non-financial Measures (NFM) Specified strategic objective targets 	Maximum of 50% of total fixed remuneration	GFM rewards performance at group level. EBITDA was chosen to ensure alignment with company and shareholder objectives. DM – rewards performance at a divisional level under the direct control of the specific executive. NFM recognises differing drivers of performance across different Business Units
LONG TERM INCENTIVES (LTI) Performance rights +	<ul style="list-style-type: none"> • Total Shareholder Return (TSR) Relative to a group of 12 selected comparative entities listed on the ASX 300. Measured over a 3 year performance period. For the initial grant the measurement period is up to 30 June 2018. Weighted at 50% of LTI. • EBITDA Target Achievement of Consolidated Entity's EBITDA target at the end of the measurement period. For the initial grant the measurement period is the year ended 30 June 2016. The EBITDA measure is pro forma EBITDA with a threshold of \$31.5 million, target of +5% above the threshold and a stretch of +10% above the threshold. Weighted at 50% of LTI. As this performance hurdle has not been met, this proportion of the LTI will not be granted. 	Maximum of 50% of total fixed remuneration	TSR is chosen because it provides a relative, external market performance measure against McGrath's comparable peers. EBITDA was chosen because it is the appropriate measure of group operating performance growth.
= TOTAL REMUNERATION The remuneration mix is designed to reflect the different components of the McGrath business and is structured to reward executives for performance at a Consolidated Entity level and, for divisional executives, also at a divisional level, and to align executives and stakeholder interests through share ownership.			

Assessing performance and claw back of remuneration

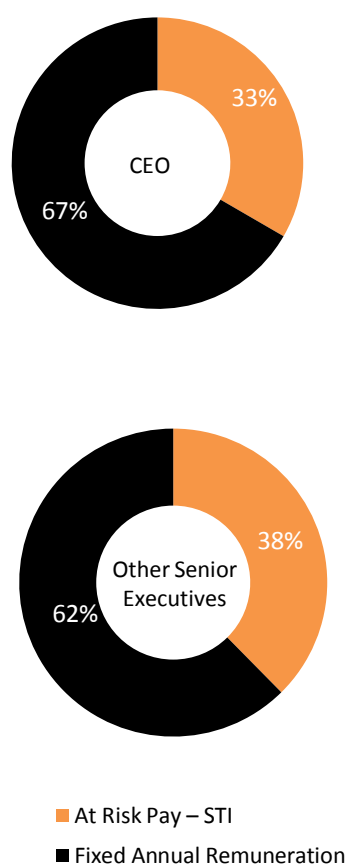
The Remuneration and Nomination Committee is responsible for assessing performance against KPI's and determining the STI and LTI to be paid to Key Management Personnel. To assist in this assessment, the committee receives detailed reports on performance from management which are based on independently verifiable data such as financial measures, market share and data from independently run surveys.

Target remuneration mix

The target remuneration mix for FY16 is shown in figure 2 below. It reflects the relative proportions of FAR and STI of remuneration on the basis that the performance conditions for the STI are fully satisfied.

The target remuneration mix for FY16 includes only FAR and STI remuneration elements as the 2016 LTI award will not be formally granted until FY17.

Figure 2: Target remuneration mix for FY16



The actual remuneration mix achieved by KMP is shown in figure 6 page 15.

Elements of remuneration

(i) Fixed annual remuneration (FAR)

Executives may receive their FAR as cash, or salary sacrificed benefits. FAR is reviewed annually, or on promotion. It is benchmarked against data for comparable roles within companies in similar industries and with similar market capitalisation. The committee aims to position executives at or near the median, with flexibility to take into account capability, experience, value to the organisation and performance of the individual.

Superannuation is included in FAR for all executives.

(ii) Short-term incentives (STI)

Certain employees are entitled to participate in McGrath's STI Plan. The amount of the award under the STI Plan to which each participant may become entitled (if any) will be determined by the Remuneration and Nomination Committee and the senior management team (as appropriate) based on achievement against set performance targets. Further detail is shown in Figure 3 below.

(iii) Long-term incentives

The Board has discretion to make offers to employees of McGrath or its related bodies corporate or any other person that the Board determines to be eligible to receive a grant under the LTI Plan. Under the LTI Plan, performance rights are subject to vesting or performance conditions determined by the Board and specified in the offer document. Any performance rights, will either not be offered, lapse or be forfeited if the relevant vesting and performance conditions are not satisfied.

As noted above the 2016 LTI award, initially to be granted to the CEO and members of senior management at, or shortly after, the initial public offering of McGrath Limited will be formally granted following lodgement of the FY16 Annual Report. As the EBITDA hurdle for the 2016 LTI award has not been met, only 50% of the performance rights will be granted.

Figure 3: Structure of the short-term incentive plan

Feature	Description									
Maximum opportunity	The CEO and certain members of the senior management team will be entitled to an STI award up to a maximum percentage of their FAR (the maximum amount may differ between individuals, but will typically not exceed 50% of total FAR).									
Performance metrics	The STI metrics align with our strategic priorities of market competitiveness, operational excellence, shareholder value and fostering talented and engaged people.									
	<table><tr><th>Category</th><th>Measure</th><th>Reason for selection</th></tr><tr><td>Financial</td><td>Divisional Measure EBITDA Contribution. Target weighting of 50% of total STI.</td><td>Encourages and rewards performance at a divisional level under direct control of the specific executive or manager.</td></tr><tr><td>Non-financial measures – specific strategic objective targets</td><td>Target weighting of 50% of total STI.</td><td>Encourages greater customer satisfaction, internal culture and cross pollination of services consistent with shareholder objectives.</td></tr></table>	Category	Measure	Reason for selection	Financial	Divisional Measure EBITDA Contribution. Target weighting of 50% of total STI.	Encourages and rewards performance at a divisional level under direct control of the specific executive or manager.	Non-financial measures – specific strategic objective targets	Target weighting of 50% of total STI.	Encourages greater customer satisfaction, internal culture and cross pollination of services consistent with shareholder objectives.
Category	Measure	Reason for selection								
Financial	Divisional Measure EBITDA Contribution. Target weighting of 50% of total STI.	Encourages and rewards performance at a divisional level under direct control of the specific executive or manager.								
Non-financial measures – specific strategic objective targets	Target weighting of 50% of total STI.	Encourages greater customer satisfaction, internal culture and cross pollination of services consistent with shareholder objectives.								
Delivery of STI	Each year performance will be measured for the 12 month period ended 30 June. Participants will need to be employed and not under notice of resignation or termination until at least 30 June of the relevant year to be eligible for an STI award, except in good leaver cases including retirement or bona fi de redundancy, where some or all of the payment may be made at the discretion of the Board and senior management team (as appropriate).									
Board discretion	The Board has discretion to adjust remuneration outcomes up or down to prevent any inappropriate reward outcomes, including deferral of part of the STI award.									

Link between remuneration and performance

(i) FY16 performance outcome

The table below provides an overview of the Remuneration and Nomination Committee's assessment of the Consolidated Entity's FY16 performance and impact on remuneration.

The committee determined that the Consolidated Entity did not meet its financial performance objectives for FY16 however certain non-financial objectives were met by 2 of the KMP. STI awards to KMP ranged from 0% to 42% of target STI.

Figure 4: Performance against key measures and impact on variable remuneration

Metric	Target	Proportion of KMP's total STI	Performance
Group Financial Measure:	\$31,500,000		Below target
Consolidated Entity pro forma EBITDA		J. McGrath 100%	Nil awarded
		G. Lucas 100%	Nil awarded
		G. Vouris 19%	Nil awarded
Divisional Financial Measure:			
Company Owned Sales EBITDA Contribution (excludes acquisition)	\$15,000,000	M. Lahood 67%	Below threshold Nil awarded
Divisional Financial Measure:			
Franchise Services EBITDA Contribution (excludes acquisition)	\$10,600,000	G. Vouris 50%	Below threshold Nil awarded
Non-financial Measures:	Various target levels relevant to the strategic objective		Below target
Including mortgage broking and property management referrals and Employee and customer service delivery		M. Lahood 33%	Nil awarded
		G. Vouris 31%	\$50,000 awarded
		P. Hauenschild 100%	\$50,000 awarded

(ii) FY16 STI outcome

Figure 5 shows, for each KMP, the amount of performance based remuneration was awarded during the year as a proportion of the total performance based remuneration.

Figure 5: Performance based remuneration award

Name	Total STI	Awarded ¹	Awarded
	Opportunity ¹		
	\$	\$	%
J. McGrath	325,767	-	0%
G. Lucas	275,777	-	0%
P. Hauenschild	119,243	50,000	42%
M. Lahood	450,000	-	0%
G. Vouris	160,000	50,000	31%

¹Amounts include superannuation

(iii) Relative proportions of fixed vs variable remuneration expense

Figure 6 reflects the relative proportions of FAR and STI of remuneration received based on the actual performance based amount awarded. Where the performance conditions for the STI were not met 100% of the remuneration will be FAR. The proportions are based on the amounts disclosed as statutory remuneration expense in figure 8 on page 16.

Figure 6: Relative proportion of fixed vs variable remuneration expense

	2016				2015			
	Fixed annual remuneration		STI		Fixed annual remuneration		STI	
	\$	%	\$	%	\$	%	\$	%
Executive Director								
J. McGrath	327,415	100%	-	0%	744,765	100%	-	0%
Other key management personnel								
G. Lucas	593,517	100%	-	0%	590,736	71%	240,000	29%
P. Hauenschild	249,003	85%	45,662	15%	244,798	78%	70,000	22%
M. Lahood	679,307	100%	-	0%	651,429	81%	150,000	19%
G. Vouris	348,826	88%	45,662	12%	318,376	76%	100,456	24%

Statutory performance indicators

We aim to align our executive remuneration to our strategic and business objectives and the creation of shareholder wealth. Figure 7 below shows measures of the group's financial performance over the last five years as required by the Corporations Act 2001. However, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMPs, see figure 5 above. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

Figure 7: statutory key performance indicators of the group over the last five years

	2016	2015	2014	2013	2012
Profit for the year attributable to owners of McGrath Limited (\$'000)	8,358	6,727	8,993	4,390	2,193
Pro forma EBITDA ¹	26,244	27,160	21,288	10,019	n/a
Basic earnings per share (cents)	8.58	14.84	20.58	10.04	5.02
Dividend payments (\$'000)	11,000	6,428	1,539	1,710	2,870
Dividend payout ratio (%) ²	132%	96%	17%	39%	131%
Closing share price (\$ as at 30 June)	0.92	n/a	n/a	n/a	n/a

¹ Pro forma EBITDA is a non-IFRS measure and has not been subject to audit or review.

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

Remuneration expenses for executive KMP

The following table shows details of the remuneration expense recognised for the group's executive key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards.

Figure 8: Executive remuneration.

Name	Year	Fixed annual remuneration					Variable remuneration		Total
		Short-term			Long-term		Short-term	Long-term	
		Salary	Non-monetary benefits ¹	Other ²	Annual and long service leave ³	Post-employment benefits			
Executive Director									
J. McGrath	2016	632,225	-	10,605	(333,956)	18,541	-	794	328,209
	2015	632,225	-	26,690	68,075	17,775	-	-	744,765
Other key management personnel									
G. Lucas	2016	532,226	30,498	7,142	5,109	18,541	-	2,817	596,333
	2015	528,706	29,288	5,813	9,155	17,775	240,000	10,333	841,070
P. Hauenschild	2016	219,178	-	7,493	3,790	18,541	45,662	4,802	299,466
	2015	219,178	-	2,464	5,381	17,775	70,000	655	315,453
M. Lahood	2016	601,814	-	16,207	42,745	18,541	-	-	679,307
	2015	586,425	-	12,298	34,933	17,775	150,000	500	801,931
G. Vouris	2016	277,069	30,498	7,493	13,450	20,316	45,662	4,795	399,283
	2015	264,840	29,288	2,464	4,009	17,775	100,456	9,544	428,376
Total KMPs	2016	2,262,512	60,996	48,940	(268,862)	94,480	91,324	13,208	2,302,598
	2015	2,231,374	58,576	49,729	121,553	88,875	560,456	21,032	3,131,595

¹ Motor vehicle benefits.

² Includes implied benefit of interest free loans, shares granted at IPO and the cost of directors and officer insurance.

³ Reflects the net cost of annual and long service leave accrued in the period.

⁴ Includes commission and superannuation on bonus/commission.

Remuneration expenses for executive KMP (continued)

The following remuneration table has been provided as additional non-statutory information to assist in understanding the total value of remuneration received by executive KMP in the current and prior financial years. Figure 8 above has been prepared in accordance with accounting standards as required by the Corporations Act 2001. The accounting standards only require the disclosure of the expense or cost to the company in the financial years presented, which may result in only a portion of cash remuneration being disclosed where payments are deferred to future financial years.

Figure 9: Executive remuneration received in the financial year*.

Name	Year	Cash salary ¹	Other benefits ²	STI ³	Superannuation	Total
J. McGrath	2016	632,225	772	-	18,563	651,560
	2015	632,225	-	-	17,775	650,000
G. Lucas	2016	532,226	33,069	240,000	28,786	834,081
	2015	528,706	29,621	125,000	27,775	586,105
P. Hauenschild	2016	219,178	463	70,000	22,879	312,520
	2015	219,178	599	-	17,832	237,613
M. Lahood	2016	601,814	-	150,000	18,541	770,356
	2015	586,425	500	230,925	17,775	604,702
G. Vouris	2016	277,069	30,955	112,539	34,198	454,570
	2015	264,840	29,288	29,132	28,186	321,450

* The above table includes non-IFRS measures and has not been subject to audit.

¹ Cash salary includes leave entitlements paid.

² Includes non-monetary benefits (at the statutory cost) and commissions.

³ Relates to cash payment of STI's awarded in the prior financial year. A proportion of FY14 STI's were paid in FY14.

Contractual arrangements with executive KMPs

Component	CEO description
Fixed annual remuneration	\$651,533
Contract duration	Ongoing contract
Notice by the individual/company	12 months
Termination of employment (without cause)	<p>STI</p> <p>Participants will need to be employed and not under notice of resignation or termination until at least 30 June of the relevant year to be eligible for an STI award.</p> <p>LTI</p> <p>Once granted, if the participant ceases employment for any other reason, all of their unvested Performance Rights will remain on foot and subject to the original performance condition. However, the Board retains discretion to determine that some or all of the Performance Rights will lapse.</p>
Termination of employment (with cause) or by the individual	<p>STI</p> <p>For good leaver cases including retirement or bona fide redundancy, where some or all of the payment may be made at the discretion of the Board and senior management team (where appropriate).</p> <p>LTI</p> <p>Once granted, If the participant ceases employment for cause, resigns, or their employment is terminated by mutual agreement with McGrath, unless the Board determines otherwise, any unvested Performance Rights or notional Performance Rights will automatically lapse.</p>

Component	Senior executive description
Fixed annual remuneration	Range between \$238,485 to \$624,200
Contract duration	Ongoing contract
Notice by the individual/company	Up to 12 months
Termination of employment (without cause)	<p>STI</p> <p>Participants will need to be employed and not under notice of resignation or termination until at least 30 June of the relevant year to be eligible for an STI award.</p> <p>LTI</p> <p>Once granted, if the participant ceases employment for any other reason, all of their unvested Performance Rights will remain on foot and subject to the original performance condition. However, the Board retains discretion to determine that some or all of the Performance Rights will lapse.</p>
Termination of employment (with cause) or by the individual	<p>STI</p> <p>For good leaver cases including retirement or bona fide redundancy, where some or all of the payment may be made at the discretion of the Board and senior management team (where appropriate).</p> <p>LTI</p> <p>Once granted, if the participant ceases employment for cause, resigns, or their employment is terminated by mutual agreement with McGrath, unless the Board determines otherwise, any unvested Performance Rights or notional Performance Rights will automatically lapse.</p>

Non-executive director arrangements

Total amount paid to all Non-executive directors for their services must not exceed in aggregate in any financial year the amount fixed by McGrath's general meeting. This amount has been fixed by McGrath at \$600,000, not including the value of shares granted at IPO. The fees shown in the table below (inclusive of superannuation) took effect from 13 October of the relevant financial year. Members of the Audit & Risk committee and the Remuneration & Nomination committee do not receive additional fees.

All non-executive directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of director.

The fees paid to the non-executive directors in relation to the relevant financial year are set out below.

2016

Board fees	
Chair – D. Mackay	\$175,000
Other non-executive directors	\$100,000
Committee fees	
Audit and Risk committee	\$25,000
Chair – C. O'Connor	
Remuneration and Nomination committee	\$25,000
Chair – D. Petre	

Figure 10: Non-executive director remuneration

Name	Year	Fees	Other*	Superannuation	Total
D. Mackay	2016	149,895	106,494	14,240	270,629
	2015	-	-	-	-
C. O'Connor	2016	102,742	106,223	9,760	218,725
	2015	64,074	3,886	6,087	74,047
D. Petre	2016	82,252	104,600	7,814	194,666
	2015	-	-	-	-
S. Hassen ¹	2016	-	2,751	-	2,751
	2015	-	4,328	-	4,328
W. McCarthy ²	2016	-	-	-	-
	2015	82,381	2,464	7,826	92,671
B. Richards ³	2016	-	-	-	-
	2015	-	619	-	619
Total non-executive director remuneration	2016	334,889	320,068	31,814	686,771
	2015	146,455	11,297	13,913	171,665

*Includes value of shares granted at IPO and the cost of directors and officer insurance

¹S. Hassen retired from the board on 11 November 2015.

²W. McCarthy retired from the board on 30 June 2015.

³B. Richards retired from the board on 15 September 2014

Shareholdings of Directors and KMP

The table below summarises the movements in holdings of ordinary shares in McGrath Limited held directly, indirectly or beneficially, by each Director and KMP and their personally related entities.

Figure 11: Shareholdings

2016 Name	Held at 1 July 2015	Changes during the year	Held at 30 June 2016
Ordinary shares			
D. Mackay	-	234,499	234,499
C. O'Connor	-	109,238	109,238
D. Petre	-	277,777	277,777
J. McGrath	27,056,252	10,071,126	37,127,378
G. Lucas	4,266,563	1,450,631	5,787,194
P. Hauenschild	-	69,277	69,277
M. Lahood	2,081,250	707,625	2,788,875
G. Vouris	-	24,515	24,515

Loans given to KMP

Details of loans made to directors of McGrath Limited and key management personnel of the group, including entities related to them, are set out below.

Figure 12: Loans

Name	Year	Balance at the start of the year \$	Interest paid and payable for the year \$	Interest not charged \$	Balance at the end of the year \$	Highest indebtedness during the year \$
J. McGrath	2016	557,143	0	4,111	0	650,000
	2015	585,000	0	24,226	557,143	780,000
G. Lucas	2016	87,857	0	648	0	102,500
	2015	45,000	0	3,349	87,857	88,214
M. Lahood	2016	239,063	0	9,713	92,272	220,121
	2015	211,235	0	9,833	239,063	243,794
Other individuals ¹	2016	42,857	0	316	0	50,000
	2015	45,000	0	1,969	42,857	60,000
Total	2016	926,920	0	14,788	92,272	1,022,621
	2015	931,235	0	39,377	926,920	1,162,722

¹Loans made to 2 KMP that did not exceed \$100,000 at any time.

The cash advance balances are unsecured, interest free and are repayable on receipt of dividend payments or commissions due to the individual or a related party, or repayable on a fixed date.

Engagement of external remuneration consultants

During the course of the year the Remuneration and Nomination Committee has engaged remuneration consultants to provide remuneration benchmark data for the executive roles (including KMP), market practice advice on executive short-term and long-term incentive plan design and assistance in relation to legal drafting of plan rules.

The Remuneration and Nomination Committee did not receive any remuneration recommendations from the consultants in relation to the remuneration arrangements of KMP. The Board's decisions were made independently using the information provided and having regard to McGrath's business strategy, remuneration policy and, where appropriate, input from management.

Directors' Report for the Year Ended 30 June 2016

The Directors present their report, together with the financial statements of McGrath Limited (the Company or McGrath) and the subsidiaries that it controlled at the end of the period and from time to time throughout the period (together referred to as the Consolidated Entity), for the year ended 30 June 2016 and the auditor's report thereon. The financial statements have been reviewed and approved by the directors on the recommendation of the McGrath Audit and Risk Committee.

Prior to the initial public offer (IPO) that occurred on 7 December 2015, an internal restructure of the Consolidated Entity took place. A newly established company, McGrath Holding Company Limited was established and acquired 100% of the shares of McGrath Limited. The holding company was renamed McGrath Limited post acquisition and the existing McGrath Limited has been renamed McGrath Operations Limited. This Financial Report is presented as a continuation of the Consolidated Entity (inclusive of McGrath Limited and McGrath Operations Limited) for the twelve month period.

The Consolidated Entity profit after providing for income tax amounted to \$8,411,859 (2015: \$7,035,044).

Principal activities and review of operations

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

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the Operating and Financial Review on pages 3-7 of this Annual Report.

Directors

The following persons were Directors of McGrath Limited (now McGrath Operations Limited) prior to the restructure and were appointed as Directors of McGrath Holding Company Limited (now McGrath Limited) during the year ended 30 June 2016:

David Mackay

Chairman and Independent Non-executive Director.

- McGrath Operations Limited, appointed 13 July 2015
- McGrath Limited, appointed 8 September 2015

John McGrath

Chief Executive Officer and Executive Director.

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

Cass O'Connor

Non-executive Director.

- McGrath Operations Limited, appointed 25 August 2000
- McGrath Limited, appointed 8 September 2015

Daniel Petre

Independent Non-executive Director.

- McGrath Limited, appointed 13 October 2015

Shad Hassen

Non-executive Director.

- McGrath Operations Limited, appointed 15 September 2014, resigned 11 November 2015

Directors' meetings and their attendance at those meetings for FY15 (including meetings of committees of directors) are disclosed on page 9 of the Annual Report. The qualifications and experience of directors, including current and recent directorships, are detailed on pages 8 to 9 of the Annual Report.

Company Secretary

Paul Hauenschild

- McGrath Operations Limited, appointed 25 November 2008
- McGrath Limited, appointed 7 December 2015

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.

Paul holds a Bachelor of Business from the University of Technology Sydney and is a Certified Practicing Accountant.

Dividends

Dividends totalling \$11,000,000 were declared and paid during the year. (2015: \$6,428,000).

Significant changes in state of affairs

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

Subsequent events

On 1 July 2016, the Consolidated Entity, through its 100% owned subsidiary, McGrath Sales Proprietary Limited, acquired the McGrath Forestville office from a franchisee. The acquisition was structured such that the Consolidated Entity will acquire 100% of the assets of the business for an initial purchase price of \$200,000. The purchase agreement includes contingent consideration of \$100,000 conditional on the office meeting certain revenue hurdles during FY17.

On 14 July 2016, Cameron Judson was appointed Joint Chief Executive Officer of the Consolidated Entity.

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.

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.

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

Environmental issues

The Consolidated Entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory. The Consolidated Entity is not subject to the reporting requirements of the National Green House and Energy Act 2007.

Indemnification and insurance of officers

Indemnification

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

Insurance

During the financial year the Consolidated Entity has paid an insurance premium of \$79,500 in respect of Directors' and Officers' liability, for current and former Directors and senior executives of the Company and directors and senior executives of its controlled entities.

The insurance premium relates to:

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

The insurance policy outlined above does not contain details of any premium paid in respect of individual officers of the Consolidated Entity.

Directors' interests

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

Director	Ordinary Shares
David Mackay	234,499
John McGrath	37,127,378
Cass O'Connor	109,238
Daniel Petre	277,777

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.

Remuneration report – audited

Information on McGrath's remuneration framework and the outcomes for FY16 for the McGrath Limited Board and key management personnel, is included in the remuneration report on pages 11 to 22 of this Annual Report.

Corporate governance

Consolidated Entity governance matters are discussed on pages 8 to 10 of this Annual Report and are also available on the Consolidated Entity's website:

<https://www.mcgrath.com.au/about/investorCentre>

Non-audit services

McGrath may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are relevant. Details of the amounts paid or payable to the auditor (KPMG) for audit and non-audit services provided during the year ended 30 June 2016 are set out in note E7 to the financial statements.

The Board has considered its position and, in accordance with the advice received from the Audit and Risk Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not affect the impartiality and objectivity of the auditor; and
- none of the services undermines the general principles relating to auditor independence as set out in Accounting Professional & Ethical Standards 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is on page 26.

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 hundred thousand dollars unless otherwise indicated.

Signed in accordance with a resolution of the Directors



David Mackay
Chairman - 24 August 2016



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 2016 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

Stuart Marshall
Partner

Sydney

24 August 2016



McGrath Limited and Controlled Entities

A.C.N. 608 153 779

Financial Report For The Year Ended 30th June 2016

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Financial statements

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Revenues and other income	A1	120,957	85,855
Cost of sales		(46,230)	(35,168)
Employee benefits expense	A4	(31,045)	(22,467)
Directors' fees		(593)	(146)
Professional fees		(7,764)	(1,734)
Doubtful debts		(116)	(12)
Occupancy		(5,836)	(3,964)
Communications		(2,373)	(1,736)
Advertising and promotions		(2,146)	(2,105)
Other expenses		(8,411)	(5,584)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		16,443	12,939
Depreciation and amortisation expenses		(3,635)	(2,227)
Finance income		98	114
Finance costs		(300)	(448)
Net finance costs		(202)	(334)
Profit before income tax expense		12,606	10,378
Income tax expense	E1	(4,195)	(3,343)
Profit after income tax expense		8,411	7,035
Other comprehensive income		-	-
Total profit and other comprehensive income for the year		8,411	7,035
Profit after income tax expense attributable to:			
Owners of the Company		8,358	6,727
Non-controlling interest		53	308
Profit after income tax expense		8,411	7,035
Basic earnings per share (cents)	A5	8.58	14.84
Diluted earnings per share (cents)	A5	8.19	14.84

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

Consolidated statement of financial position as at 30 June 2016

	Notes	2016 \$'000	2015 \$'000
CURRENT ASSETS			
Cash and cash equivalents	A3	12,493	2,836
Trade and other receivables	B1	28,305	22,025
Other	E2	2,238	869
Current tax assets		1,198	-
TOTAL CURRENT ASSETS		44,234	25,730
NON CURRENT ASSETS			
Trade and other receivables	B1	3,156	225
Property, plant and equipment	B2	7,711	3,185
Intangible assets	B3	78,915	8,941
TOTAL NON CURRENT ASSETS		89,782	12,351
TOTAL ASSETS		134,016	38,081
CURRENT LIABILITIES			
Trade and other payables	B4	16,089	11,685
Loans and borrowings	B5	6,099	558
Provisions	E3	1,928	1,639
Current tax liabilities		-	1,250
TOTAL CURRENT LIABILITIES		24,116	15,132
NON CURRENT LIABILITIES			
Trade and other payables	B4	1,104	-
Loans and borrowings	B5	6,472	6,356
Provisions	E3	1,276	823
Deferred tax liabilities	E1	4,746	1,466
TOTAL NON CURRENT LIABILITIES		13,598	8,645
TOTAL LIABILITIES		37,714	23,777
NET ASSETS		96,302	14,304
EQUITY			
Contributed equity	E4	92,132	6,333
Share -based payment reserve	E4	74	-
Retained profits/(accumulated losses)		4,096	7,971
Total Equity attributable to equity holders		96,302	14,304
Non-controlling interests		-	-
TOTAL EQUITY		96,302	14,304

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

Consolidated statement of changes in equity as at 30 June 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 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		-	-	-	-	-	-
Total comprehensive income for the year		-	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)
Transactions with owners, recorded directly in equity		1,250	(5,987)	(441)	(5,178)	(308)	(5,486)
Balance at 30 June 2015		6,333	7,971	-	14,304	-	14,304
Profit after income tax expense		-	8,358	-	8,358	53	8,411
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the year		-	8,358	-	8,358	53	8,411
Issue of equity		87,050	-	-	87,050	-	87,050
Acquisition of non-controlling interests		1,233	(1,233)	-	-	-	-
Equity raising costs deducted from equity after tax		(2,484)	-	-	(2,484)	-	(2,484)
Share based payment transactions		-	-	74	74	-	74
Dividends to equity holders	C3	-	(11,000)	-	(11,000)	-	(11,000)
Distributions to non-controlling interests		-	-	-	-	(53)	(53)
Transactions with owners, recorded directly in equity		85,799	(12,233)	74	73,640	(53)	73,587
Balance at 30 June 2016		92,132	4,096	74	96,302	-	96,302

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

Consolidated statement of cash flows for the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		124,459	87,402
Payments to suppliers and employees		(111,855)	(75,239)
Interest paid		(300)	(448)
Interest received		98	114
Income tax paid		(4,962)	(2,569)
NET CASH INFLOW FROM OPERATING ACTIVITIES	A3	7,440	9,260
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of controlled entities, net of cash acquired	B6	(29,076)	-
Payment of transaction costs related to acquisition		(1,702)	-
Purchase of property, plant and equipment		(4,993)	(1,987)
Purchase of intangibles		(3,091)	(2,807)
Loans granted		(539)	(2,311)
Loan repayments received		2,121	2,575
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(37,280)	(4,530)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		66,050	1,250
Payment of transaction costs related to IPO		(5,057)	-
Payment of capitalised transaction costs related to IPO		(3,528)	-
Proceeds from borrowings		9,000	662
Repayment of borrowings		(15,366)	(826)
Repayment of finance lease principal		(549)	(114)
Dividends paid	C3	(11,000)	(6,428)
Distribution paid		(53)	(308)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		39,467	(5,764)
Net increase/(decrease) in cash and cash equivalents		9,657	(1,034)
Cash and cash equivalents at the beginning of the financial year		2,836	3,870
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	A3	12,493	2,836

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

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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 2016 comprise the Company and its controlled entities, (together referred to as the Consolidated Entity).

An internal restructure took place in connection with the 7 December 2015 initial public offering (IPO) of McGrath Limited (ASX code: MEA). This resulted in a newly incorporated company, McGrath Holding Company Limited, becoming the ultimate parent company of the Consolidated Entity. This entity was subsequently renamed McGrath Limited. The Directors elected to account for the restructure as a capital re-organisation rather than a business combination. In the Directors' judgement, the continuation of the existing accounting values is consistent with the accounting that would have occurred if the assets and liabilities had already been in a structure suitable to IPO and most appropriately reflects the substance of the internal restructure. As such, the consolidated financial statements of the new Consolidated Entity have been presented as a continuation of the pre-existing accounting values of assets and liabilities in the previous parent company's financial statements, the previous parent company, then named McGrath Limited, was renamed McGrath Operations Limited in the restructure.

The Directors note that there is an alternate view that such a restructure undertaken for an IPO could be accounted for as a business combination that follows the legal structure of McGrath Holding Company Limited being the acquirer. If this view had been taken, the net assets of the Consolidated Entity would have been increased to fair value by \$244.8 million, based on a market capitalisation at IPO of \$260.7 million, with consequential impacts on the consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position.

The financial report represents the consolidated results, for the Consolidated Entity, for the period 1 July 2015 to 30 June 2016. This financial report is presented as a continuation of the Consolidated Entity (including McGrath Limited and McGrath Operations Limited) for the financial year. The comparative information presented in the financial report represents the financial position of the Consolidated

Entity as at 30 June 2015 and the Consolidated Entity's performance for the year ended on that date.

McGrath Limited is a for-profit company limited by shares incorporated and domiciled in Australia.

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

The financial statements were approved by the Board of Directors on 24 August 2016.

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 2016

Financial performance and cash flows

A1 Revenues and other income

	Notes	2016 \$'000	2015 \$'000
Commission		83,826	54,932
Fees		34,795	30,873
Fair value adjustment to deferred consideration	B6	2,336	-
Other income		-	50
Total revenue and other income		120,957	85,855

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 received.
- 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. It includes property marketing fees paid by vendor clients of the company owned sales segment.

Company owned property management

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

Franchise services

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

Other

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

Head office and corporate costs are not allocated to segments.

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.

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	79,075	16,157	12,052	107,284	11,155	118,439
Inter-segment revenues	-	-	-	-	5,221	5,221
Segment Revenue	79,075	16,157	12,052	107,284	16,376	123,660
Unallocated revenue						2,518
Eliminations						(5,221)
Consolidated Revenue						120,957
Segment profit before interest, tax, depreciation and amortisation	18,837	4,646	7,764	31,247	723	31,970
Unallocated corporate costs						(15,526)
EBITDA						16,444
Depreciation and amortisation	(1,021)	(1,972)	(5)	(2,998)	(254)	(3,252)
Unallocated corporate depreciation and amortisation						(384)
Net finance costs						(202)
Profit before income tax expense						12,606
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
Segment Revenue	50,880	10,645	12,434	73,959	16,442	90,401
Unallocated revenue						94
Eliminations						(4,640)
Consolidated Revenue						85,855
Segment profit before interest, tax, depreciation and amortisation	8,279	2,728	8,881	19,888	924	20,812
Unallocated corporate costs						(7,873)
EBITDA						12,939
Depreciation and amortisation	(772)	(649)	(5)	(1,426)	(655)	(2,081)
Unallocated corporate depreciation and amortisation						(146)
Net finance costs						(334)
Profit before income tax expense						10,378

A3 Cash and Cash flow related information

	2016 \$'000	2015 \$'000
Cash at bank	5,487	1,203
Short term deposits	7,006	1,633
Cash and cash equivalents	12,493	2,836

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, 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

	2016 \$'000	2015 \$'000
Profit after income tax expense	8,411	7,035
Adjustments for:		
Depreciation and amortisation expense	3,635	2,227
Doubtful debts expense	116	12
Share-based payments	74	-
Fair value adjustment of deferred consideration	(2,336)	-
Impairment of other receivables	-	3,153
IPO transaction costs recognised in financing activities	5,057	-
Acquisition transaction costs recognised in investing activities	1,702	-
Net cash inflow from ordinary activities before changes in assets and liabilities	16,659	12,427
Increase in payables and other liabilities	2,876	1,725
(Decrease)/increase in other provisions	(3,767)	498
Increase in deferred tax items	1,682	1,839
(Increase)/decrease in prepayments	(1,273)	784
(Increase) in receivables	(8,908)	(4,262)
(Increase) decrease in inventory	(32)	90
Decrease/(Increase) in other assets	2,651	(2,775)
Decrease in current tax asset	-	15
(Decrease) in current tax liabilities	(2,448)	(1,081)
	7,440	9,260

A4 Employee benefit expenses

	Notes	2016 \$'000	2015 \$'000
Wages and salaries		27,255	19,840
Leave provisions		1,769	1,271
Contributions to defined contribution plans		2,021	1,356
		31,045	22,467

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 and annual leave expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date. Liabilities for non-accumulating sick leave are recognised when the leave is taken.

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

Long service leave

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 a corporate rate 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.

A5 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)

	2016 \$'000	2015 \$'000
Net profit attributable to owners of the Company	8,358	6,727
(ii) Weighted-average number of ordinary shares		
<i>In thousands of shares</i>		
Shares on issue at 1 July	45,892	43,706
Issue of shares – share options exercised 12 September 2014	-	2,186
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	-
Shares on issue at 30 June	134,153	45,892
Weighted-average number of ordinary shares at 30 June	97,449	45,329
Basic earnings per share (units)	8.58	14.84

(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.

	2016 \$'000	2015 \$'000
Net profit attributable to owners of the Company	8,358	6,727
(ii) Weighted-average number of ordinary shares		
<i>In thousands of shares</i>		
Weighted-average number of ordinary shares (basic)	97,449	45,329
Convertible redeemable preference shares (CRPS) ¹	3,837	-
High performing agent share plan ²	748	-
Weighted-average number of ordinary shares (diluted) at 30 June	102,034	45,329
Diluted earnings per share (units)	8.19	14.84

¹The CRPS as described in B6 convert to shares. The calculation considers the potential dilutive effect of the CRPS if they were to be converted at the share price at 30 June 2016.

² High performing agents who achieved specified commission thresholds in FY16 will be invited to purchase shares. The amount of shares that each agent is eligible to purchase is determined by the commission threshold they achieved. The Company will provide the 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 30 June 2016.

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.



B Financial position

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

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B1 Trade and other receivables

	Notes	2016 \$'000	2015 \$'000
Current			
Trade receivables	(i)	23,233	14,490
Doubtful debts provision	(ii)	(509)	(386)
		22,724	14,104
Other Receivables	(iii)	5,522	6,342
Loans – director	(iv)	-	600
Loans – other	(v)	59	979
		28,305	22,025
Non-current			
Trade receivables	(i)	2,991	120
Loans - other	(v)	165	105
		3,156	225

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 in 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 directors' loans relate to cash advances made and then repaid from dividend distributions. Terms and conditions of the director loans is disclosed in C4.

(v) Other loans are unsecured and predominantly interest free. They are repaid on an ongoing basis from agent commissions that would otherwise be paid.

B2 Property, plant and equipment

	Plant and equipment \$'000	Leasehold improvements \$'000	Land and Buildings \$'000	Total \$'000
Consolidated Entity				
Period Ended 30 June 2016				
Cost				
At 1 July 2015	2,815	3,777	-	6,592
Additions	1,585	2,240	1,172	4,997
Assets acquired in a business combination	1,731	2,146	-	3,877
Transfers	31	-	-	31
At 30 June 2016	6,162	8,163	1,172	15,497
Accumulated depreciation				
At 1 July 2015	(1,522)	(1,885)	-	(3,407)
Depreciation charge for the year	(782)	(713)	-	(1,495)
Assets acquired in a business combination	(1,326)	(1,523)	-	(2,849)
Transfers	(61)	26	-	(35)
At 30 June 2016	(3,691)	(4,095)	-	(7,786)
Carrying amounts				
At 1 July 2015	1,293	1,892	-	3,185
At 30 June 2016	2,471	4,068	1,172	7,711

The above assets have been pledged as security for the borrowing facilities disclosed at Note B5.

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

B2 Property, plant and equipment (continued)

Recognition and Measurement

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

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

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

- Plant and equipment - 2.5 to 10 years
- Leasehold improvements - remaining lease term
- Land and buildings are not depreciated

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.

B3 Intangible assets

	Goodwill	Property Management Rights	Software ¹	Total
	\$'000	\$'000	\$'000	\$'000
Year Ended 30 June 2016				
Consolidated Entity				
Cost				
At 1 July 2015	300	6,349	6,502	13,151
Additions	-	-	3,108	3,108
Assets acquired in a business combination	52,989	16,033	-	69,022
Disposals	-	(19)	-	(19)
Transfers	-	-	(31)	(31)
At 30 June 2016	53,289	22,363	9,579	85,231
Accumulated amortisation				
At 1 July 2015	-	(2,030)	(2,180)	(4,210)
Transfers	-	-	34	34
Disposals	-	-	-	-
Amortisation charge for the year	-	(1,908)	(232)	(2,140)
At 30 June 2016	-	(3,938)	(2,378)	(6,316)
Carrying amounts				
At 1 July 2015	300	4,319	4,322	8,941
At 30 June 2016	53,289	18,425	7,201	78,915

	Goodwill	Property Management Rights	Software ¹	Total
	\$'000	\$'000	\$'000	\$'000
Year Ended 30 June 2015				
Consolidated Entity				
Cost				
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
Accumulated amortisation				
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)
Carrying amounts				
At 1 July 2014	-	4,249	2,575	6,824
At 30 June 2015	300	4,319	4,322	8,941

¹ All software assets are internally generated intangibles.

B3 Intangible assets (continued)

Recognition and Measurement – Property Management Rights & Software

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 to five years commencing from implementation of the software. At each reporting date, the Consolidated Entity reviews the carrying amount of intangibles to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

Recognition and Measurement – Goodwill

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

	<u>\$'000</u>
Year Ended 30 June 2016	
Consolidated Entity	
Carrying amount at beginning of financial year	300
Additions during the year	<u>52,989</u>
Carrying amount at end of financial year	<u>53,289</u>
Year Ended 30 June 2015	
Consolidated Entity	
Carrying amount at beginning of financial year	-
Additions during the year	<u>300</u>
Carrying amount at end of financial year	<u>300</u>

Significant accounting judgements, estimates and assumptions utilised in impairment testing

Goodwill recognised in the acquisition of businesses has been allocated to the Company Owned sales operating segment on the basis that the businesses will benefit the Company Owned sales operating segment as a whole. The recoverable amount is the greater of its value in use and its fair value less costs to sell. The value in use methodology has been used to determine the recoverable amount. The key assumptions in used in assessing value in use are set out below. The values assigned to the key assumptions represent management's assessment of future trends in real estate and have been based on historical data from internal and external sources.

<i>In percent</i>	2016
Discount rate	13.9
Terminal value in growth rate	2.5
EBITDA growth rate (average next five years)	5.0

The discount rate was a pre-tax measure estimated based on the Consolidated Entity's weighted-average cost of capital adjusted for a risk premium. The cash flow projections included an average estimate for five years excluding the effect of acquisition or expansion and a terminal growth rate thereafter. The terminal growth rate was determined on management's estimate of the long-term compound annual EBITDA growth rate.

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.

B4 Trade and other payables

	2016 \$'000	2015 \$'000
Current		
Trade creditors	5,171	573
Other creditors	2,121	2,957
Accrued expenses	5,992	6,353
Accrued sales commission	2,240	1,598
Unearned income	564	204
	<u>16,089</u>	<u>11,685</u>
Non-current		
Accrued sales commission	1,104	-
	<u>1,104</u>	<u>-</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.

B5 Loans and borrowings

	Notes	2016 \$'000	2015 \$'000
Current			
Lease Liability		-	215
Loans - secured		-	343
Deferred consideration	B6	6,099	-
		<u>6,099</u>	<u>558</u>
Non-current			
Lease liability		-	334
Loans - secured		-	6,022
Deferred consideration	B6	6,472	-
		<u>6,472</u>	<u>6,356</u>

The deferred consideration relates to the acquisition of the Smollen Group. The deferred consideration has been presented at fair value as determined at acquisition and revalued at reporting date, taking into consideration the time value of money as well as a probability factor relating to the likelihood of the Smollen Group meeting certain criteria as set out in the Share Purchase Agreement (see B6).

B5 Loans and borrowings (continued)

	Facility Limit 2016 \$'000	Facility Limit 2015 \$'000	Drawn Amount 2016 \$'000	Drawn Amount 2015 \$'000	Note
Secured loan facilities					
Loan facility – tranche 1	-	1,811	-	1,811	(i)
Loan facility – tranche 2	-	4,425	-	4,425	(i)
Loan facility – tranche 3	-	129	-	129	(i)
Overdraft facility	-	100	-	-	(ii)
Line of credit	11,500	-	-	-	(iii)
	-	6,465	-	6,365	

(i) Loan facilities repaid in full at IPO.

(ii) The overdraft facility available to the Consolidated Entity at 30 June 2015 was cancelled on 28 June 2016.

(iii) The line of credit facility, undrawn at 30 June 2016, is charged at the Bank Bill Rate (BBSY) plus 3.0% per annum on any drawn balance. A line fee of 1.35% per annum is charged on the undrawn balance.

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.

B6 Business combinations**Smollen Group acquisition**

On 8 December 2015 McGrath completed the acquisition of the Smollen Group. 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. The acquisition has been structured such that McGrath will acquire 100% of the Smollen Group for an initial purchase price of \$52,500,000, payable partly in cash (\$31,500,000) and partly in shares (\$21,000,000). The Share Purchase Agreement (SPA) includes total deferred consideration of \$17,500,000 payable partly in cash (\$8,750,000) and partly in shares (\$8,750,000). The payment of part of the total deferred consideration (\$5,250,000) is contingent on the Smollen Group meeting certain commission income and managed property hurdles and other conditions.

The acquisition of the Smollen Group was accounted for as a business combination. As a result \$52,989,264 in goodwill and \$16,033,284 in property management rights were recognised as intangible assets on the balance sheet. The fair value of the deferred consideration of \$12,570,687 has also been recognised as a current and non-current liability and is to be settled on a 50:50 cash to equity basis (see deferred consideration below).

B6 Business combinations (continued)

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

	2016 \$'000
Fair value of consideration transferred	
Amount settled in cash	31,500
Amount settled in ordinary shares	21,000
Amount of deferred consideration	12,571
Fair value adjustment of deferred consideration recognised in the profit and loss	2,336
Total consideration pre working capital adjustment	67,407
Working capital adjustment	(1,945)
Adjusted consideration	65,462
Recognised amounts of identifiable net assets	
Property, plant and equipment	1,028
Intangible assets	16,033
Total non-current assets	17,061
Cash	2,424
Trade and other receivables	2,669
Prepayments	75
Total current assets	5,198
Deferred tax liabilities	(2,644)
Payroll liabilities	(98)
Total non-current liabilities	(3,639)
Current tax liabilities	(444)
Trade and other payables	(2,632)
Accrued expenses	(2,278)
Payroll liabilities	(1,690)
Total current liabilities	(7,044)
Identifiable net assets	12,473
Goodwill on acquisition	52,989

Acquisition-related costs amounting to \$1,942,931 are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss and other comprehensive income as part of other expenses.

The deferred consideration, which includes contingent consideration, was initially recognised at acquisition based on the fair value of the consideration payable in accordance with the SPA. The fair value determination has taken into account the time value of money as well as a probability factor relating to the likelihood of the Smollen Group meeting the earn out hurdles.

At 30 June 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 \$2,335,680 being recognised in the profit or loss for the period.

The deferred consideration comprises 50% cash and 50% convertible redeemable preference shares (CRPS) which are convertible to a determined value of shares in McGrath Limited payable in two tranches. The first tranche of the deferred consideration of \$6,098,959 is payable on or before 7 September 2016 and the second tranche of the deferred consideration of \$6,471,728, is payable in the 2018 financial year.

For the period from 8 December 2015 to 30 June 2016, the Smollen Group contributed revenue of \$16,471,624 and profit before income tax of \$3,692,249 to the Consolidated Entity's results. If the acquisition had occurred on the 1 July 2015 management estimates that consolidated revenue would have been \$136,977,088, and consolidated profit before income tax for the year ending 30 June 2016 would have been \$13,434,020. In determining these amounts management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition occurred on 1 July 2015.

B6 Business combinations (continued)

Other acquisitions

During the 2015 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:

	2016 \$'000	2015 \$'000
Consideration	-	664
Retention period capital return	(19)	-
Intangible assets - property management rights	(19)	664

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

During the 2015 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:

	2016 \$'000	2015 \$'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 Measurement

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.

Significant accounting judgements, estimates and assumptions

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 the profit or loss.

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.



C Risk, capital management and related parties

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

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C2	Capital management	53
C3	Dividends paid and proposed	53
C4	Key management personnel Disclosure	54-56
C5	Related party transactions	56

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.

C1 Financial risk management (continued)

Impairment losses

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

	2016 Gross \$'000	2016 Impairment \$'000	2015 Gross \$'000	2015 Impairment \$'000
Not past due	30,736	(222)	21,464	-
Past due 0-30 days	499	-	368	-
Past due 31-90 days	440	-	389	-
Past due 90 days +	295	(287)	415	(386)
	31,970	(509)	22,636	(386)

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

	2016 \$'000	2015 \$'000
Balance at 1 July 2015	(386)	(378)
Provisions and adjustments	(163)	(43)
Impairment loss recognised	40	35
Balance at 30 June 2016	(509)	(386)

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

	Carrying amount \$'000	Total Contractual cash flows \$'000	Within Year \$'000	1 to 2 Years \$'000	2 to 5 Years \$'000	Greater than 5 years \$'000
30 June 2016						
Trade & other payables	17,193	17,193	16,089	1,104	-	-
Loans and borrowings	-	-	-	-	-	-
Deferred consideration	12,571	6,388	3,063	3,325	-	-
	29,764	23,581	19,152	4,429	-	-

The deferred consideration is to be settled on the basis of 50% cash and 50% convertible redeemable preference shares which are convertible to a determined value of shares in McGrath Limited payable in two tranches. See B6 for further detail.

30 June 2015

Trade & other payables	11,685	11,685	11,685	-	-	-
Loans and borrowings	6,914	7,475	925	6,441	109	-
Deferred consideration	-	-	-	-	-	-
	18,599	19,160	12,610	6,441	109	-

C1 Financial risk management (continued)

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
	2016	2015	2016	2015
	\$'000	\$'000	%	%
Financial assets:				
Cash at bank	5,487	1,203	0.21%	0.68%
Short term deposits	7,006	1,633	0.73%	1.27%
Total financial assets	12,493	2,836		
Financial liabilities:				
Lease and hire purchase liabilities	-	549	6.59%	6.15%
Interest bearing liabilities	-	6,365	6.35%	5.51%
Deferred consideration	12,571	-		
Total financial liabilities	12,571	6,914		

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 \$44,296 (2015: \$42,853).

Other Market risks

At 30 June 2016 the Consolidated Entity did not hold any available-for-sale equity securities assets (2015: nil) or have exposure to currency risk.

Fair values

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

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

C2 Capital management

Risk management

Capital is defined as the combination of contributed equity, reserves and net debt (borrowings less cash). The board is responsible for monitoring and approving the capital management framework within which management operates. The Consolidated Entity's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders such as employees. The Consolidated Entity focuses on interrelated financial parameters, including its gearing ratio, earnings growth, average cost of debt, gearing, weighted average debt maturity and borrowing capacity. The Consolidated Entity also monitors its interest coverage ratio and weighted average cost of debt. These are all taken into account when the Consolidated Entity makes decisions on how to invest its capital and evaluate its existing investments.

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

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.

C3 Dividends paid and proposed

	2016 \$'000	2015 \$'000
Declared and paid during the year:		
Dividends on ordinary shares:		
Final franked dividend for 2014: 5.41¢ (2013: nil) paid September 2014	-	2,483
Interim franked dividend for 2015: 8.60¢ (2014: 3.52¢) paid February 2015	-	3,945
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	-
	<u>11,000</u>	<u>6,428</u>
The tax rate at which dividends paid have been franked is 30% (2015: 30%).		
Dividend Payout Ratio	132%	96%

Dividend franking account	\$'000	\$'000
Amount of franking credits available to shareholders	<u>6,191</u>	<u>5,943</u>

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

C4 Key management personnel disclosure

Details of key management personnel

Non-Executive Directors

W. McCarthy	Chair, Retired 30 June 2015
D. Mackay	Chair, Appointed 13 July 2015
C. O'Connor	
S. Hassen ¹	Appointed 15 September 2014 and retired 11 November 2015
D. Petre	Appointed 13 October 2015

Executive Director

J. McGrath	Chief Executive Officer
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Executives

G. Lucas	Chief Operating Officer
P. Hauenschild	Chief Financial Officer
M. Lahood	Director of Sales
G. Vouris	General Manager Franchise

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 A4) is as follows.

	2016	2015
	\$	\$
Short term employee benefits	2,863,074	3,200,470
Post-employment benefits	126,294	102,788
	<u>2,989,368</u>	<u>3,303,258</u>

Dividends have been paid during the year ended 30 June 2016 amounting to \$11,000,000 (2015: \$6,428,000) which include amounts paid to Directors and other key management personnel.

C4 Key management personnel disclosure (continued)

Equity holdings of key management personnel

	Year	Securities held at beginning of financial year	Impact of share split and restructure	Securities acquired during the year	Securities disposed during the year	Securities held at end of financial year
		Shares	Shares	Shares	Shares	Shares
D. Mackay	2016	-	-	234,499	-	234,499
	2015	-	-	-	-	-
C. O'Connor	2016	-	-	109,238	-	109,238
	2015	-	-	-	-	-
D. Petre	2016	-	-	277,777	-	277,777
	2015	-	-	-	-	-
S. Hassen ¹	2016	2,081,250	2,081,250	-	1,373,625	2,788,875
	2015	2,081,250	-	-	-	2,081,250
J. McGrath	2016	27,056,252	27,056,252	872,000	17,857,126	37,127,378
	2015	27,056,252	-	-	-	27,056,252
G. Lucas	2016	4,266,563	4,266,563	70,000	2,815,932	5,787,194
	2015	2,081,250	-	2,185,313	-	4,266,563
P. Hauenschild	2016	-	-	69,277	-	69,277
	2015	-	-	-	-	-
M. Lahood	2016	2,081,250	2,081,250	-	1,373,625	2,788,875
	2015	2,081,250	-	-	-	2,081,250
G. Vouris	2016	-	-	24,515	-	24,515
	2015	-	-	-	-	-
Total	2016	35,485,315	35,485,315	1,657,306	23,420,308	49,207,628
	2015	33,300,002	-	2,185,313	-	35,485,315

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	2016	557,143	1,372,222	1,929,365	-
	2015	585,000	1,123,572	1,151,429	557,143
S. Hassen ¹	2016	42,857	105,556	148,413	-
	2015	45,000	86,428	88,571	42,857
G. Lucas	2016	87,857	216,389	304,246	-
	2015	45,000	161,428	118,571	87,857
M. Lahood	2016	239,063	160,222	307,012	92,273
	2015	211,235	278,622	250,794	239,063
Total	2016	926,920	1,854,389	2,689,036	92,273
	2015	886,235	1,650,050	1,609,365	926,920

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.

¹ Became key management personnel on 15 September 2014 when appointed as a Director and ceased to be key management personnel on 11 November 2015 when retired as a Director.

C4 Key management personnel disclosure (continued)**Key management personnel related party transactions**

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

A number of these entities transacted in conjunction with the Consolidated Entity in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favorable 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.

Share-based payments

During the 2016 financial year, agents in Company Owned sale offices were given the opportunity to participate in the High Performing Agents (HPA) share plan. Under the plan, HPA who achieved specified commission thresholds during the year will be invited to purchase shares. The amount of shares that each agent is eligible to purchase is determined by the commission threshold they achieved. The Company will provide the agents with a limited recourse loan to acquire shares. The plan was formally granted in April 2016 with 27 HPA qualifying at 30 June 2016. The shares will be offered to the HPA on, or soon after, 25 August 2016.

During the 2015 financial 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 2015 financial year.

At 30 June 2016, there are no further share-based payment arrangements.

C5 Related Party Transactions

A number of subsidiaries within the Consolidated Entity enter into related party transactions. These transactions are conducted in the normal course of business and under arms-length terms and conditions. The majority of related party transactions between subsidiaries relate to levies and fees charged by MG Logistics Pty Ltd, McGrath Australasia Pty Ltd and McGrath Auctions Unit Trust for marketing, training, IT and auction services. 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 E5 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	58
D2	Contingent liabilities	58
D3	Events subsequent to reporting date	58

D Unrecognised items

D1 Commitments for expenditure

	2016 \$'000	2015 \$'000
Operating leases		
Non-cancellable operating leases contracted for but not capitalised in the financial statements:		
-not later than 1 year	4,678	2,544
-later than 1 but not later than 5 years	10,223	7,194
-later than 5 years	407	93
	15,308	9,831

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 Consolidated Entity has nil capital expenditure commitments (2015: \$nil).

D2 Contingent liabilities

Bank guarantees

Bank guarantees have been issued in regard to operating leases totalling \$1,445,160 (2015: \$1,019,443). At 30 June 2016, the available guarantee facility was \$2,000,000 (2015: \$1,460,500).

Payroll tax assessments

During the 2015 financial year a Controlled Entity 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 2016, there are no further contingent liabilities in respect of this matter.

Guarantee of shareholder loans

In 2011, the McGrath Operations Limited (formerly McGrath Limited) and various subsidiaries entered into an agreement with a lender which guarantees repayment of loans certain minority shareholders held, in order to purchase their shares in McGrath Operations Limited.

The subject loans were repaid by the minority shareholders on 4 December 2015.

D3 Events subsequent to reporting date

On 1 July 2016, the Consolidated Entity, through its 100% owned subsidiary, McGrath Sales Proprietary Limited, acquired the McGrath Forestville office from a franchisee. The acquisition was structured such that the Consolidated Entity will acquire 100% of the assets of the business for an initial purchase price of \$200,000. The purchase agreement includes contingent consideration of \$100,000 conditional on the office meeting certain revenue hurdles during FY17.

On 14 July 2016, Cameron Judson was appointed Joint Chief Executive Officer of the Consolidated Entity.

Other than the above there has not arisen in the interval between the end of the year end and the date of this report, any item transaction or event which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial periods.



E Other information

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

E1	Taxation	60-62
E2	Other assets	63
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E4	Capital and reserves	64
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E Other information

E1 Taxation

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

	2016 \$'000	2015 \$'000
Income tax expense		
<i>Current tax expense</i>		
Current year	2,883	2,279
Adjustments in respect of income tax of previous years	(213)	-
Tax losses utilised	(156)	(625)
Derecognition of tax loss	-	(150)
	2,514	1,504
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	1,525	823
Tax losses derecognised	-	307
Tax losses utilised	156	625
Change in previously recognised tax losses	-	84
	1,681	1,839
Total income tax expense	4,195	3,343
<i>Reconciliation of income tax expense/(benefit)</i>		
Profit before tax	12,606	10,378
At the statutory income tax rate of 30% (2014: 30%)	3,782	3,113
(Over) provision in respect of previous years income tax	(213)	(113)
Non-assessable income	-	(93)
Non-deductible expenses	626	129
Tax losses derecognised	-	307
Income tax expense	4,195	3,343

E1 Taxation (continued)

Balance and movement in deferred tax assets and liabilities

	Net deferred tax balance 1 July	Recognised in profit or loss	Recognised in equity	Acquired in business combinations	Net deferred tax balance 30 June	Deferred tax assets	Deferred tax liabilities
Intangible assets	-	289	-	(3,541)	(3,252)	-	(3,252)
Sales commission revenue	(3,268)	(2,689)	-	-	(5,957)	-	(5,957)
IPO transaction costs	-	1,017	1,045	-	2,062	2,062	-
Capitalised expenses	1	-	-	-	1	1	-
Provisions	854	55	-	205	1,114	1,114	-
Accruals	282	(61)	-	45	266	266	-
Sales commission costs	480	(136)	-	647	991	991	-
Change in previously recognised tax losses	185	(156)	-	-	29	29	-
	(1,466)	(1,681)	1,045	(2,644)	(4,746)	4,463	(9,209)

Tax losses

The Consolidated Entity has capital tax losses for which no deferred tax asset is recognised on the consolidated statement of financial position of \$948,977 (2015: \$948,977) which are available for offset against future capital gains subject to continuing to meet relevant statutory tests.

The Consolidated Entity does not have income tax losses for which no deferred tax asset is recognised on the consolidated statement of financial position (2015: \$nil).

E1 Taxation (continued)

Income tax

Income tax expense comprises current and deferred tax.

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

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

Deferred tax is recognised for all taxable temporary differences except:

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

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

E2 Other assets

	2016	2015
Current:	\$'000	\$'000
Prepayments	1,918	570
Stock on hand	73	41
Other	247	258
	<u>2,238</u>	<u>869</u>

Recognition and Measurement

Stock on hand is measured at the lower of cost and net realisable value. The cost of stock is based on the weighted average principle and includes expenditure incurred in acquiring the stock, 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.

E3 Provisions

	2016	2015
	\$'000	\$'000
Current:		
Provision for annual leave	1,796	1,345
Provision for long service leave	132	294
Balance at 30 June 2016	<u>1,928</u>	<u>1,639</u>
Non-current:		
Make good provision	710	437
Provision for long service leave	566	386
Balance at 30 June 2016	<u>1,276</u>	<u>823</u>
(a) Aggregate employee entitlements	<u>2,494</u>	<u>2,025</u>
(b) Average number of employees	<u>430</u>	<u>322</u>

E4 Capital and reserves

	2016	2015
	\$'000	\$'000
134,153,229 fully paid ordinary shares (2015: 45,891,563).	91,088	6,333

Issue of ordinary shares

On 1 September 2015 458,916 ordinary shares at a price of \$2.69 per share were issued as a result of the acquisition of 50% of McGrath Auctions Unit Trust.

On 24 November 2015 at a general meeting of the shareholders a share split was approved whereby each ordinary share was split into 2 shares.

On 7 December 2015 McGrath Limited listed on the ASX, following the issue of 31,452,270 shares.

On 8 December 2015 10,000,000 ordinary shares at a price of \$2.10 per share were issued as a result of the acquisition of the Smollen Group (see B6).

	\$'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	(2,484)	-
Issue of shares - Smollen acquisition	21,000	10,000,000
Balance at 30 June 2016	92,132	134,153,229

On 12 September 2014, 2,185,313 shares were issued to G. Lucas under a share-based payment arrangement. Further details are disclosed in C4.

	\$'000	Shares
On issue at 1 July 2014	5,083	43,706,250
Issue of shares - share based payment	1,250	2,185,313
Balance at 30 June 2015	6,333	45,891,563

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.

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.

	2016	2015
	\$'000	\$'000
Share-based payment reserve		
Balance at July 1	-	441
Provisions made	74	-
Transfer to retained profits	-	(441)
Balance at end of the year	74	-

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

Significant accounting judgements, estimates and assumptions

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.

E5 Subsidiaries and non-controlling interests

Parent entity

The Parent entity within the Consolidated Entity is McGrath Limited.

Controlled Entity

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

Company name	Ownership		Investment	
	%		\$	
	2016	2015	2016	2015
McGrath Operations Limited	100	0	7,566,460	0
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	50	100	50
McGrath Sales (QLD) Pty Ltd	100	100	100	100
McGrath Property Management (QLD) Pty Ltd	100	100	100	100
McGrath Sales Paddington Pty Ltd	100	100	100	100
McGrath Bulimba Sales Unit Trust	100	100	100	100
McGrath Bulimba (No. 1) Pty Ltd	100	100	100	100
McGrath Bulimba Property Management Unit Trust	100	100	100	100
McGrath Bulimba (No. 2) Pty Ltd	100	100	100	100
McGrath Asia Pty Ltd	100	-	100	-
McGrath Sales (VIC) Pty Ltd	100	100	100	100
SPG (Australian Portfolio Management) Pty Ltd	100	-	100	-
Australian Portfolio Management Pty Ltd	100	-	100	-
Australian Portfolio Management Unit Trust	100	-	100	-
SPG (NDH Property) Pty Ltd	100	-	100	-
NDH Property Pty Ltd	100	-	100	-
NDH Property Unit Trust	100	-	100	-
SPG (MNS Property) Pty Ltd	100	-	100	-
MNS Property Pty Ltd	100	-	100	-
MNS Property Unit Trust	100	-	100	-
SPG (NB Property) Pty Ltd	100	-	100	-
NB Property Pty Ltd	100	-	100	-
NB Property Unit Trust	100	-	100	-
SPG (HH Property) Pty Ltd	100	-	100	-
HH Property Pty Ltd	100	-	100	-
HH Property Unit Trust	100	-	100	-
SPG (UNS Property) Pty Ltd	100	-	100	-
UNS Property Pty Ltd	100	-	100	-
UNS Property Unit Trusts	100	-	100	-
SPG (Engage Property) Pty Ltd	100	-	100	-
Engage Property Management Pty Ltd	100	-	100	-
Engage Property Management Unit Trust	100	-	100	-
SPG (Market Pod) Pty Ltd	100	-	100	-
Market Pod Pty Ltd	100	-	100	-
Market Pod Unit Trust	100	-	100	-
SPG (Hills Property) Pty Ltd	100	-	100	-
Hills Property Pty Ltd	100	-	100	-
Hills Property Unit Trust	100	-	100	-
SPG (Pymble Property) Pty Ltd	100	-	100	-
Pymble Property Pty Ltd	100	-	100	-
Pymble Property Unit Trust	100	-	100	-
			7,570,667	1,057

E5 Subsidiaries and non-controlling interests (continued)

Balances outstanding

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

	2016	2015
<i>Receivables</i>		
McGrath Sales Pty Ltd	2,597,004	-
McGrath Property Management Pty Ltd	-	18,696,944
Architype Marketing Pty Ltd	-	1,014,594
MG Logistics	44,420,243	-
McGrath Australasia Pty Ltd	-	11,918,294
McGrath Auctions Unit Trust	-	8,320,942
McGrath Sales (QLD) Pty Ltd	-	3,110,552
McGrath Bulimba Property Management Unit Trust	-	1,364,351
Australian Portfolio Management Unit Trust	1,145,514	-
	<u>48,162,762</u>	<u>44,425,677</u>
<i>Payables</i>		
Total Real Estate Training Pty Ltd	-	3,257,843
McGrath Oxygen Home Loans Pty Ltd	-	411,529
MG Logistics Pty Ltd	-	8,521,673
McGrath Auctions Pty Ltd	-	100
McGrath Sales (VIC) Pty Ltd	-	100
McGrath Property Management (QLD) Pty Ltd	-	113,004
McGrath Sales Paddington Pty Ltd	-	502,157
McGrath Bulimba Sales Unit Trust	38,051	126,286
McGrath Bulimba (No. 1) Pty Ltd	-	100
McGrath Bulimba (No. 2) Pty Ltd	-	100
Engage Property Management Unit Trust	300,000	-
McGrath Operations Limited	7,024,641	-
	<u>7,362,692</u>	<u>12,932,892</u>

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.

E6 Parent entity disclosures

	2016 \$'000	2015 \$'000
Result of parent entity		
(Loss)/profit after income tax expense	(3,292)	13,545
Other comprehensive income	-	-
Total (loss)/profit and other comprehensive income for the year	<u>(3,292)</u>	<u>13,545</u>
Financial position of parent entity at year end		
Current assets	48,163	45,372
Total assets	101,181	45,557
Current liabilities	(14,436)	(14,527)
Total liabilities	<u>(20,908)</u>	<u>(20,549)</u>
Net assets	<u>80,273</u>	<u>25,008</u>
Total equity of parent entity comprising of:		
Contributed equity	83,522	6,333
Share based payment reserve	43	-
Retained earnings	<u>(3,292)</u>	<u>18,675</u>
Total equity	<u>80,273</u>	<u>25,008</u>

No capital expenditure commitments contracted for at reporting date (2015: nil)

E7 Auditor's Remuneration

	2016 \$'000	2015 \$'000
Audit and review services – KPMG		
Audit and review of financial statements	240	114
Other regulatory audit services	11	11
Total	251	125
Other Services – KPMG		
Assurance, taxation and due diligence services	1,214	24
Total other services	1,214	24

E8 Deed of cross guarantee

Nature

During the year, McGrath Limited and certain wholly-owned entities (collectively the 'Closed Group') entered into a Deed of Cross Guarantee (the 'Deed'). The members of the Closed Group guarantee to pay any deficiency in the event that another member winds up.

Parties to the Deeds

The parties to the deed consist of the following:

Holding Entity

- McGrath Limited

Group Entities other than Holding Entity

- McGrath Operations Limited
- McGrath Sales Proprietary Limited
- MG Logistics Proprietary Limited.

Trustee

- McGrath Operations Limited

Alternative Trustee

- McGrath Sales Proprietary Limited

Parties added or removed during or since the relevant financial year

No parties were added or removed during the year. The Deed was only entered into during the year.

Details of entities which obtained relief in the immediately preceding financial year

No parties obtained relief in the immediately preceding financial year. The Deed was only entered into during the year.

E8 Deed of cross guarantee (continued)

The consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position for the Closed Group are as follows:

Closed Group consolidated statement of profit or loss and other comprehensive income for the year ended 30 June

	2016
	\$'000
	<hr/>
Revenues and other income	57,360
Cost of sales	(10,833)
Employee benefits expense	(14,231)
Directors' fees	(593)
Professional fees	(7,254)
Doubtful debts	(89)
Occupancy	(3,059)
Communications	(1,381)
Advertising and promotions	(956)
Loss on disposal of assets	-
Other expenses from ordinary activities	(4,728)
	<hr/>
Earnings before interest, tax, depreciation and amortisation (EBITDA)	14,236
Depreciation and amortisation expenses	(930)
Finance income	94
Finance costs	(291)
	<hr/>
Net finance costs	(197)
Profit before income tax expense	13,109
Income tax expense	(2,580)
	<hr/>
Profit after income tax expense	10,529
	<hr/>
Other comprehensive income	-
	<hr/>
Total profit and other comprehensive income for the year	10,529
	<hr/> <hr/>

E8 Deed of cross guarantee (continued)

Closed group consolidated statement of financial position as at 30 June

	2016 \$'000
CURRENT ASSETS	
Cash and cash equivalents	10,071
Trade and other receivables	55,328
Other	1,740
Current tax assets	1,482
TOTAL CURRENT ASSETS	68,621
NON CURRENT ASSETS	
Receivables	2,991
Intangible assets	59,163
Property, plant and equipment	5,016
Deferred tax assets	51
TOTAL NON CURRENT ASSETS	67,221
TOTAL ASSETS	135,842
CURRENT LIABILITIES	
Trade and other payables	18,950
Financial liabilities	6,154
Provisions	1,528
TOTAL CURRENT LIABILITIES	26,632
NON CURRENT LIABILITIES	
Trade and other payables	1,104
Interest bearing liabilities	6,472
Provisions	978
TOTAL NON CURRENT LIABILITIES	8,443
TOTAL LIABILITIES	35,186
NET ASSETS	100,656
EQUITY	
Contributed equity	92,132
Share based payment reserve	43
Retained profits/(losses)	8,481
TOTAL EQUITY	100,656

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.

The Company's registered address is 191 New South Head Road Edgecliff NSW 2027.

(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 B6.

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, consolidated statement of changes in equity and the consolidated 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 2016 are included in the following notes:

- Note B3 – impairment testing of intangible assets including goodwill.
- Note B6 – purchase price allocation from a business combination.
- Note E1 – recognition of deferred tax assets: availability of future taxable profit against which carryforward tax losses can be used.
- Note E4 – cost allocation attributable to the issue of shares.

E9 General accounting policies (continued)

(d) Standards issued but not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 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.

While the Consolidated Entity has yet to undertake a detailed assessment of the debt instruments currently classified as available-for-sale financial assets, it would appear that they would satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets. There will also be no impact on the Consolidated Entity's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Consolidated Entity does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed.

The new hedging rules align hedge accounting more closely with the Consolidated Entity's risk management practices. As a general rule, it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation. The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.

The Consolidated Entity has not yet assessed how the its own hedging arrangements and impairment provisions would be affected by the new rules, and it has not yet decided whether it should adopt AASB 9 before its mandatory date. Based on the transitional provisions in the completed AASB 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety.

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.

E9 General accounting policies (continued)

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

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.

(e) 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.

(f) 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.

(g) 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.

(g) Impairment of financial assets (continued)

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.

(h) 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.

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.

(i) 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.

(j) 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 2016

In the opinion of the directors of McGrath Limited:

(a) the consolidated financial statements and notes that are set out on pages 26 to 74 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 2016 and of its performance, for the financial year ended on that date, and

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

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in note E8 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note E9.

(d) the directors draw attention to Note E8 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

The Directors have been given the declarations by the CEO & Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



David Mackay

Chair

24 August 2016



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 statement of financial position as at 30 June 2016, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes A1 to E9 to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity'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 the Consolidated Entity is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2016 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).

Report on the remuneration report

We have audited the remuneration report included in pages 11 to 21 of the directors' report for the year ended 30 June 2016. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of McGrath Limited for the year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

kpmg

KPMG

Stuart Marshall
Partner

Sydney
24 August 2016

Shareholder information

The information set out below was prepared at 31 July 2016 and applies to McGrath's securities (ASX code: MEA). As at 29 July 2016, there were 134.2 million securities on issue.

Substantial shareholders

As disclosed in substantial holding notices lodged with the ASX at 29 July 2016:

Shareholder	Date of change	Number of shares	Percentage of issued equity % ¹
McGrath Limited	7/12/2015	82,395,201	61.4
Shane Smollen and entities controlled by him	8/12/2015	7,500,000	5.59
Perpetual Limited and subsidiaries	15/3/2016	17,753,616	13.23

¹ Percentage of issued equity held as at the date notice provided.

Range of shareholders

Range	Number of holders	Number of securities
1 to 1,000	604	343,159
1,001 to 5,000	730	2,439,052
5,001 to 10,000	465	3,967,866
10,001 to 100,000	551	13,987,429
100,001 and over	56	113,415,722
Total number of shareholders	2,406	134,153,228

Number of security holders holding less than a marketable parcel (being 8,489 securities at the closing market price of \$1.20 on 29 July 2016): 47.

20 largest shareholders (as of 29 July 2016)

No.	Shareholder	Number of shares	Percentage of issued equity %
1	Fondurru Pty Ltd	21,195,450	15.80
2	John Damian McGrath	15,931,928	11.88
3	UBS Nominees Pty Ltd	14,291,617	10.65
4	Smollen Property Pty Limited <The Smollen Property Family Trust A/C>	7,500,000	5.59
5	Argo Investments Limited	6,500,000	4.85
6	G & N Lucas Investments Pty Ltd	5,717,194	4.26
7	HSBC Custody Nominees (Australia) Limited	4,640,621	3.46
8	Citicorp Nominees Pty Limited	2,912,839	2.17
9	B.A.S.T Corporation Pty Ltd	2,788,875	2.08
10	Ben Collier Investment Pty Ltd	2,788,875	2.08
11	MAK Property Group Pty Ltd	2,788,875	2.08
12	SEMC2 Pty Ltd	2,788,875	2.08
13	Teldar Real Estate Pty Ltd	2,788,875	2.08
14	UBS Nominees Pty Ltd	2,758,218	2.08
15	The Rockshore Horizon Investment Company Pty Ltd	2,502,911	1.87
16	JP Morgan Nominees Australia Limited	2,041,621	1.52
17	Invia Custodian Pty Limited <Fern Estates Pty Ltd A/C>	957,350	0.71
18	CAV & Associates Pty Ltd	780,468	0.58
19	Earl BG Pty Ltd	780,468	0.58
20	CLK Consultancy Pty Ltd	697,218	0.52
Top 20 holders of Shares		103,152,278	76.8
Balance of Shares		31,000,950	23.2
Total Shares on issue		134,153,228	100.00

Shareholder information (continued)

Voting rights

Subject to the Constitutions of McGrath Limited and to any rights or restrictions for the time being attached to any class or classes of shares, units or stapled securities:

- on a show of hands, each Member present in person or by proxy, attorney, or representative has one vote; and
- on a poll, each Member has:
 - > in the case of a resolution of McGrath Limited, one vote for each share in McGrath Limited held.

Restricted securities

Shareholders	Number of shares	Escrow period
John McGrath	37,127,378	Until FY2017 Release
Geoff Lucas	5,717,194	Until FY2017 Release
Other Existing Shareholders	20,136,924	Until FY2017 Release
David Mackay	19,048	Until end of CY2016
	28,571	Until FY2017 Release
Cass O'Connor	19,048	Until end of CY2016
	28,571	Until FY2017 Release
Daniel Petre	19,048	Until end of CY2016
	28,571	Until FY2017 Release
Shane Smollen	7,500,000	Until 30 September 2017
Other Smollen Sellers	2,500,000	Until 30 September 2017
Total	72,252,353	-

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

David Mackay

Chairman and Independent Non-Executive Director

John McGrath

CEO and Executive Director

Cass O’Connor

Non-Executive Director

Daniel Petre

Independent Non-Executive Director

COMPANY SECRETARY

Paul Hauenschild

REGISTERED OFFICE

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Website

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Email

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Website

www.linkmarketservices.com.au

AUDITORS

KPMG

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SYDNEY NSW 2000