

Simonds Homes Holdings Pty Ltd and its controlled entities

ACN 143 841 801

Special Purpose Financial Report

For The Financial Year Ended 30 June 2012

Special purpose financial report for the financial year ended 30 June 2012

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Directors' report

The directors of Simonds Homes Holdings Pty Ltd (the 'Company') submit herewith the annual report of the company for the financial year ended 30 June 2012. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the financial year are:

Mr V.G. Simonds

The above named directors held office during the whole of the financial year and since the end of the financial year.

Principal activities

The company's principal activities in the course of the financial year were the design and construction of residential dwellings and the development of residential land.

Review of operations

The consolidated net profit after tax attributable to the members of Simonds Homes Holdings Pty Ltd for the reporting period was \$2.363 million (2011: \$7.878 million).

Likely developments

Information about likely developments in the operations of the company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the company. The company will continue to pursue its policy of increasing the profitability and market share of its major business sectors during the next financial year.

Changes in state on affairs

There was no significant change in the state of affairs of the Company during the financial year.

Subsequent events

Bank borrowings of \$12.358 million were repaid in July 2012 with moneys received from related parties. There are no other subsequent events that require disclosure in this report.

Dividends

As of 30 June 2012 there were no dividends paid and declared. (2011:nil)

Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above) and all executive officers of the company and of any related body corporate against a liability incurred as such a director or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Auditor's independence declaration

The auditor's independence declaration is included on page 3 of the annual report.

Directors' report (cont'd)

Rounding off amounts

The company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the directors



Vallence Gary Simonds
Director
Melbourne, 18 December 2012

The Board of Directors
Simonds Homes Holdings Pty Ltd
2/F 28-32 Albert Road
South Melbourne VIC 3205

18 December 2012

Dear Sirs

Simonds Homes Holdings Pty Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Simonds Homes Holdings Pty Ltd.

As lead audit partner for the audit of the consolidated financial report of Simonds Homes Holdings Pty Ltd for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Andrew Reid
Partner
Chartered Accountants

Directors' declaration

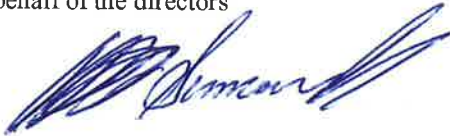
As detailed in note 3 to the financial statements, the company is not a reporting entity because in the opinion of the directors there are likely to exist users of the financial report who are unable to command the presentation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this 'special purpose financial report' has been prepared to satisfy the directors' reporting requirements under the Corporations Act 2001.

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the directors



Vallenge Gary Simonds
Director
Melbourne, 18 December 2012

Consolidated statement of comprehensive income for the financial year ended 30 June 2012

	<u>Notes</u>	Consolidated	
		30/06/12	30/06/11
		\$'000	\$'000
Revenue		467,446	502,757
Cost of sales		(373,377)	(400,242)
Gross profit		94,069	102,515
Other income		84	1,253
Operating expense	5	(90,041)	(89,654)
Finance costs	5	(2,414)	(2,302)
Profit before tax		1,698	11,812
Income tax expense		665	(3,934)
Profit for the year	5	2,363	7,878
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the year		2,363	7,878

Notes to the financial statements are included on pages 9 to 26.

Consolidated statement of financial position as at 30 June 2012

	Notes	Consolidated	
		30/06/12 \$'000	30/06/11 \$'000
Current assets			
Cash and bank balances		-	6,025
Trade and other receivables	7	32,536	19,400
Inventories	8	74,346	92,885
Other assets	11	1,149	539
Total current assets		108,031	118,849
Non-current assets			
Trade and other receivables	7	14,851	31,835
Property, plant and equipment	9	8,414	9,660
Intangible assets	10	2,023	409
Deferred tax assets	6	6,065	4,907
Total non-current assets		31,353	46,811
Total assets		139,384	165,660
Current liabilities			
Trade and other payables	12	71,378	93,576
Borrowings	13	27,822	14,567
Provisions	14	8,187	8,309
Deferred revenue	15	6,638	5,334
Total current liabilities		114,025	121,786
Non-current liabilities			
Trade and other payables	12	-	8,228
Borrowings	13	4,919	13,237
Deferred tax liabilities	16	3,555	8,841
Provisions	14	5,822	4,868
Total non-current liabilities		14,296	35,174
Total liabilities		128,321	156,960
Net assets		11,063	8,700
Equity			
Issued capital	17	822	822
Retained earnings	18	10,241	7,878
Total equity		11,063	8,700

Notes to the financial statements are included on pages 9 to 26.

Consolidated statement of changes in equity for the financial year ended 30 June 2012

Consolidated	Notes	Issued capital \$'000	Retained earnings \$'000	Total \$'000
Balance 1 July 2010		822	-	822
Profit for the year		-	7,878	7,878
Total comprehensive income for the year		-	7,878	7,878
Balance as at 30 June 2011		822	7,878	8,700
Balance at 1 July 2011		822	7,878	8,700
Profit for the year	18	-	2,363	2,363
Total comprehensive income for the year		-	10,241	10,241
Balance at 30 June 2012		822	10,241	11,063

Notes to the financial statements are included on pages 9 to 26.

Consolidated statement of cash flows for the financial year ended 30 June 2012

	Notes	Consolidated	
		30/06/12 \$'000	30/06/11 \$'000
Cash flows from operating activities			
Receipts from customers		464,476	515,102
Payments to suppliers and employees		(465,217)	(506,289)
Cash generated from operations		(741)	8,813
Interest paid		(2,414)	(2,302)
Net cash generated by operating activities	19	(3,155)	6,511
Cash flows from investing activities			
Cash inflow on acquisition of businesses		-	1,283
Interest received		79	100
Payment for property, plant and equipment, and intangibles		(3,137)	(2,964)
Proceeds from disposal of property, plant and equipment, and intangibles		510	695
Net cash used in investing activities		(2,548)	(886)
Cash flows from financing activities			
Proceeds from borrowings		3,786	4,800
Repayment of finance leases		(1,325)	(2,088)
Repayments to related parties		(3,602)	(5,153)
Net cash used in financing activities		(1,141)	(2,441)
Net increase in cash and cash equivalents		(6,844)	3,184
Cash and cash equivalents at the beginning of the year		6,025	2,841
Cash and cash equivalents at the end of the year	13,19	(819)	6,025

Notes to the financial statements are included on pages 9 to 26.

1. GENERAL INFORMATION

Simonds Homes Holdings Pty Ltd (the 'Company') is a for profit proprietary company incorporated in Australia. The consolidated financial statements of the company as at and for the financial year ended 30 June 2012 comprises the Company and its controlled entities (together referred to as the 'Group').

The Company's registered office and principal place of business are as follows:

2nd Floor, 28-32 Albert Road
South Melbourne, VIC 3205

The principal activities of the Group are the design and construction of residential dwellings and the development of residential land.

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

2.1 Standards and Interpretations affecting amounts reported in the current period

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section 2.2.

Standards affecting presentation and disclosure

AASB 1054 Australian Additional Disclosures, AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project and AASB 2011-2 Amendment to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements.	AASB 1054 sets out the Australian-specific disclosures for entities that have adopted Australian Accounting Standards. This standard contains disclosure requirements that are additional to IFRSs in areas such as compliance with Australian Accounting Standards, the nature of the financial statements (general purpose or special purpose), audit fees, imputation (franking) credits and the reconciliation of net operating cash flow to profit (loss).
AASB 2010-5 Amendments to Australian Accounting Standards.	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.

Standards and Interpretations affecting the reported results or financial position

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

2.2 Standards and Interpretations adopted with no effect on financial statements

AASB 2009-12, AASB 2009-14 and AASB2010-5 have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

2.3 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 "Financial Instruments", AASB 200911 "Amendments to Australian Accounting Standards arising from AASB 9" and AASB 2010-7 "Amendments to Australian Accounting Standards arising from AASB 9" (December 2010)	1 January 2015	30 June 2016

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS (CONT'D)

2.3 Standards and Interpretations in issue not yet adopted(cont'd)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 10 "Consolidated Financial Statements"	1 January 2013	30 June 2014
AASB 127 "Separate Financial Statements" (2011)	1 January 2013	30 June 2014
AASB 13 "Fair Value Measurement" and AASB2011-8 "Amendments to Australian Accounting Standards arising from AASB 13"	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2011-9 "Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income"	1 July 2012	30 June 2013
AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 7)	1 January 2013	30 June 2014
AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle	1 January 2013	30 June 2014

3. SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Framework

The Company is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, these special purpose financial statements have been prepared to satisfy the directors' reporting requirements under the Corporations Act 2001.

Statement of compliance

The financial statements have been prepared in accordance with the Corporations Act 2001, the recognition and measurement requirements specified by all Australian Accounting Standards and Interpretations, and the disclosure requirements of Accounting Standards AASB 101 "Presentation of Financial Statements", AASB 107 "Statement of Cash Flows" and AASB 108 "Accounting Policies, Changes in Accounting Estimates and Errors" and AASB 1054 "Australian Additional Disclosures".

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Going Concern

The Group earned a net profit of \$2.363 million during the year ended 30 June 2012. At that date the Group's assets exceeded its liabilities by \$11.063 million and current liabilities exceeded current assets by \$5.994 million. The net current liability position occurred as a consequence of the Group's Commercial Bills of \$24.914 million owing to the principal lenders of the Group in accordance with the expiry dates of the respective borrowing facility agreements.

Notwithstanding this, the financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The board of directors are of the view that this is appropriate for the following reasons:

- The Commercial Bills outstanding at 30 June 2012 were \$27.056 million. \$12.358 million was repaid in July 2012 with moneys received from related parties. There are no further repayments required for the Commercial Bills with the primary lender to the Group in the financial year ending 2013. Repayments of the Commercial Bill from a lender to a Group subsidiary remain at 50% of the settled amounts, paid monthly.
- A new facility agreement was renegotiated from March 2012 with the primary lender to replace the existing facility agreement that was in place. The new facility agreement was signed June 2012 and the Company complied with all the financial covenants at 30 June 2012. The financial forecasts prepared by management indicate that the Company will be in a position to comply with its financial covenants for the twelve months following the date of this report.
- The unaudited management forecasts indicate that a profit after tax is expected for full year ending 30 June 2013 following the date of this report, which will be used to service the borrowings.
- The unaudited management accounts for the first quarter of 2013 show that the Company has achieved operating profits and positive cash generated from operating activities ahead of budget.

After due consideration of the reasons outlined above, the board of directors is of the view that the Group will be in a position to settle its liabilities in the ordinary course of business.

(a) Basis of Consolidation and common control transactions

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities. Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Revenue recognition

Rendering of construction services

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and it is probable that the economic benefits will flow to the company.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Sale of display/speculative homes and land

Revenue from the sale of display and speculative homes and land is recognised when all the following conditions are satisfied:

- the company has transferred to the buyer the significant risks and rewards of ownership of the home;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the home sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest revenue

Interest revenue is recognised on an accrual basis.

Other

Revenue from the sale of other goods and income from the disposal of other assets is recognised when the company has transferred to the buyer the significant risks and rewards of ownership of the goods or other assets.

(c) Income tax

Tax consolidation

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2010 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Simonds Homes Holdings Pty Ltd.

Current tax expense (income), deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangements amounts (refer below). Any difference between these amounts is recognised by the company as an equity contribution or distribution.

The company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Income tax (cont'd)

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to (from) the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

Contributions to fund the tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. no amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The

company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Adjustments are made for transactions and events occurring within the tax-consolidated group that do not give rise to a tax consequence for the Group or that have a different tax consequence at the level of the Group.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Adjustments are made for transactions and events occurring within the tax-consolidated group that do not give rise to a tax consequence for the Group or that have a different tax consequence at the level of the Group.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Income tax (cont'd)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in the statement of comprehensive income, except when they relate to items that are recognised outside statement of comprehensive income (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside the statement of comprehensive income.

(d) Goods and services tax

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

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

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

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

(e) Cash and cash equivalents

Cash comprises cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(f) Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through the statement of comprehensive income', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through the statement of comprehensive income

Financial assets are classified as financial assets at fair value through statement of comprehensive income where the financial asset has been acquired principally for the purpose of selling in the near future. Financial assets at fair value through statement of comprehensive income are stated at fair value, with any resultant gain or loss recognised in the statement of comprehensive income. The net gain or loss recognised in the statement of comprehensive income incorporates any interest earned on the financial asset. Fair value is determined in the manner described above.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the entity's intention to hold these investments to maturity. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Financial assets (cont'd)

Available-for-sale financial assets

Gains and losses arising from changes in fair value are recognised directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method which are recognised directly in the statement of comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or deficit previously recognised in the investments revaluation reserve is included in the statement of comprehensive income for the period.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest income is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at fair value through statement of comprehensive income, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through statement of comprehensive income to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

De-recognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(g) Financial liabilities

Financial liabilities are classified as either financial liabilities at 'fair value through statement of comprehensive income' or other financial liabilities.

Financial liabilities are classified as at fair value through statement of comprehensive income where the financial liability is either held for trading or it is designated as at fair value through statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Financial liabilities (cont'd)

Financial liabilities at fair value through statement of comprehensive income are stated fair value with any resultant gain or loss recognised in the statement of comprehensive income. The net gain or loss recognised incorporates any interest paid on the financial liability.

Other financial liabilities including borrowings are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method with interest expense recognised on an effective yield basis.

Finance costs are recognised in the statement of comprehensive income in the period in which they are incurred.

(h) Inventories

Inventory of display, speculative homes and land are valued at the lower of cost and net realisable value. Costs include the cost of acquisition, cost of material and labour used in the construction. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(i) Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are stated at cost less accumulated depreciation/amortisation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation/amortisation is provided on property, plant and equipment and intangible assets, but excluding land. Depreciation/amortisation is calculated on a straight line or diminishing value basis so as to write off the net cost or other revalued amount of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation/amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The following estimated useful lives are used in the calculation of depreciation/amortisation:

Leasehold improvements	5 years
Computer equipment	3 years
Office furniture and fittings	5 years
Display homes furniture, fixtures and fittings	5 years
Motor vehicles	5 years
Plant and equipment	5 years
Computer software	3 years

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Property, plant and equipment and intangible assets (cont'd)

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(j) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(k) Impairment of other tangible and intangible assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in the statement of comprehensive income immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised in the statement of comprehensive income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Payables

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

(m) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the statement of comprehensive income over the period of the borrowing using the effective interest rate method.

(n) Provisions

Provisions are recognised when the company has a present obligation, as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain reimbursement will be received and the amount of the receivable can be measured reliably.

(o) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits, are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

(p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Consolidated	
30/06/12	30/06/11
\$'000	\$'000

5. PROFIT FOR THE YEAR

Profit for the year	2,363	7,878
Profit for the year operations has been arrived at after charging:		
Office leasing expense	5,257	4,481
Depreciation and amortisation expense	3,411	2,348
Employee benefits expense	48,417	51,965
Finance costs	2,414	2,302

6. DEFERRED TAX ASSETS

Tax losses recognised	-	733
Temporary differences	6,065	4,174
	6,065	4,907

7. TRADE AND OTHER RECEIVABLES

Current

Trade receivables (i)	20,137	18,176
Allowance for doubtful debts	(170)	(995)
	19,967	17,181
Goods and services tax recoverable	-	1,637
Other	211	582
Loans to related parties	12,358	-
	32,536	19,400

Non-current

Loans to related parties	14,851	31,385
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- (i) The average settlement terms for trade receivables are between 7 to 28 days. No interest is charged on the trade receivables for the first 28 days from the date of the invoice. Thereafter, interest is charged at 14% p.a. on the outstanding balance from the date of the invoice. The company has provided fully for all receivables that are known to be uncollectable or there is objective evidence that the company will not be able to collect the outstanding amount. Before accepting a new customer for construction of a dwelling, the company ensures that a customer has an unconditional contract.

In determining the recoverability of a trade receivable the company considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated and dwellings constructed for customers serving as a security against the receivable.

8. INVENTORIES

Construction Contracts	30,682	53,338
Spec., Display Homes and Land	43,664	39,547
	74,346	92,885

9. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Leasehold improvements \$'000	Computer equipment \$'000	Office furniture and fittings \$'000	Display home furniture, fixtures & fittings \$'000	Motor Vehicles \$'000	Plant and equipment \$'000	Total \$'000
Carrying amount							
Balance at 1 July 2011	2,837	1,656	588	74	5,114	1,288	11,557
Additions	220	120	474	54	1,949	1	2,818
Disposals		(181)	(24)	-	(1,549)	-	(1,754)
Balance at 30 June 2012	3,057	1,595	1,038	128	5,514	1,289	12,621
Accumulated amortisation							
Balance at 1 July 2011	(100)	(502)	(64)	(34)	(841)	(356)	(1,897)
Depreciation expense	(692)	(561)	(204)	(14)	(1,129)	(270)	(2,870)
Disposals / transfers		114	4	-	442		560
Balance at 30 June 2012	(792)	(949)	(264)	(48)	(1,528)	(626)	(4,207)
Net book value							
As at 30 June 2011	2,737	1,154	524	40	4,273	932	9,660
As at 30 June 2012	2,265	646	774	80	3,986	663	8,414

10. INTANGIBLE ASSETS

Carrying amount
Accumulated amortisation
Net book value

Consolidated	
30/06/12	30/06/11
\$'000	\$'000
Computer software	
3,234	1,080
(1,211)	(671)
2,023	409

11. OTHER ASSETS

Current

Prepayments, bonds and deposits

1,149	539
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12. TRADE AND OTHER PAYABLES

Current

Trade payables
Amounts due to customers under construction contracts
Other payables and accruals
Income Tax Payable
Goods and Services Tax payable

32,460	42,595
27,811	47,052
4,342	3,929
5,779	-
986	-
71,378	93,576

Non-current

Loans from related parties

-	8,228
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Consolidated	
30/06/12	30/06/11
\$'000	\$'000

13. BORROWINGS

Current

Bank Overdraft		819	-
Commercial Bills (i)		24,914	12,800
Finance lease liabilities (ii)		2,089	1,767
		<u>27,822</u>	<u>14,567</u>

Non-current

Commercial Bills (i)		2,142	12,000
Finance lease liabilities (ii)		1,248	1,237
Loan from related party (iii)		1,529	-
		<u>4,919</u>	<u>13,237</u>

- (i) The company's financing facilities are secured by:
- Deed of cross guarantee and indemnity by Mr. Vallence Gary Simonds and other entities controlled by Mr. Vallence Gary Simonds.
 - Registered first and exclusive mortgage debenture over the assets and uncalled capital of the company.
 - Registered first and exclusive mortgage debenture over the assets and uncalled capital of other entities controlled by Mr. Vallence Gary Simonds.
 - Various residential mortgages over properties owned by other entities controlled by Mr. Vallence Gary Simonds.
- (ii) Assets under finance lease. Secured by the assets leased. The borrowings are at an average fixed rate of 8.28% with repayments periods not exceeding 5 years.
- (iii) Loan from a related party is unsecured, interest bearing and repayable on 12 October 2013.

14. PROVISIONS

Current

Employee benefits	4,004	3,996
Warranty and contracted maintenance provision	4,183	4,313
	<u>8,187</u>	<u>8,309</u>

Non-current

Employee benefits	766	535
Warranty provision	5,056	4,333
	<u>5,822</u>	<u>4,868</u>

15. DEFERRED REVENUE

Arising under construction contracts	6,638	5,334
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	Consolidated	
	30/06/12	30/06/11
	\$'000	\$'000
16. DEFERRED TAX LIABILITIES		
Deferred Tax Liabilities – temporary differences	3,555	8,841

17. ISSUED CAPITAL

	Number of shares	Share capital \$
Fully paid ordinary shares		
Issue or ordinary shares – Simonds Homes Holdings Pty Ltd	27,928,858	822,057
Balance at 30 June 2012	27,928,858	822,057

The holders of ordinary shares are entitled to receive dividends if declared from time to time and are entitled to one vote per share at meetings of the Company. Changes to the Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have par value.

18. RETAINED EARNINGS

Net profit for the year	2,363	7,878
Balance at the end of the financial year	10,241	7,878

Consolidated	
30/06/12	30/06/11
\$'000	\$'000

19. CASH AND CASH EQUIVALENTS

Cash and bank balances	(819)	6,025
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Reconciliation of profit for the year to net cash flows from operating activities

Cash flows from operating activities

Profit for the year	2,363	7,878
Income tax (gain)/expense recognised in the profit or loss	(665)	3,934
Interest received from related parties (non-cash)	-	(1,091)
Interest received	(79)	(100)
Non cash transaction from business acquisition	-	(22,378)
Gain on disposal of property, plant and equipment, and intangibles	506	392
Depreciation and amortisation of non-current assets	3,411	2,348
	5,536	(9,017)

Movements in working capital

(Increase)/decrease in trade receivables	(352)	10,789
(Increase)/decrease in inventories	18,539	(36,106)
(Increase)/decrease in other assets	(51)	966
Increase/(decrease) in trade and other payables	(27,659)	36,734
Decrease in provisions	832	3,145
Net cash generated by operating activities	(3,155)	6,511

20. OPERATING LEASE ARRANGEMENTS

Non-cancellable operating leases

Not longer than 1 year	4,675	5,147
Longer than 1 year and not longer than 5 years	2,645	3,608
	7,320	8,755

21. SUBSEQUENT EVENTS

Bank borrowings of \$12.358 million were repaid in July 2012 with moneys received from related parties. There are no other subsequent events that require disclosure in this report.

22. REMUNERATION OF AUDITORS

Audit or review of the financial report	150	145
Other non-audit services	10	12
	160	154

The auditor of the Company is Deloitte Touche Tohmatsu.

Consolidated	
30/06/12	30/06/11
\$'000	\$'000

23. ACQUISITION OF BUSINESSES

On 30 June 2010, a new entity (Simonds Homes Holdings Pty Ltd) was formed in Australia to effect a business combination. Simonds Homes Holdings Pty Ltd issued equity instruments to acquire subsidiaries and businesses that were a part of various entities ultimately controlled by V.G. Simonds on 30 June 2010 and 1 July 2010. The assets and liabilities acquired on 30 June 2010 have been disclosed as comparative information in this financial report. This reorganisation was considered by management to be a common control transaction as all of the combining entities or businesses were ultimately controlled by V.G. Simonds before and after business combination, and that control was not transitory. In accordance with the terms of the transactions all assets and liabilities were acquired by the new established group at net book value.

On 1 July 2010, the Company acquired the following business assets and liabilities of Simonds Homes Discretionary Trust. The net assets acquired were settled by the assignment of related party payables to the Company to the value of the net assets acquired. Details of the assets and liabilities acquired are as follows:

Assets acquired and liabilities assumed at the date of acquisition	01/07/2010 \$'000
Cash and cash equivalents	46
Trade and other receivables	7,030
Inventories	19,947
Trade and other payables	(20,407)
Net assets acquired at book value	6,616

On 1 July 2010, the Company acquired the following business assets and liabilities of Madisson Homes Trust. The net assets acquired were settled by the assignment of related party payables to the Company to the value of the net assets acquired. Details of the assets and liabilities acquired are as follows:

Assets acquired and liabilities assumed at the date of acquisition	01/07/2010 \$'000
Cash and cash equivalents	1,237
Trade and other receivables	947
Inventories	3,318
Trade and other payables	(1,972)
Net assets acquired at book value	3,530

Consolidated	
30/06/12	30/06/11
\$'000	\$'000

24. DIVIDENDS

The franking account balance was nil as a result of the company has not paid income tax since incorporation.

25. PARENT ENTITY INFORMATION

The parent entity is Simonds Homes Holdings Pty Ltd. The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements.

Statement of Financial Position

Other financial assets	822	822
Trade and other receivables	6,210	1,418
Total Assets	7,032	2,240
Trade and other payables	5,779	1,419
Total Liabilities	5,779	1,419
Issued Capital	822	822
Accumulated Losses	431	(1)
Total Equity	1,253	821
Income statement		
Operating expense	-	(1)
Loss for the year	-	(1)
Other comprehensive income, net of income tax	-	-
Income Tax	432	-
Total comprehensive income for the year	432	(1)

26. CONTINGENT LIABILITIES

Customer loan guarantees (i)	50	500
Other guarantees (ii)	2,564	3,028
	2,614	3,528

- (i) The Group has provided guarantees to external financiers to support the borrowings of customers who finance the purchase of a home and land package. If the customer defaults and is unable to repay the borrowings the Group may be required to repay the shortfall between the proceeds received from the sale of the property by the financier and the borrowings amounts. Fair value of the financial guarantee contract is recognised in the statement of financial position.
- (ii) Represents guarantees for property rentals, project contracts and crossing deposits.

Independent Auditor's Report to the members of Simonds Homes Holdings Pty Ltd

We have audited the accompanying financial report, being a special purpose financial report, of Simonds Homes Holdings Pty Ltd, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes 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 as set out on pages 4 to 26.

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 and have determined that the basis of preparation described in Note 3 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We have conducted our audit in accordance with Australian Auditing Standards. Those 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Simonds Homes Holdings Pty Ltd would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion, the financial report of Simonds Homes Holdings Pty Ltd is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards to the extent described in Note 3, and the *Corporations Regulations 2001*.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 3 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.



DELOITTE TOUCHE TOHMATSU



Andrew Reid

Partner

Chartered Accountants

Melbourne, 18 December 2012