



Simonds Group

ANNUAL REPORT **2017**







Simonds Group

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FOUNDER'S MESSAGE

Dear Shareholder,

We started Simonds 67 years ago, from small and humble beginnings.

With the support of many people we have built over 35,000 houses and helped families achieve their dream. It is a great thrill to me to be part of this experience for families to move into their own home. It gives me a great sense of pride and satisfaction in what we do in this volume building industry.

After over sixty years with Simonds, the last three years as Chairman of the ASX listed company, I made the decision to retire from this role and look forward to being Senior Advisor to the Board.

Iain Kirkwood is the new Independent Chair. He brings experience as a corporate Chairman with considerable practical and operational expertise gained from a successful business career spanning 38 years across a range of industries. My grandson Rhett has been appointed Interim CEO and will remain on the Board. Delphine Cassidy and Neil Kearney join the Board as Independent Non-Executive Directors, along with Piers O'Brien and Scott Mahony as Non-Executive Directors. My son, Mark, comes onto the Board and will Chair the Development Committee to identify key growth opportunities.

It has been my pleasure to have grown this business from humble beginnings in 1949 to see what it has become today.

Yours sincerely,



Gary Simonds

Simonds Founder and Senior Advisor



“It is a great thrill to me to be part of the experience for families to move into their own home.”



Gary Simonds

Simonds Founder and Senior Advisor

NEW CHAIRMAN'S MESSAGE

"To be asked to Chair the Simonds Group is a privilege and honour as is to be working with the new Board. Its collective expertise will be engaged to drive strong growth, performance and safety."



Iain Kirkwood

Chairman



Dear Shareholder,

I am very honoured to have been asked to Chair the Simonds Group and look forward to working with the new Board comprising an excellent blend of experienced, independent directors and strong, hands-on industry knowledge and expertise.

Simonds has been an industry leader in volume home building and pleasingly has had an excellent record of safety as a company. Plans going forward include a focus on growth, operational efficiencies and to maintain the strong emphasis on safety within our company.

I would like to personally pay tribute to Gary Simonds who established the business in 1949 and served as the Chairman of the Board since listing the Company in 2014. We are very fortunate in having him remain involved with the company as Senior Advisor to the new Board. Gary's legacy is substantial having built tens of thousands of homes for Australian families over his 67-year career. He has dedicated his career to Simonds and its growth into one of Australia's leading home builders.

During 2017 Simonds Group continued work towards resetting the business to become a sustainable business focused on profit rather than revenue. Halfway through a two-year journey of transformation we are progressing well, having laid the foundations for success.

Revenues were down in 2017 to \$587.4 million. An overall net profit after tax of \$2.1 million (for continuing operations) is a noteworthy improvement on last year and was achieved by reducing overheads

by \$11.4 million. Statutory earnings EBITDA was \$10.1m, also an improvement on last year.

Simonds Homes Australia (SHA) remained the key driver of Simonds Group's results for the year. With housing affordability high on the government's agenda, and demand for quality homes in each of the regions where Simonds Homes has a presence, the market fundamentals in the residential homes sector remain strong. In FY17 the Homes business recorded 2,391 site starts, slightly down on last year, which were impacted by continued delays experienced in the release of titled land, trade availability, wet weather and infrastructure delays.

For Builders Academy Australia (BAA), course enrolments and the number of graduated students were down on the last financial year as course durations were extended to improve course quality and the overall student experience. The Education business has continued to build a sustainable business platform, investing in the quality of course delivery materials.

Increased audit and compliance costs were incurred by the business due to the pressures felt across the sector. All calendar 2016 audit activity has been concluded and all outstanding matters have been satisfactorily resolved with no adverse findings.

The Directors have determined that no dividend will be paid in relation to the 2017 financial year.

Continuing to reset the business for profitable growth

The business has undertaken a significant turnaround during the 2017 financial year, with strong cash flows and reduced debt exposure and both the Homes and Education businesses have solid pipelines for the 2018 financial year and beyond.

During FY17 we've laid the foundations to transform Simonds Group into a sustainable, profitable business. We've redefined our core purpose and reset our strategy to shift the focus from volume growth to profitable growth that is sustainable, all supported by the right structure.

We've built on our strong base by developing new product in the Homes business, focusing on further improving our operating margins, core business processes and consolidating our building locations. There is an inherent long lead time to reap the benefits of our reset, and we have some remaining legacy contracts still to work through the system.

For SHA, our focus remains on executing against our new business rules and reducing changes to standard house designs which will drive improved margins in future periods. Due to the long lead times in the homes business, legacy contracts will continue to impact margins in the short to medium term.

All of the planks of our strategy and new operating model that we have put in place will lead to sustained, profitable growth once our new products and business rules work through the product pipeline. Investment will be made in marketing, displays homes and IT infrastructure to support our longer-term strategy.

Challenges remain in maintaining and growing market share in our core regions in the homes business and the operating environment for vocational education continues to evolve. Our clear business strategy and focus on improving operating margins will deliver a more robust and sustainable business model.

Safety

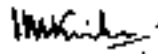
The Simonds Group has an excellent safety record as a result of continued focus on safety systems. We have made good progress in further strengthening safety in the business since the last reporting year. The main objective in Simonds' safety program is to ensure that safety is a core value that results in a positive safety culture, as well as a healthy, engaged workforce.

This can only be achieved by the business continually reviewing its safety management system to ensure that it remains highly visible in company and continues to meet and reflect current legislation. We remain committed to safety in the home building sector, and we have a voice in industry through our involvement in the Volume Builders Safety Alliances in each state, and our participation in industry programs around the country with the regulators.

We recognise our moral obligations to safety in the community and we believe that our system reflects 'best practice' and legal compliance. We aim to make our people leaders in safety and strive to become role models for safety behaviour. We want to effectively target hazards and remove them so as to eliminate preventable injuries. We do this by initiating the following programs in our company:

- Risk assessment in our designs
- Systems management training programs
- Company Safety Standards developed in consultation with our trade partners
- Continuous improvement in our reporting

The future prospects of Simonds Group are bright under a renewed Board which will lead a reinvigoration of the business, drive performance, growth and safety.



Iain Kirkwood
Chairman



BOARD OF DIRECTORS



Iain Kirkwood

Iain was appointed Non-Executive Chairman of the Simonds Group on 20 September 2017.

Iain is an experienced corporate Chairman and has worked as a senior executive and Non-Executive Director across a range of industries, including auditing, resources, manufacturing and latterly healthcare in Australia, the USA and Britain.

Iain is Chairman of Bluechip Ltd and Novita Healthcare Limited and has held Non-Executive Director roles with Medical Developments International Ltd and Vision Eye Institute Ltd.



Mark Simonds

Mark was appointed an Executive Director on 20 September 2017 and brings 40 years of executive management experience with Simonds Homes, prior to listing.

Mark has been focussed on Simonds Consolidated with a focus on venture capital

and private equity, building and construction, real estate and the vocational education sector.



Rhett Simonds

Rhett was appointed Interim CEO on 6 October 2017 by the Board. Rhett has been a Simonds Group Board member since 2016 and was a member of the Remuneration and Nominations Committee.

Prior to accepting the Interim CEO role, Rhett was CEO of Simonds Consolidated since 2005 focussed on technology, vocational education, real estate and construction ventures.



Neil Kearney

Neil was appointed Non-Executive Director on 20 September 2017 and will Chair the Audit & Risk Committee, and brings significant leadership experience to the Simonds Group Limited Board. Neil has been in senior executive roles in Australian and international

companies, including Goodman Fielder Limited and National Foods Limited (including as Chief Financial Officer and Chief Strategy Officer). He is currently Chairman of Huon Aquaculture Group Ltd, Chairman at Felton, Grimwade & Bosisto's Pty Ltd and Non-Executive Director at Brainwave Australia. Previous directorships include Warrnambool Cheese and Butter Factory Company Holdings Limited and National Foods Limited.



Scott Mahony

Scott was appointed a Non-Executive Director on 20 September 2017 and is a member of the Audit and Risk Committee.

As a Chartered Accountant, Scott has held Chief Financial Officer roles at two of Australia's largest volume builders in a career spanning more than 25 years. Scott has had various accounting roles with Telstra, P. Sartori & Co Chartered Accountants and Australian Unity.



Delphine Cassidy

Delphine was appointed a Non-Executive Director on 20 September 2017 and will Chair the Remuneration and Nomination Committee.

Delphine is an investor relations expert as a senior executive for ASX 200 companies.

An accountant by profession, she spent over 15 years in financial, accounting and treasury roles. Delphine is currently the Vice President of Investor Relations at Orica. Delphine has been a member of the Australasian Investor Relations Association (AIRA) Issues Committee and the ASX Issuer Services Working Group.

Delphine is a Non-Executive Director of CreateCare Global.



Piers O'Brien

Piers was appointed a Non-Executive Director on 20 September 2017 and is a member of the Remuneration and Nominations Committee.

Piers is a qualified lawyer with over 18 years' professional experience at firms including K&L Gates Lawyers specialising in mergers &

acquisitions, corporate transactions and board advisory work. Piers has spent the last 10 years working in in-house legal roles as both General Manager Legal and General Counsel. During this time, he managed the legal function at ASX200 company Skilled Group Limited for approximately 8 years.

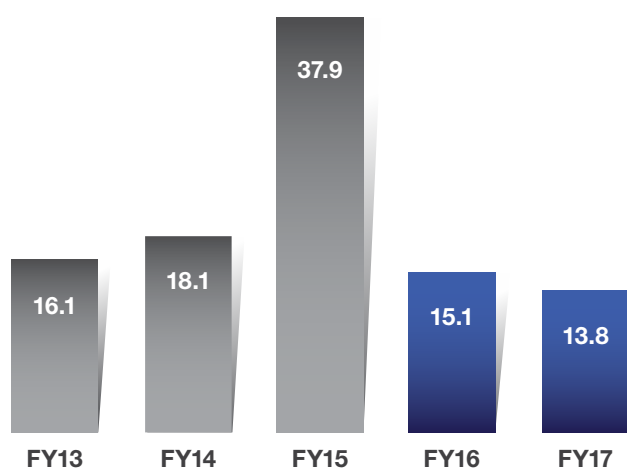
Piers is a Non-Executive Director of Dylan Alcott Foundation Limited.



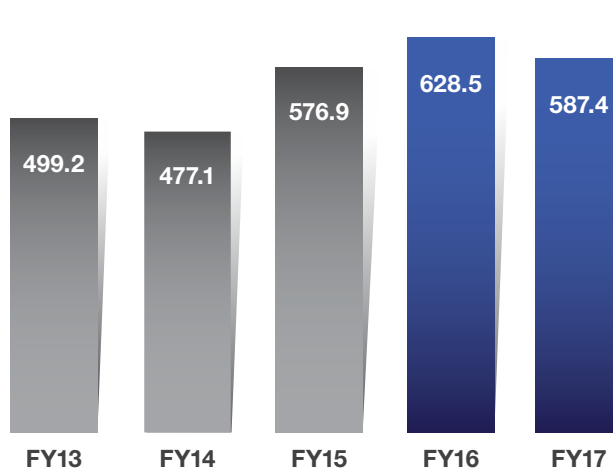
Financial Summary

FINANCIAL SUMMARY

Pro forma EBITDA (\$m)



Pro forma revenue (\$m)



Note: Pro forma revenue and EBITDA for the period FY13 – FY16 have been adjusted to exclude The Madison business, which has been presented as discontinued operations in the FY2017 accounts.

Pro forma Historical					
\$M	FY13	FY14	FY15	FY16	FY17
Revenue	499.2	477.1	576.9	628.5	587.4
Gross Profit	104.8	109.6	138.2	131.7	125.9
	21.0%	23.0%	24.0%	21.0%	21.4%
EBITDA	16.1	18.1	37.9	15.1	13.8
EPS (cents)			15.64	3.52	3.22
DPS (cents)			5.3	Nil	Nil
Div Payout Ratio			65%	Nil	Nil

Statutory reconciliation (\$m)	EBITDA	NPAT
Pro forma Result	13.8	4.6
Impairment of non-core development land and other current assets	(1.4)	(1.0)
Transaction costs associated with the proposed Scheme of Arrangement	(1.8)	(1.2)
Management restructure costs	(0.5)	(0.3)
Statutory Result	10.1	2.1

Financial Summary

Pro forma Results

Proforma results reflect adjustment for transaction costs associated with the proposed Scheme of Arrangement, impairment of non-core development land and other current assets and management restructure costs.

- EBITDA results of \$13.8m
- NPAT results of \$4.6m

Balance sheet

The key balance sheet movements during FY17 were significant reductions in Trade Receivables as well as Trade and Other Payables. Receivables were \$10.9 million lower and benefited from an increased focus on customer billing and collections. Trade and Other Payables reduced by \$14.4 million.

The Group's net assets at 30 June 2017 were negative \$3.1 million, an improvement on the position at 31 December 2016 and marginally better than 30 June 2016.

Cash flow

Cash flow from operations were \$8.8 million (excluding transaction costs incurred as a result of the proposed Scheme of Arrangement) and Cash / Cash Equivalents at 30 June 2017 were \$10.2 million – a \$7.0 million improvement on 30 June 2016. The Group's net debt decreased by \$3.1 million as a result of improved cash management activities and the release of display homes previously held on the balance sheet.

At 30 June 2017, the Group had drawn debt under its corporate finance facility arrangements with Commonwealth Bank of Australia of \$8.3 million, with facility headroom available of \$22.4 million. As at 24 August 2017 the unused facilities were \$22.9 million.

Dividend

The Directors of Simonds Group have determined that no final dividend will be paid in relation to the year ended June 2017.

Corporate Governance

A copy of our corporate governance statement can be found on our website at simondsgroup.com.au/corporateGovernance



Financial Summary

Diversified Earnings Strategy



SHA

- FY17 pro forma EBITDA of \$12m
- 2391 site starts
- Operations in Victoria, New South Wales & Queensland

BAA

- FY17 pro forma EBITDA of \$1.3m
- 2,586 course enrolments
- 1,973 graduated enrolments
- Operations in Victoria, New South Wales & Queensland

Land development

- FY17 pro forma EBITDA of \$0.5m
- 3 current projects
- 74 total lots to be delivered in 2018.

With strong underlying market fundamentals in the residential homes sector, demand for quality homes remain strong.

The Victorian and South Australian operations of Simonds Homes Australia (SHA) continue to perform well, the Queensland business has increased site starts achieved during the 2017 financial year, while challenges remain with the New South Wales business. Federal Government initiatives in the second half of FY17 to assist first home owners caused a number of customers to delay contracting with us until FY18.

We expect to improve our market penetration, sales and ultimately site starts in the future with greater focus on building strategic relationships in partnership with land developers, the location of display homes in key growth zones, consolidation of our existing product range and the release of new product.

Builders Academy Australia (BAA) continues to focus on delivering high quality trade qualifications that meet the needs of the Australian workforce. Through diversifying funding sources, delivery modes and market segments including expanded delivery in states other than Victoria, BAA and City-Wide Building and Training Services (CWTBS) continue to prepare graduates to realise sustainable career outcomes. The business remains focused on meeting the increased demands placed on it from the ever-changing regulatory environment in this sector, and that continues to be a major risk and opportunity for the Group. In December 2016, BAA received confirmation that it had been

offered a Victorian 2017 Standard VET Funding Contract that allows for students to access government subsidised training under the new Victorian 'Skills First' Scheme.

The Group expects to realise the benefits from the organisational management and operational restructure completed in 2016, which has delivered a reduction of \$11.4m in overheads and significant items, and enabled a more flexible overhead base that is better able to respond to changes in our key markets.

The Group has undertaken a significant turnaround during the 2017 financial year, with strong cash flows and reduced debt exposure and both the Homes and Education businesses have solid pipelines for FY18 and beyond.

The Group remains focussed on continuing to build a business that delivers improved operating margins and sustainable profits. With our business review, strategy reset and organisational restructure now completed, the business transformation is underway. However, the inherent long lead time in seeing the benefits, and some remaining legacy contracts still to work through the system, we still have work to do to realise all of the benefits. Additional investment in marketing, displays homes and IT infrastructure is required to support our longer term strategy.







Simonds Group

FY17 FINANCIAL REPORT

FOR YEAR ENDING 30 JUNE 2017

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Directors' Report

The directors of Simonds Group Limited ("the Company") submit herewith the annual financial report of the consolidated entity consisting of the Company and the entities it controlled (the "Group") for the financial year ended 30 June 2017. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about the directors

The names and particulars of the directors of the Company during or since the end of the financial year are:

Name	Date Appointed	Current Position
Vallence Gary Simonds	24 May 2010	Chairman
Susan Oliver	6 October 2014	Deputy Chair
Matthew Chun	25 September 2014	Managing Director & Chief Executive Officer
Leon Gorr ⁽¹⁾	25 September 2014	Non-Executive Director
Rhett Simonds	20 April 2016	Non-Executive Director
Michael Humphris	29 March 2017	Non-Executive Director

1. Leon Gorr resigned as Non-Executive Director on 29 March 2017.

The particulars of the directors are as follows:

Name	Experience and Directorships
Vallence Gary Simonds	- Gary established Simonds in 1949 and has had a career spanning more than 65 years within the Australian homebuilding industry. - Gary has dedicated his career to Simonds and its growth into one of Australia's leading home builders. - Gary holds directorships for a number of private Australian companies.
Susan Oliver (FAICD)	- Susan is a director of CNPR Ltd, an independent member of the Investment Committee for Industry Funds Management (IFM) and founding Chair of Scale Investors Ltd. Susan's previous directorships include Coffey International, Transurban Group, Programmed Group, The Just Group, MBF Australia and the restructure Board of Centro Properties Group. Susan was also chair of Fusion Retail Brands, a privately owned retail group comprising Colorado, Jag, Diana Ferrari, Williams and Mathers brands. - Susan has contributed significantly to the innovation, IT and arts policy agendas in Australia. - Susan was awarded the Prime Minister's Centenary Medal 2003 and was one of Australian Financial Review's top 100 women of influence in 2013. - In 2017 Susan was a Judge in the EY Southern Region Entrepreneur of Year. - Susan holds a Bachelor of Property and Construction from the University of Melbourne and a Certificate in Financial Management AIM.
Matthew Chun	- Matthew was appointed Managing Director and Chief Executive Officer of the Simonds Group on 1 April 2016. Prior to that, he was a non-executive director of Simonds Group Limited. - Matthew has over 25 years' senior management and corporate advisory experience and ran a private property development and advisory business based in Melbourne prior to his appointment as CEO of Simonds Group. - Matthew was previously an Executive Director and CEO of ASX listed Becton Property Group. - Prior to Becton Property Group Matthew held positions at Cbus Super Fund and Coles Myer. - Matthew holds a Bachelor of Economics from La Trobe University, a Graduate Diploma in Property, Graduate Diploma in Applied Investment and Finance and is a licenced Estate Agent.

Directors' Report

The particulars of the directors (Cont'd)

Name	Experience and Directorships
Rhett Simonds	• Rhett is a member of the Simonds family and has been involved with the business since joining the Simonds Group of Companies in 2005. • Rhett has a strong focus on technology-based education and training platforms with job placement outcomes. • Appointed to the Simonds board as a non-executive director as part of the board succession plan for Mr. Vallence Gary Simonds.
Michael Humphris	• Michael is a Chartered Accountant with over 35 years' experience through former roles as Partner in both Arthur Andersen and Ernst & Young, Director of Duesbury's, and BDO Kendalls. • Michael has extensive board experience across a range of large and complex businesses. • Michael is currently Chairman of VicForests' Board and Chair of the Executive Remuneration Committee, a Director (former Chair) of Tox Free Solutions Ltd, and the Chairman of CNPR Ltd. • Michael is a Senior Associate of the Financial Services Institute of Australasia, a Member of the Australian Institute of Company Directors, and a Fellow of the Chartered Accountants Australia and New Zealand.

Directors' Shareholding

The following table sets out each of the directors' relevant interest in shares, debentures and rights or options on shares or debentures of the Company or related body corporate as at the date of this report:

Directors	Fully Paid Ordinary shares (Number)	Share options (Number)
V.G Simonds	56,138,895	-
Susan Oliver	44,000	-
Rhett Simonds	14,044	-
Matthew Chun	-	4,000,000

Directors' Report

Remuneration of key management personnel

Information about the remuneration of key management personnel is set out in the remuneration report section of this directors' report. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Company Secretary

Ms Elizabeth Hourigan was appointed as Company Secretary of the Company on 20 April 2016. Elizabeth was previously Company Secretary and Senior Counsel at Federation Centres, and prior to that Centro Properties. Elizabeth holds a Bachelor of Laws from the University of Melbourne and is a fellow of the Governance Institute of Australia and a graduate of the Australian Institute of Company Directors.

Principal activities

The Group's principal activities in the course of the financial year were the design and construction of residential dwellings, the development of residential land and providing registered training courses.

Operating and Financial Review

Business Overview

Simonds Group Limited is an ASX listed integrated homebuilder (Simonds Homes), Registered Training Organisation (Builders Academy Australia) and niche land developer.

With continual operations since 1949, Simonds Homes operate a number of display homes across the Australian eastern seaboard and South Australia, and remains one of Australia's largest home builders with 2,391 homes constructed during the 2017 financial year. The core product of Simonds Homes is single storey detached homes, with a target market being first and second home families in the outer-metropolitan areas of capital and large regional cities.

Builders Academy Australia (BAA) is a Registered Training Organisation with a focus on offering nationally accredited qualifications in building and construction. Embedded within one of Australia's leading home builders, BAA is 'builders training builders'. Completion of courses offered enables successful students to increase their career and employment opportunities; as well as provide a well-trained network of employees, suppliers and contractors for Simonds Homes.

The Group maintains a small development land portfolio via direct land ownership, and participation in other development land projects via indirect holdings. The Group also provides project management services via Hub Property Group.

On 31 August 2016, the Group announced a Scheme Implementation Agreement with SR Residential Pty Ltd (SR Residential) (which is jointly owned by entities associated with Roche Holdings Pty Ltd and Simonds Family Office Pty Ltd (SFO) under which it was proposed that SR Residential would acquire all shares in the Company not already owned by associates of the Consortium by way of the Scheme.

On 28 November 2016, the Group announced that the Scheme Implementation Agreement had been terminated by mutual agreement of the Group and SR Residential. The Group incurred transaction costs of \$1.817m, which have been disclosed as a significant item for year ended 30 June 2017.

Directors' Report

Reconciliation of statutory financial statements to pro forma results

Pro forma EBITDA is reported to give information to shareholders that provides a greater understanding of the underlying performance of Simonds Group Limited's operations.

In accordance with ASIC Regulatory Guidance 230, a reconciliation of the 2017 statutory to pro forma results is provided below as follows:

Year ended 30 June 2017	Sales \$m	EBITDA ¹ \$m	EBIT ² \$m	NPAT \$m
FY2017 Statutory results from continuing operations	587.4	10.1	5.1	2.1
Transaction costs associated with proposed Scheme of Arrangement	-	1.8	1.8	1.2
Impairment of non-core development land and other current assets	-	1.4	1.4	1.0
Management restructure costs	-	0.5	0.5	0.3
FY2017 pro forma results	587.4	13.8	8.8	4.6

1. Pro forma EBITDA is net profit after tax from continuing operations \$2.1m before financing items (\$1.7m), tax expenses (\$1.3m), depreciation and amortisation (\$5.0m), and other significant items (\$3.7m).
2. Pro forma EBIT is net profit after tax from continuing operations \$2.1m before financing items (\$1.7m), tax expenses (\$1.3m) and other significant items (\$3.7m).

Earnings per share

The directors have elected to present results and Earnings per Share (EPS) on both a statutory and pro forma basis. The calculation of "Statutory EPS" is presented in Note 13. The calculation of "Pro forma EPS" is presented below.

Statutory EPS has been calculated in accordance with the requirements of Accounting Standards based on:

- profit after tax attributable to shareholders (Statutory profit); and
- the weighted average number of ordinary shares outstanding during the period ended 30 June 2017.

Pro forma EPS is a non-International Financial Reporting Standards (IFRS) measure which has been calculated on the 2017 financial year based on:

- statutory profit after tax adjusted on a pro forma basis for:
 - the impacts arising from a number of non-recurring items impacting the 2017 financial result, being:
 - > Transaction costs associated with the proposed Scheme of Arrangement;
 - > Impairment of non-core development land and other current assets;
 - > Management restructure costs; and
 - the related income tax effect of the above adjustments
- the weighted average number of ordinary shares outstanding during the period ended 30 June 2017:
 - Basic: 143,841,655

The directors believe that the presentation of Pro forma EPS provides users with a better understanding of the underlying financial performance of the ongoing business and allows for a more relevant comparison of financial performance between financial periods.

Statutory EPS from continuing operations		30 June 2017	30 June 2016
	Note	cents per share	cents per share
Basic	13	1.44	(1.53)

Pro forma EPS from continuing operations		30 June 2017	30 June 2016
	Note	cents per share	cents per share
Basic		3.22	3.52

Directors' Report

Balance sheet

During the 2017 financial year, whilst the Group continued to encounter some of the challenges that adversely impacted the performance of its Residential and Education segments in 2016, strategies to improve the Group's liquidity have improved working capital as measured by current assets less current liabilities by \$5.8m, resulting in a positive working capital balance of \$5.1m at 30 June 2017.

As announced on 21 January 2016, the Madisson business is a discontinued operation and has been disclosed as such for the year ended 30 June 2017. This business has been disclosed as a discontinued operation with additional provision recognised for maintenance and warranty obligations of \$2.7m during the financial year.

Operating cash flows

The operating cash flows of the Group have decreased from the prior year, which benefited by the accelerated sale of display homes, non-core development speculative land and construction holdings from inventory required in the second half of the 2016 financial year.

The Group has significantly reduced cash outflows from its investing activities having ceased a number of IT projects as well as not investing in business acquisitions or investment funds which occurred during the 2016 financial year.

Cash inflows from financing activities during the 2017 financial year of \$2.558m predominantly related to funding through the Group's banking facilities.

Outlook

The Victorian and South Australian operations of Simonds Homes Australia (SHA) continue to perform well, the Queensland business has increased site starts achieved during the 2017 financial year, while challenges remain with the New South Wales business. With greater focus on building strategic relationships in partnership with land developers, the location of display homes in key growth zones, consolidation of our existing product range and the release of new product, we expect to improve our market penetration, sales and ultimately site starts in the future.

Builders Academy Australia continues to focus on delivering high quality trade qualifications that meet the needs of the Australian workforce. Through diversifying funding sources, delivery modes and market segments including expanded delivery in states other than Victoria, Builders Academy Australia and City-Wide Building and Training Services continue to prepare graduates to realise sustainable career outcomes. The business remains focused on meeting the increased demands placed on it from the ever-changing regulatory environment in this sector, and that continues to be a major risk and opportunity for the Group. In December 2016, BAA received confirmation that it had been offered a Victorian 2017 Standard VET Funding Contract that allows for students to access government subsidised training under the new Victorian "Skills First" Scheme.

The Group expects to realise the benefits from the organisational management and operational restructure completed in 2016, which has delivered a reduction of \$11.4m in overheads and significant items, and enabled a more flexible overhead base that is better able to respond to changes in our key markets.

Directors' Report

Summary of key business risks

The Board remains optimistic about the Group's future trading performance but acknowledges there are certain factors that may pose a risk to the achievement of the Group's business strategies and future performance.

Every business faces risks with the potential to impair its ability to execute its strategy or achieve its objectives. There are a number of key risks, both specific to the Group's home building, provision of training courses, and land and project management services, and external risks, for example the economic environment, over which the Group has no control. The Group's risk management approach is to identify, evaluate, and mitigate or manage its financial, operational and business risks. Our risk assessment approach includes an estimation of the likelihood of risk occurrence and potential impact on the financial results. Risks are assessed across the business and reported to the Audit and Risk Committee and to the Board where required under our risk management framework.

Set out below are the key risks which may materially impact the execution and achievement of the Group's business strategies and prospects for the Group in future financial years. These key risks should not be taken to be a complete or exhaustive list of risks faced by the Group.

Deterioration in economic conditions resulting in a fall in demand:

The Group's revenue and growth is susceptible to a deterioration in the states and regions it operates. There are a number of general economic conditions, such as interest rate movements, overall levels of demand for housing, economic and political stability, and government fiscal and regulatory policies that can impact the level of consumer confidence and demand, thereby affecting revenue from sales to customers and/or fees received from students.

While general economic conditions are outside the Group's control, the Group seeks to reduce its exposure to these risks by monitoring closely both internal and external sources of information that provide insights to changes in demand within the markets and regions in which it operates.

Competition resulting in a loss of market share in the regions and markets in which we operate:

The Group is susceptible to competition for the provision of homes and course offerings in the markets in which we operate.

This risk is mitigated by a large geographically diversified customer and student base reducing the impact of pricing strategies and demands from any one customer or student group.

Economic downturn in the property sector leading to softening in property asset values:

With a significant property portfolio, comprising display homes, speculative land and development land holdings the Group is exposed to potential reductions in property values within the residential property sector.

The Group's policy is to adopt a selective and prudent acquisition and development strategy, which focusses on maintaining the appropriate number of high-quality displays in each market region to minimise our exposure in any one particular segment.

Departure of key personnel leading to loss of industry or corporate knowledge and expertise:

The Group may from time to time be impacted by the departure of key personnel, which may affect adversely the operations of the business until suitable replacements are recruited.

The Group endeavours to ensure that it remains competitive in terms of remuneration and other incentives, and reviews employee incentive arrangements from time to time with a view to aligning management's and employees' interests with those of the Group and its shareholders.

Information Technology ("IT") security and data security breaches:

The potential failure of IT security measures may result in the loss, inability to access information, destruction or theft of customer, supplier, and financial or other commercially-sensitive information including intellectual property. This has the potential to adversely affect our operating results and potentially damage the reputation of the Simonds or Builders Academy Australia brands, and/or create other liabilities for the Group.

There are a number of key controls either planned or already in place aligned to improving the security posture; the implementation, maintenance and supervision of operational policies intended to preserve the integrity of the IT systems and supporting infrastructure; regular independent audit and review of IT security; and the ongoing review, practice and updating of a disaster/crisis management plan relating to IT systems.

Regulatory actions affecting Registered Training Organisations (RTO):

Wholly owned subsidiaries, House of Learning Pty Ltd (trading as Builders Academy Australia, or BAA) and City-Wide Building Training Services Pty Ltd (CWBTs), are nationally accredited RTO's under the Australian Skills Quality Authority (ASQA) and hold funding contracts across multiple states.

Both CWBTs and BAA continue to focus on embedding a quality framework across operations recognising that providers in this sector continue to face major risk due to an ever changing regulatory environment and adaptations to state and federal funding models.

As part of the ongoing accreditation process and approval process for RTO's and for approved delivery under state and federal funding regimes, RTO's are reasonably expected to be regularly subject to compliance monitoring activity and audits.

It is recognised that any adverse findings from National or State regulators and/or funding bodies have the potential to have a material adverse impact on the Group's RTO operations, financial performance and financial position.

Both CWBTs and BAA have experienced compliance audits and reviews over the 2016 and 2017 financial years from both funding bodies and ASQA, which have not resulted in any material adverse findings.

Directors' Report

Summary of key business risks (Cont'd)

Loss of Funding Arrangements:

BAA and CWBTS hold various funding contracts in Victoria, New South Wales, Queensland and the Australian Capital Territory. BAA has also been successful in being granted a VET Student Loans contract with the Federal Department of Education and Training. These funding contracts which allow students to access subsidised training or take out government supported loans to pay for their training are the primary source of revenue for both BAA and CWBTS. Both entities have been successful in being granted approval for all contracts for which they have applied during the 2017 financial year.

It is recognised that if either entity was to lose these contracts for material breaches or non-compliance, or not be granted future approval when applications are required for extensions of these contracts, the funding currently received would no longer be available. This could have a material adverse impact on BAA and/or CWBTS and the Group's operations, financial performance and financial position.

Non-IFRS financial information

The financial measures included in the Directors' Report have been calculated to exclude the impact of various costs and adjustments associated with the Company's listing on the stock exchange during the previous financial year as well as adjustments made for the current financial year relating to the Madisson business and non-recurring impairments and management restructure costs. The directors believe the presentation of non-IFRS financial measures is useful for the users of this financial report as they reflect the underlying financial performance of the business.

Subsequent events

There have been no events that have occurred subsequent to the reporting date that have significantly affected or may significantly affect the Group's operations, results or state of affairs in future years.

Dividends

As announced on 24 August 2017, the directors have declared \$nil dividend in relation to the 2017 financial year.

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, the Company secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary 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.

Directors' Report

Directors meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, sixteen Board meetings, seven Nomination and Remuneration Committee meetings and seven Audit and Risk Management Committee meetings were held.

Directors	Board of Directors		Nomination and Remuneration Committee		Audit and Risk Management Committee	
	Held*	Attended	Held*	Attended	Held*	Attended
Vallence Gary Simonds	16	14	-	-	7	6
Susan Oliver	16	16	7	7	7	7
Matthew Chun	16	16	-	-	-	-
Leon Gorr	14	14	6	6	6	6
Rhett Simonds	16	16	7	7	-	-
Michael Humphris	2	2	1	1	1	1

*Meetings held has been adjusted to reflect the number of meetings since the date of appointment for each director.

Susan Oliver was appointed to the Chair of Nomination and Remuneration Committee on 29 March 2017 and also held the position of the Chair of Audit and Risk Management Committee from 1 April 2016 to 28 March 2017.

Michael Humphris was appointed to the Chair of Audit and Risk Management Committee on 29 March 2017.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 33 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed on note 33 to the financial statements do not compromise the external auditors' independence, based on advice received from the Audit and Risk Management Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditors own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Director's Report: Remuneration Report

Introduction

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of key management personnel (KMP) for the year ended 30 June 2017.

The KMP disclosed in this report are listed in the table below:

Current Non-Executive Directors (NED)

Name	Position	Appointment Date ¹
Vallence Gary Simonds	Chairman	25 September 2014
Susan Oliver	Deputy Chair, Non-executive Director	6 October 2014
Rhett Simonds	Non-Executive Director	20 April 2016
Michael Humphris	Non-Executive Director	29 March 2017

Former² Non-Executive Directors

Name	Position	Appointment Date ¹	Resignation date
Leon Gorr	Non-Executive Director	25 September 2014	29 March 2017

Current Senior Executives

Name	Position	Appointment Date ¹
Matthew Chun	Group Chief Executive Officer (CEO) & Managing Director	1 April 2016
Mick Myers	Chief Financial Officer (CFO)	30 May 2016
John Thorburn	Group General Manager, Simonds Homes Australia	5 December 2016

1. Appointment date is the date commenced in the position.

2. Former Non-executive Directors and Senior Executives resigned from their position during the year ended 30 June 2017.

Director's Report: Remuneration Report

Remuneration Policy Summary

The Simonds Group Limited remuneration policy has been designed to ensure its remuneration practices attract, motivate and retain top talent from a diverse range of backgrounds with the experience, knowledge, skills and judgment to drive the Group's performance and appropriately reward their contribution towards shareholder wealth creation.

The key principles that support the remuneration policy are as follows:

- employees are rewarded fairly and competitively according to job level, market trends and individual skills, experience and performance;
- the reward strategy is in line with the overall business strategy in relation to acquisition, growth and retention of talent;
- the reward strategy encompasses elements of salary, benefits, recognition and incentives to support talent management for business and shareholder outcomes;
- it is simple, flexible, consistent and scalable across the business allowing for sustainable business growth;
- it supports the business strategy whilst reinforcing our culture and values; and
- it is regularly reviewed for relevance and reliability.

Executive Remuneration Principles and Strategy

A key principle of the Group's approach to executive remuneration is that it should demonstrate strong links with Group performance and shareholder returns. Remuneration is aligned with Group performance by requiring a significant portion of remuneration to vary with short-term and long-term performance.

The remuneration of KMP is structured taking into account the following factors:

- the principles highlighted above;
- the level and structure of remuneration paid to executives of other comparable publicly listed Australian companies of a similar size;
- the position and responsibilities of each executive; and
- other appropriate benchmarks and targets to reward senior executives for the Group and individual performance.

Remuneration Governance in Year Ended 30 June 2017

The Board reviews its remuneration policy and practices on a regular basis. The objectives of the Board's remuneration policy are to:

- create a consistent and sustainable system of determining the appropriate level of remuneration of all levels of the Group, including KMP;
- encourage KMP to perform to their highest level; and
- align the remuneration of KMP with the performance of the business.

The policy details the types of remuneration to be offered by the Group and factors to be considered by the Board, Nomination and Remuneration Committee (the Committee) and executives in determining the appropriate remuneration strategy.

The Board's Role in Remuneration

The Board approved the Nomination and Remuneration Committee Charter on 17 November 2014. The decisions of the Committee are subject to approval by the Board. The Board also has the authority to directly seek independent, professional and other advisers as required for the Board to carry out its responsibilities. The Board appoints, removes and/or replaces members of the Committee at its discretion.

The Nomination and Remuneration Committee (the Committee)

The role of the Committee is to assist the Board by providing advice in relation to the remuneration packages for KMP, which includes non-executive directors. It also oversees management succession planning, performance targets and the remuneration of employees generally.

The Committee also reviews and makes recommendations to the Board on the Group's overall remuneration strategy, policies and practices, and monitors the effectiveness of the Group's overall remuneration framework in achieving the Group's remuneration strategy.

The Committee reviews the remuneration strategy and policy at least once a year and has the authority to engage external professional advisers with the approval of the Board.

Any remuneration recommendations have been made free from undue influence by members of the Group's KMP.

The Committee met seven times during the year. The CEO, CFO and any remaining directors are also regularly invited to attend meetings. No individuals are present during any discussions related to their own remuneration arrangements.

During the year ended 30 June 2017, the Committee was at all times comprised of two non-executive directors.

Further details of the Committee's responsibilities are outlined in the Corporate Governance Statement, available from the Group's website at www.simondsgroup.com.au.

Director's Report: Remuneration Report

Non-Executive Director Remuneration

Non-executive directors are remunerated by way of fixed fees in the form of cash and superannuation in accordance with Recommendation 8.3 of the ASX Corporate Governance Council's Principles and Recommendations.

During the year ended 30 June 2017, fees paid to non-executive directors totalled \$521,152 (exclusive of superannuation and cash salary and fees).

Shareholdings of non-executive directors are set out on page 18 of the directors' report.

The Company and each of the non-executive directors have agreed terms of appointment (as permitted under the ASX Listing Rules). Non-executive directors are not appointed for a specific term and their appointment may be terminated by notice from the individual director or otherwise pursuant to section 203B or 203D of the Corporations Act 2001.

The maximum annual aggregate directors' fee pool limit is \$750,000 and was approved at the Annual General Meeting of Simonds Group Limited held on 2 October 2014.

Remuneration tables for non-executive directors for the year ended 30 June 2017 are set out commencing on page 33 of this remuneration report.

KMP Remuneration Framework

The KMP remuneration framework comprises three principal elements:

- a total employment cost (TEC) comprising a fixed component, consisting of a base salary, superannuation contributions and other related allowances;
- a performance based, variable 'at risk' component, comprising cash and/or equity settled short-term incentives (STI); and
- a performance and service based, variable 'at risk' component, comprising of options and/or performance rights and/or cash equivalents referred to as long-term incentives (LTI).

The Group's mix of fixed and at risk components for each of the KMP disclosed in this report, as a percentage of total target annual remuneration for financial year 2017, is as follows:

Executive Remuneration Components

TEC overview

TEC is benchmarked against the market median, also known as the 50th percentile, referencing market practice and comparable and similar sized organisations. While comparative levels of remuneration are monitored on a periodic basis, there is no contractual requirement or expectation that any adjustments will be made.

STI overview

The Group STI Plan ensures that a proportion of remuneration is tied to Group performance measured annually in line with the financial year. Executives can only realise their STI at-risk component if challenging pre-determined objectives are achieved. The achievement of budgeted Group EBITDA is an initial gateway to realise a STI amount. All STI's are subject to the achievement of relevant key performance measures which are determined with reference to the Balanced Scorecard approach. The Balance Scorecard Approach encompasses the following areas of focus: Financial, Operational, Customer and People, safety & values.

This aligns executive interests with shareholder interests and focuses executive performance on those areas aligned to the achievement of the Group's operational strategy.

The STI payment is made in cash or in shares at the Board's discretion as part of the annual remuneration review after finalisation of the Group's audited results.

LTI overview

The Group's LTI Plan ensures that a proportion of remuneration is tied to Group performance over the long term and measured annually in line with the financial year. Executives can only realise their LTI at-risk component if challenging pre-determined objectives are achieved.

This aligns executive interests with shareholder interests and focuses executive performance on sound business decisions resulting in sustainable shareholder wealth. LTI consists of the granting of Performance Rights and/or options and/or cash equivalents that vest after a defined period, subject to Group and individual financial and non-financial performance hurdles. Vesting conditions may be waived at the absolute discretion of the Board.

Director's Report: Remuneration Report

Long term Incentive Key Features

Award Structure	FY2017 Performance Rights	
Consideration for the Performance Rights	The Performance Rights will be granted for nil consideration	
Vesting Period	Each tranche has a vesting period of approximately three years.	
Performance Measure	Vesting of Performance Rights is dependent on two discrete performance measures (hurdles):	
	Grant Date	31 January 2017
	Tranche 1 Total Share Holder Return (TSR) representing 50% of the Performance Rights Granted	Up to 50% of the Performance Rights granted will vest if the Group's (TSR) achieves a percentile ranking against the constituent companies within the S&P ASX Small Ordinaries Index (ASX Code XSI), excluding resource companies, over the Measurement Period. Percentile Ranking and percentage vesting rights are outlined below.
	Tranche 2 (CAGR EPS) representing 50% of the Performance Rights Granted	The Measurement Period for the Compound Annual Growth Rate (CAGR) EPS Hurdle is across the three financial years across the period 1 July 2016 to 30 June 2019
TSR Vesting Schedule (Tranche 1)	Simonds Group Limited Percentile Ranking	Percentage of Performance Rights to vest
	Less than the 50 th percentile	None
	Between the 50 th and 75 th percentile	50% (straight-line interpolation between the 50 th and 75 th percentile)
	At or above the 75 th percentile	100%
CAGR EPS Vesting Schedule (Tranche 2) & CEO Options	CAGR in EPS	Percentage of Performance Rights to vest:
	Less than 7.5% per annum	None
	Between 7.5% and 10% per annum	Straight line interpolation applies
	At or above 10.0% per annum	100%
Service Vesting Condition	The Service Vesting Condition is continuous employment with the Company from Grant date to 30 September 2019.	

Director's Report: Remuneration Report

Award Structure	FY2017 CEO Options	
Considerations for Options	Options carry an exercise price of \$0.40	
Vesting Period	Vesting period of approximately three years. Grant Date: 31 January 2017	
Performance Measure	Vesting of options is dependent on one discrete performance measure (hurdle):	
	CAGR in EPS	Percentage of Options to vest:
	Less than 7.5% per annum	None
	Between 7.5% and 10% per annum	Straight line interpolation applies
	At or above 10.0% per annum	100%
Service Vesting Condition	The Service Vesting Condition is continuous employment with the Company from Grant date to 30 September 2019.	

The FY2017 Performance Rights and CEO Options have been issued to the Current Senior Executives defined as KMP in this report.

Director's Report: Remuneration Report

Long term Incentive Key Features (Cont'd)

Award Structure	FY2016 Performance Rights	
Consideration for the Performance Rights	The Performance Rights will be granted for nil consideration	
Vesting Period	Each tranche has a vesting period of approximately three years.	
Performance Measure	Vesting of Performance Rights is dependent on two discrete performance measures (hurdles):	
	Grant Date	30 November 2015
	Tranche 1 Total Share Holder Return (TSR) representing 50% of the Performance Rights Granted	Up to 50% of the Performance Rights granted will vest if the Group's (TSR) achieves a percentile ranking against the constituent companies within the S&P ASX Small Ordinaries Index (ASX Code XSI), excluding resource companies, over the Measurement Period. Percentile Ranking and percentage vesting rights are outlined below.
	Tranche 2 (CAGR EPS) representing 50% of the Performance Rights Granted	The Measurement Period for the Compound Annual Growth Rate (CAGR) EPS Hurdle is across the three financial years across the period 1 July 2015 to 30 June 2018
TSR Vesting Schedule (Tranche 1)	Simonds Group Limited Percentile Ranking	Percentage of Performance Rights to vest
	Less than the 50 th percentile	None
	Between the 50 th and 75 th percentile	50% (straight-line interpolation between the 50 th and 75 th percentile)
	At or above the 75 th percentile	100%
CAGR EPS Vesting Schedule (Tranche 2)	CAGR in EPS	Percentage of Performance Rights to vest:
	Less than 7.5% per annum	None
	Between 7.5% and 10% per annum	Straight line interpolation applies
	At or above 10.0% per annum	100%
Service Vesting Condition	The Service Vesting Condition is continuous employment with the Company from Grant date to 31 August 2018.	

The FY2016 Performance Rights have been issued to the Senior Executives previously defined as KMP in this report.

Director's Report: Remuneration Report

Award Structure	FY2015 Performance Rights	
Consideration for the Performance Rights	The Performance Rights will be granted for nil consideration	
Vesting Period	Each tranche has a vesting period of three years	
Performance Measure	Vesting of Performance Rights is dependent on three discrete performance measures (hurdles):	
	Grant Date	17 November 2014
	Tranche 1 Total Share Holder Return (TSR) representing 1/3 of the Performance Rights Granted.	Up to 1/3 of the Performance Rights granted will vest if the Group's (TSR) achieves the following percentile ranking against the constituent companies within the S&P/ASX Small Ordinaries Index (ASX Code XSI), excluding resources, over the Measurement Period
	Tranche 2 (CAGR EPS) representing 1/3 of the Performance Rights Granted.	The Measurement Period for the CAGR EPS Hurdle shall be the three financial years 2015, 2016 and 2017. EPS CAGR will be calculated based on the pro-forma NPAT for the year ended 2015 and not the statutory profit or reported EPS for that year. The specific EPS methodology will be determined by the Board.
TSR Vesting Schedule (Tranche 1)	Tranche 3 Prospectus Forecast Earnings representing 1/3 of Performance Rights Granted.	1/3 of the Performance Rights granted will vest if the Group achieves the Prospectus forecast in earnings for the year ended 30 June 2015.
	Simonds Group Limited Percentile Ranking	Percentage of Performance Rights to vest
	Less than the 50 th percentile	None
	At or above the 50 th percentile	50% (straight-line interpolation between the 50 th and 75 th percentile)
CAGR EPS Vesting Schedule (Tranche 2)	At or above the 75 th percentile	100%
	CAGR in EPS	Percentage of Performance Rights to vest:
	Less than 26.3% per annum	None
	At or above 26.3% per annum	50% (straight-line interpolation between 26.3% and 29% per annum)
Prospectus Forecast Earnings Vesting Condition (Tranche 3)	At or above 29.0% per annum	100%
	1/3 of the Performance Rights granted will vest in three years if Simonds Group Limited achieves the Prospectus forecast earnings for the year ended 30 June 2015	

The FY2015 Performance Rights have been issued to the Senior Executives previously defined as KMP in this report.

Director's Report: Remuneration Report

Remuneration Structure and Performance/Shareholder Wealth Creation

The Group's annual financial performance and indicators of shareholder wealth for the current financial period are summarised below. As the Group listed on 17 November 2014, the corresponding performance measures for the financial periods prior to this date have not been included.

The Board believes it misleading to provide historical information from prior to listing on the ASX, with the exception of 2015 pro forma financial information as described in the Prospectus and the 2014 statutory actual results due to changes in the Company Remuneration Policy, structure and ownership. The Board believes a comparison to the Prospectus pro forma forecasts and prior year (during which the KMP commenced managing the business) is more meaningful for assessing the performance of KMP and their remuneration relative to Group performance.

	FY2017		FY2016		FY2015		FY2014
Financial Performance	Pro Forma Actual \$m	Statutory Actual (Continuing Operations) \$m	Pro Forma Actual \$m	Statutory Actual (Continuing Operations) \$m	Prospectus Pro Forma Forecast \$m	Pro Forma Actual \$m	Statutory Actual \$m
Revenue	587.4	587.4	628.5	628.5	638.2	634.4	543.8
EBITDA ¹	13.8	10.1	15.1	4.4	34.0	34.8	15.7
NPAT ²	4.6	2.1	5.3	(2.2)	20.4	21.1	7.5
Share Price at beginning of period	0.28	0.28	1.40	1.40	-	-	-
Share Price at end of period	0.31	0.31	0.28	0.28	1.40	1.40	-
Dividends (cents per share)	-	-	-	-	5.3	5.3	-
EPS (cents per share)	3.22	1.44	3.52	(1.53)	13.47	15.64	-

1. Statutory EBITDA is net profit after tax from continuing operations \$2.1m before financing items (\$1.7m), tax expenses (\$1.3m), and depreciation and amortisation (\$5.0m).

2. Statutory NPAT is net profit after tax from continuing operations \$2.1m.

Director's Report: Remuneration Report

Remuneration Tables – Details of KMP Remuneration

Details of the remuneration of the KMP, including Directors (as defined in AASB 124 Related Party Disclosures) of the Group are set out in the following tables. Comparative information is also included below.

FY2017	Short Term Employee Benefits				Termination Benefits	Post-employment Benefits	Long-term Benefits		Share-based Payments (SBP)	
Name	Directors Fees \$	Cash Salary and Fees \$	Short Term Incentive \$	Non-monetary Benefits \$	Termination Payments	Super \$	Annual Leave \$	Long Service Leave \$	Performance Rights \$	Total \$
V G Simonds	182,648	-	-	-	-	17,352	-	-	-	200,000
S Oliver	186,638	30,000 ¹	-	-	-	17,730	-	-	-	234,368
L Gorr ²	75,516	-	-	-	-	7,174	-	-	-	82,690
R Simonds	44,977	-	-	-	-	4,273	-	-	-	49,250
M Humphris	31,373	-	-	-	-	2,980	-	-	-	34,353
Total NED	521,152	30,000	-	-	-	49,509	-	-	-	600,661
Senior Executive (Current and Former)										
M Chun	-	595,385	-	-	-	19,616	10,567	1,325	88,192	715,085
M Myers	-	300,000	-	-	-	19,616	16,626	582	14,091	350,915
J Thorburn ³	-	194,630	-	-	-	12,503	8,209	169	14,091	229,602
Total Senior Executive	-	1,090,015	-	-	-	51,735	35,402	2,076	116,374	1,295,602
TOTAL KMP	521,152	1,120,015	-	-	-	101,244	35,402	2,076	116,374	1,896,263

1. Fees paid to S Oliver as Chair of the Independent Board Committee as part of the proposed Scheme of Arrangement.

2. L Gorr resigned as Non-Executive Director on 29 March 2017.

3. J Thorburn was appointed as Group General Manager, Simonds Homes Australia on 5 December 2016.

Director's Report: Remuneration Report

Remuneration Tables – Details of KMP Remuneration (Cont'd)

FY2016	Short Term Employee Benefits				Termination Benefits	Post-employment Benefits	Long-term Benefits		Share-based Payments (SBP)	
Name	Directors Fees \$	Cash Salary and Fees \$	Short Term Incentive \$	Non-monetary Benefits \$	Termination Payments	Super \$	Annual Leave \$	Long Service Leave \$	Performance Rights \$	Total \$
V.G Simonds	182,648	-	-	-	-	17,352	-	-	-	200,000
S Oliver	160,221	-	-	-	-	22,422	-	-	-	182,643
L Gorr	86,291	-	-	-	-	8,198	-	-	-	94,489
R Simonds ¹	-	-	-	-	-	-	-	-	-	-
M Chun ²	90,000	105,228 ³	-	-	-	8,550	-	-	-	203,778
R Colless ⁴	102,389	-	-	-	-	9,727	-	-	-	112,116
Total NED	621,549	105,228	-	-	-	66,249	-	-	-	793,026
Senior Executive (Current and Former)										
M Chun	-	148,923	-	-	-	4,827	13,143	126	-	167,019
M Myers ⁵	-	27,308	-	-	-	2,594	2,410	23	-	32,335
A Shea ⁶	-	19,700	-	1,989	-	1,708	1,739	17	-	25,153
P McMahon ⁷	-	306,988	-	19,092	-	13,049	40,639	5,870	(86,002)	299,636

1. Fees for the financial year ended 30 June 2016 are nil.

2. Prior to M Chun's appointment to the role of Group CEO and Managing Director, he was an Independent Non-executive Director of the Board and Independent Chair of the Audit and Risk Committee. M Chun resigned as Independent Non-executive Director and Chair of the Audit and Risk Committee on 31 March 2016 prior to his appointment as Group CEO and Managing Director.

3. Amounts paid to M Chun, excluding directors' fees, relate to advisory services provided as part of the normal course of business.

4. R Colless resigned as Independent Non-executive Director on 20 April 2016.

5. M Myers was appointed as CFO on 30 May 2016.

6. A Shea was appointed as Acting CEO of Builders Academy Australia on 26 May 2016.

7. P McMahon ceased to be Group CEO and Managing Director on 22 January 2016.

Director's Report: Remuneration Report

Remuneration Tables – Details of KMP Remuneration (Cont'd)

FY2016	Short Term Employee Benefits				Termination Benefits	Post-employment Benefits	Long-term Benefits		Share-based Payments (SBP)	
Name	Directors Fees \$	Cash Salary and Fees \$	Short Term Incentive \$	Non-monetary Benefits \$	Termination Payments	Super \$	Annual Leave \$	Long Service Leave \$	Performance Rights \$	Total \$
R Stubbs ¹	-	379,475	-	20,000	199,738	19,308	33,490	(7,285)	293,341	938,067
M Gerolemou ²	-	247,162	-	20,000	133,581	19,308	21,813	4,726	195,562	642,152
C Troman ³	-	390,933	-	18,205	259,312	19,308	34,501	(5,277)	405,852	1,122,834
G Healy ⁴	-	277,975	-	23,205	-	19,308	24,532	(4,793)	(34,401)	305,826
Total Senior Executive	-	1,798,464	-	102,491	592,631	99,410	172,267	(6,593)	774,352	3,533,022
TOTAL KMP	621,549	1,903,692	-	102,491	592,631	165,659	172,267	(6,593)	774,352	4,326,048

1. R Stubbs ceased to be CFO on 30 June 2016. Please refer to page 36 of the directors' report for details in relation to vested performance rights.

2. M Gerolemou ceased to be CHRO on 30 June 2016. Please refer to page 36 of the directors' report for details in relation to vested performance rights.

3. C Troman ceased to be CEO of Simonds Homes Australia on 27 May 2016. Please refer to page 36 of the directors' report for details in relation to vested performance rights.

4. G Healy ceased to be CEO of Builders Academy Australia on 3 June 2016.

Key terms of the Executive Services Agreement Group Chief Executive Officer (CEO) & Managing Director

The material terms of the Executive Services Agreement between Matthew Chun and the Company for the role of Group Chief Executive Officer (CEO) & Managing Director are as follows:

Term:	No fixed term. Ongoing until terminated by either party in accordance with the Agreement
Total Employment Cost (TEC):	\$615,000 per annum including superannuation, reviewed annually
Short Term Incentive (STI) for FY16/17:	Maximum opportunity of \$600,000 per annum, subject to performance
Long Term Incentive (LTI) for FY16/17:	Options and Performance Rights issued under the Simonds Group Employee Share Plan
Notice Period / Termination Entitlements:	12 months by either party Employment may be ended immediately in certain circumstances including misconduct, incapacity, and mutual agreement or in the event of a fundamental change in the CEO's role or responsibilities. The Company may elect to make a payment in lieu of any unserved notice period.
Post-Employment Restraint:	A 6 month post-employment restraint provision applies

Director's Report: Remuneration Report

STI Payments to KMP

There were no STI payments made to KMP during the financial year ended 30 June 2017 (2016: Nil). The achievement of budgeted Group EBITDA is an initial gateway to realise a STI amount. All STI's are subject to the achievement of relevant key performance measures which are determined with reference to the Balanced Scorecard approach. The Balance Scorecard Approach encompasses the following areas of focus: Financial, Operational, Customer and People, safety & values.

KMP LTI

The following tables provide the details of performance rights allocated to the KMP pursuant to the LTI Plan.

Number of equity instruments granted, vested and expired/forfeited – performance rights

FY2017					
Name	Performance Rights 1 July 2016	Performance Rights Granted	Performance Rights Vested	Performance Rights Expired / Forfeited	Balance 30 June 2017
M Chun	-	453,401	-	-	453,401
M Myers	-	314,861	-	-	314,861
J Thorburn	-	314,861	-	-	314,861
TOTAL	-	1,083,123	-	-	1,083,123

FY2016					
Name	Performance Rights 1 July 2015	Performance Rights Granted	Performance Rights Vested	Performance Rights Expired / Forfeited	Balance 30 June 2016
M Chun	-	-	-	-	-
M Myers	-	-	-	-	-
A Shea	-	-	-	-	-
P McMahon	280,899	-	-	(280,899)	-
R Stubbs	168,539	212,284	(380,823)	-	-
M Gerolemou	112,360	141,523	(253,883)	-	-
C Troman	168,539	424,568	(593,107)	-	-
G Healy	112,360	247,665	-	(360,025)	-
TOTAL	842,697	1,026,040	(1,227,813)	(640,924)	-

Number of equity instruments granted, vested and expired/forfeited – options

FY2017					
Name	Options 1 July 2016	Options Granted	Options Vested	Options Expired / Forfeited	Balance 30 June 2017
M Chun	-	4,000,000	-	-	4,000,000

Director's Report: Remuneration Report

Value of performance rights granted, exercised and expired/forfeited – performance rights

FY2017								
Name	Rights issue	Tranche	Fair value at grant date \$ per share	No. of Performance Rights	Accounting Fair Value at grant date \$	Exercised / Vested \$	Expired / Forfeited \$	Accounting Fair Value at year end 30 June 17 \$
M Chun	FY2017	TSR	0.23	226,701	52,141	-	-	52,141
			0.35	226,700	79,345	-	-	79,345
M Myers	FY2017	TSR	0.23	157,431	36,209	-	-	36,209
			0.35	157,430	55,100	-	-	55,100
J Thorburn	FY2017	TSR	0.23	157,431	36,209	-	-	36,209
			0.35	157,430	55,100	-	-	55,100

FY2016								
Name	Rights issue	Tranche	Fair value at grant date \$ per share	No. of Performance Rights	Accounting Fair Value at grant date \$	Exercised / Vested \$	Expired / Forfeited \$	Accounting Fair Value at year end 30 June 16 \$
M Chun	-	-	-	-	-	-	-	-
M Myers	-	-	-	-	-	-	-	-
A Shea	-	-	-	-	-	-	-	-
P McMahon	FY2016	TSR	-	-	-	-	-	-
			-	-	-	-	-	-
	FY2015	TSR	1.0349	93,633	96,901	-	96,901	-
		EPS	1.5512	93,633	145,244	-	145,244	-
		Prospectus	1.5512	93,633	145,244	-	145,244	-
R Stubbs	FY2016	TSR	0.31	106,142	32,904	32,904	-	-
			0.75	106,142	79,607	79,607	-	-
	FY2015	TSR	1.0349	56,180	58,141	58,141	-	-
		EPS	1.5512	56,180	87,146	87,146	-	-
		Prospectus	1.5512	56,179	87,145	87,145	-	-
M Gerolemou	FY2016	TSR	0.31	70,762	21,936	21,936	-	-
			0.75	70,761	53,071	53,071	-	-
	FY2015	TSR	1.0349	37,453	38,760	38,760	-	-
		EPS	1.5512	37,453	58,097	58,097	-	-
		Prospectus	1.5512	37,454	58,099	58,099	-	-
C Troman	FY2016	TSR	0.31	212,284	65,808	65,808	-	-
			0.75	212,284	159,213	159,213	-	-
	FY2015	TSR	1.0349	56,180	58,141	58,141	-	-
		EPS	1.5512	56,180	87,146	87,146	-	-
		Prospectus	1.5512	56,179	87,145	87,145	-	-
G Healy	FY2016	TSR	0.31	123,833	38,388	-	38,388	-
			0.75	123,832	92,874	-	92,874	-
	FY2015	TSR	1.0349	37,453	38,760	-	38,760	-
		EPS	1.5512	37,453	58,097	-	58,097	-
		Prospectus	1.5512	37,454	58,099	-	58,099	-

Director's Report: Remuneration Report

Value of performance options granted, exercised and expired/forfeited – performance options

FY2017								
Name	Options issue	Tranche	Fair value at grant date \$ per share	No. of Performance Rights	Accounting Fair Value at grant date \$	Exercised / Vested \$	Expired / Forfeited \$	Accounting Fair Value at year end 30 June 17 \$
M Chun	FY2017	EPS (Options)	0.11	4,000,000	440,000	-	-	440,000

Non-Executive Directors and KMP Shareholdings

Shareholdings of non-executive directors and KMP are set out below:

FY2017	Number of shares			
Name	Opening balance	Acquired	Other ¹	Closing balance
Non-executive Directors (Current and Former)				
V.G Simonds	56,138,895	-	-	56,138,895
S Oliver	44,000	-	-	44,000
L Gorr	461,180	-	(461,180)	-
R Simonds	14,044	-	-	14,044
M Humphris	-	-	-	-
Total NED	56,658,119	-	(461,180)	56,196,939
Senior Executive				
M Chun	-	-	-	-
M Myers	-	-	-	-
J Thorburn	-	-	-	-
Total Senior Executive	-	-	-	-
TOTAL KMP	56,658,119	-	(461,180)	56,196,939

1. Other relates to when KMP ceased their position with the Company.

Director's Report: Remuneration Report

FY2016	Number of shares			
Name	Opening balance	Acquired	Other ¹	Closing balance
Non-executive Directors (Current and Former)				
V.G Simonds	56,138,895	-	-	56,138,895
S Oliver	17,000	27,000	-	44,000
L Gorr	56,180	405,000	-	461,180
R Simonds	14,044	-	-	14,044
M Chun	-	-	-	-
R Colless	-	-	-	-
Total NED	56,226,119	432,000	-	56,658,119
Senior Executive				
M Chun	-	-	-	-
Non-executive Directors (Current and Former)				
M Myers	-	-	-	-
A Shea	-	-	-	-
P McMahon	4,040,561	-	(4,040,561)	-
R Stubbs	375,561	-	(375,561)	-
M Gerolemou	-	-	-	-
C Troman	-	-	-	-
G Healy	-	-	-	-
Total Senior Executive	4,416,122	-	(4,416,122)	-
TOTAL KMP	60,642,241	432,000	(4,416,122)	56,658,119

Executive Service Agreements

		Minimum Notice Period	
Name	Contract Length	Termination by Executive	Termination by Company
M Chun	No fixed term	12 months	12 months
M Myers	No fixed term	6 months	6 months
J Thorburn	No fixed term	3 months	3 months

1. Other relates to when KMP ceased their position with the Company.

Director's Report: Remuneration Report

Loans to Director

The Group has not provided any loans to directors or their related parties during the year ended 30 June 2017 (2016: Nil).

Other KMP Transactions

During the financial year, the Group entered into a number of transactions with related parties of KMP. This part of the Remuneration Report is to be read in conjunction with note 30 Related Parties included on page 78 of the financial statements for the year ended 30 June 2017.

Profit for the year includes the following items of revenue and expense that resulted from transactions, other than compensation, loans or equity holdings, with KMP or their related entities:

	2017 \$	2016 \$
Consolidated revenue includes the following amounts arising from transactions with KMP of the Group or their related parties:		
Revenue – Sales	683,400	1,231,463
	683,400	1,231,463
Consolidated profit includes the following expenses arising from transactions with KMP of the Group or their related parties:		
Leasing and rental costs	674,735	529,087
Purchase of goods	465,963	1,161,912
	1,140,698	1,690,999
Total assets arising from transactions with KMP of the Group or their related parties:		
Current	–	–
Non-Current	–	–
	–	–
Total liabilities arising from transactions with KMP of the Group or their related parties:		
Current	–	36,000
Non-Current	–	–
	–	36,000

Director's Report

Auditor's independence declaration

The auditor's independence declaration is included after this report on page 42.

Rounding of Amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Director's Reports) instrument 2016/191, dated 24 March 2016, and in accordance with that ASIC Corporations Instrument amounts in the Director's Reports 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 to pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the directors



Vallence Gary Simonds

Director

Melbourne, 24 August 2017



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The Board of Directors
Simonds Group Limited
Level 4, 570 St Kilda Road
Melbourne VIC 3000

24 August 2017

Simonds Group Limited

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 Group Limited.

As lead audit partner for the audit of the consolidated financial report of Simonds Group Limited for the financial year ended 30 June 2017, 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,

A handwritten signature in dark ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in dark ink that reads "Genevra Cavallo".

Genevra Cavallo
Partner
Chartered Accountants



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Independent Auditor's Report to the Members of Simonds Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Simonds Group Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Recognition of revenue and work in progress on construction contracts For the year ended 30 June 2017, the Group's revenue from residential construction contracts totalled \$569.864m. Revenue from construction contracts is recognised with reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs as disclosed in Note 3.7.1. As disclosed in Note 4, significant management estimation is required in assessing the following: - Estimation of total contract revenue and costs; and - Determination of stage of completion.	Our audit procedures included, but were not limited to: • Obtaining an understanding of the process undertaken by management to account for the recognition of revenue and work in progress; • Testing key controls in respect of the revenue process; • Assessing management's determination of the percentage of completion allocated to each stage of the build process against historical cost profiles; • Testing a sample of inputs into the model used to establish management's percentage of completion allocated to each stage; • Assessing management's estimation of costs to complete, including comparing historical actual performance against forecast; • Recalculating, on a sample basis, revenue recognised based on the stage of completion of selected jobs; • Challenging contracts which exhibited heightened risk characteristics; and • Agreeing, on a sample basis, job data back to source documentation, including customer contracts, approved variations and job costs. We also assessed the appropriateness of the disclosures in notes 3.7.1 and 4 to the financial statements.
Compliance with Bank Covenants As disclosed in Note 3.3 the appropriateness of the going concern assumption was assessed with reference to detailed financial forecasts which demonstrate that the Group will be able to operate within its bank covenants for the 12 months following the date of the financial report, and therefore have access to its banking facilities for that period. Management estimation is inherent in the preparation of the financial forecasts.	Our audit procedures included, but were not limited to: • Assessing the process undertaken by management to develop the budget and cash flow forecasts and confirming they had been approved by the Board; • Assessing forecasted key assumptions including site starts, start value, number of displays and student numbers, with reference to those achieved for the 2016 financial year; • Assessing forecasted debt repayments against repayment schedules; • Assessing the level of available bank facilities during the forecast period; • Testing compliance with covenant requirements at year end and reviewing management's forecast covenant compliance calculations for the forecast period; • Performing sensitivity analysis on the financial forecasts; and • Evaluating performance in the period since year end to audit report date against the forecast. We also assessed the appropriateness of the disclosures in note 3.3 to the financial statements.



Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, ASX announcement and full year results presentation which we obtained prior to the date of the auditor's report, and also includes the following information which will be included in the Group's annual report (but does not include the financial report and our auditor's report thereon): the Chairman's Welcome Letter, Letter from the Group CEO and Managing Director, Financial Highlights and additional securities exchange information, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman's Welcome Letter, Letter from the Group CEO and Managing Director and Financial Highlights, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgment to determine the appropriate action.

Responsibilities of the Directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 25 to 40 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Simonds Group Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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 Australian Auditing Standards.

DELOITTE TOUCHE TOHMATSU

Genevra Cavallo
Partner
Chartered Accountants
Melbourne, 24 August 2017

Directors' Declaration

Directors' Declaration

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;
- b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 3.1 to the financial statements; and
- c) 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 consolidated entity
- d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 16 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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



Vallence Gary Simonds

Director

Melbourne, 24 August 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2017

	Notes	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Continuing			
Revenue	5	587,369	628,508
Cost of sales		(461,436)	(496,795)
Gross profit		125,933	131,713
Expenses	11	(112,096)	(116,622)
Profit before significant items, financing items, depreciation and amortisation		13,837	15,091
<i>Significant items</i>	12	(3,703)	(10,643)
Profit before financing items, depreciation and amortisation		10,134	4,448
Depreciation and amortisation charges	17,18	(5,020)	(5,594)
Profit / (Loss) before financing items and tax		5,114	(1,146)
<i>Financing items</i>			
Interest income	7	1	112
Interest expense	8	(1,728)	(2,212)
Net financing cost		(1,727)	(2,100)
Profit / (Loss) before tax		3,387	(3,246)
Income tax benefit / (expense)	9	(1,309)	1,005
Profit / (Loss) from continuing operations		2,078	(2,241)
Discontinued operations			
Loss from discontinued operations after tax	10	(1,873)	(12,650)
Profit / (Loss) after tax for the year		205	(14,891)
Other comprehensive income, net of income tax		-	-
Total Comprehensive Income for the year		205	(14,891)
Earnings per share			
<i>From continuing operations</i>			
Basic (cents per share)	13	1.44	(1.53)
Diluted (cents per share)	13	1.44	(1.53)
<i>From continuing and discontinuing operations</i>			
Basic (cents per share)	13	0.14	(10.14)
Diluted (cents per share)	13	0.14	(10.14)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

Consolidated statement of financial position as at 30 June 2017

	Notes	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Assets			
<i>Current Assets</i>			
Cash and bank balances	34	10,204	3,176
Trade and other receivables	14	32,690	43,630
Inventories	15	48,185	49,610
Other financial assets	20	1,260	-
Tax receivable	9	1,441	4,109
Other assets	19	3,174	3,382
Total current assets		96,954	103,907
<i>Non-Current Assets</i>			
Property, plant and equipment	17	7,878	9,800
Intangible assets	18	5,676	4,798
Other financial assets	20	-	1,260
Deferred tax assets	9	5,839	3,946
Total non-current assets		19,393	19,804
Total assets		116,347	123,711
Liabilities			
<i>Current Liabilities</i>			
Trade and other payables	21	61,168	75,630
Borrowings	22	3,875	1,790
Provisions	23	12,989	14,658
Deposits and income in advance	24	13,774	12,484
Total current liabilities		91,806	104,562
<i>Non-Current Liabilities</i>			
Borrowings	22	11,349	9,500
Provisions	23	7,878	6,877
Deferred tax liabilities	9	8,439	6,097
Total Non-Current Liabilities		27,666	22,474
Total liabilities		119,472	127,036
Net assets / (liabilities)		(3,125)	(3,325)
Equity			
Issued capital	25	12,911	12,911
Share buy-back reserve	25	(7,204)	(7,204)
Share based payments reserve	31	30,243	30,248
Accumulated losses	26	(39,075)	(39,280)
Total equity / (deficit)		(3,125)	(3,325)

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity for the year ended 30 June 2017

	Notes	Issued capital \$'000	Share based payments reserve \$'000	Share buy-back reserve \$'000	Accumulated losses \$'000	Total \$'000
Balance at 1 July 2015		13,590	29,424	-	(16,359)	26,655
Share buy-back		(679)	-	(7,204)	-	(7,883)
Employee share plan	31	-	1,332	-	-	1,332
Performance rights vested	31	-	(508)	-	-	(508)
Dividend paid		-	-	-	(8,030)	(8,030)
Loss for the year		-	-	-	(14,891)	(14,891)
Balance at 30 June 2016		12,911	30,248	(7,204)	(39,280)	(3,325)
Balance at 1 July 2016		12,911	30,248	(7,204)	(39,280)	(3,325)
Share buy-back		-	-	-	-	-
Employee share plan expense	31	-	229	-	-	229
Performance and service rights vested / forfeited	31	-	(234)	-	-	(234)
Dividend paid		-	-	-	-	-
Profit for the year		-	-	-	205	205
Balance at 30 June 2017		12,911	30,243	(7,204)	(39,075)	(3,125)

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

Consolidated statement of cash flows for the year ended 30 June 2017

	Notes	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Cash flows from operating activities			
Receipts from customers		604,503	664,047
Payments to suppliers and employees		(596,599)	(637,699)
Cash generated from operations		7,904	26,348
Transaction costs associated with proposed Scheme of Arrangement		(1,757)	-
Finance costs	8	(1,728)	(2,212)
Income taxes refund / (paid)		2,649	(9,192)
<i>Net cash generated / (used in) from operating activities</i>	34	7,068	14,944
Cash flows from / (used in) investing activities			
Interest received	7	1	112
Payment to acquire subsidiary and its working capital, net of cash acquired	36	-	(1,647)
Proceeds from disposal of property, plant and equipment		355	478
Investment in land fund		-	(1,260)
Payments for property, plant and equipment		(554)	(3,129)
Payments for intangibles assets		(2,400)	(1,891)
<i>Net cash used in investing activities</i>		(2,598)	(7,337)
Cash flows from / (used in) financing activities			
Proceeds from borrowings		4,726	7,000
Payment for finance leases		(2,168)	(1,152)
Amounts advanced from related parties		-	157
Share buy-back		-	(7,883)
Dividends paid to shareholders		-	(8,030)
<i>Net cash generated from / (used in) financing activities</i>		2,558	(9,908)
<i>Net increase / (decrease) in cash and cash equivalents</i>		7,028	(2,301)
Cash and cash equivalents at the beginning of the year		3,176	5,477
Cash and cash equivalents at the end of the year	34	10,204	3,176

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1. General information

The Company is incorporated in Australia and is a for-profit entity.

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

Level 1, 570 St Kilda Road
MELBOURNE VIC 3004

These financial statements comprise the consolidated financial statements of the Company and the entities it controls (the "Group"). The entities controlled by the Company are detailed in note 16 to the financial report. The principal activities of the Group are the design and construction of residential dwellings, the development of residential land and providing registered training courses.

2. Application of new and revised accounting standards

2.1 Amendments to AASBs and the new interpretation that are mandatorily effective for the current year

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year.

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

2.2 Standards and interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Directors have reviewed all Standards and Interpretations on issue but not yet effective and with the exception of the following standards, do not expect these Standards and Interpretations to have a material effect on the financial statements of the Group.

Standard / Interpretation	Effective for annual reporting periods beginning on or after
(i) AASB 15 'Revenue from Contracts with Customers', and the relevant amending standards AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 will supersede the current revenue recognition guidance including AASB 118 'Revenue', AASB 111 'Construction Contracts' and the related Interpretations which it becomes effective.	1 January 2018
(ii) AASB 16 'Leases' AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 'Leases' and the related interpretations. AASB 16 eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most lease onto their statements of financial position.	1 January 2019

The Directors are in the process of completing their assessment of the potential impacts of these standards.

Notes to the Financial Statements

3. Significant accounting policies

3.1 Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS'). The financial statements were authorised for issue by the directors on 24 August 2017.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 or value in use in AASB 136.

Rounding of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

3.3 Going concern

The financial report has been prepared on the 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 Group incurred a net profit after tax (NPAT) for the year ended 30 June 2017 of \$0.205m (2016: loss \$14,891m). The results include transaction costs of \$1.817m (2016: \$Nil); impairment of non-core development land and other current assets of \$1.413m (2016: \$1.700m); and management restructure costs of \$0.473m (2016: \$2.587m) (refer to note 12 for significant items). The Group has a deficit net asset position of \$3.125m as at 30 June 2017.

As a result of these indicators, along with the need to comply with bank covenants, the Group has assessed the appropriateness of the going concern basis as follows:

- Management has prepared detailed financial forecasts for the 12 months following the date of this report. These forecasts indicate that the Group will have sufficient funds to continue to pay its debts as and when they become due and payable.
- The Group has complied with all bank covenants in its banking arrangements during the year and based on the forecasts noted above, expects to operate within its bank covenants for the 12 months following the date of this report and therefore continue to have access to its banking facilities.
- As described in note 22 the Group has \$23.035m in unused facilities (excluding finance leases) available at 30 June 2017.

Based on all available information to management and the Directors at the date of signing, the Directors are of the opinion that the Group is a going concern and accordingly the Directors have deemed it appropriate for the financial report to be prepared on a going concern basis.

3.4 Basis of consolidation

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Notes to the Financial Statements

3.5 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

3.6 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.7 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for rebates and other similar allowances.

3.7.1 Construction Contracts

When 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 end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative 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 its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred and that it is probable that it will be recovered. 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.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position as a liability, as income in advance. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

3.7.2 Sale of Speculative Homes, Display Homes and Land

Revenue from the sale of speculative homes, display homes and land is recognised when the goods are delivered and titles have passed at which time all the following conditions are satisfied:

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

3.7.3 Rendering of registered training services

Revenue from registered training services is recognised over the duration of the course by reference to the percentage of services provided and when the Group is entitled to claim the funding from the government.

Notes to the Financial Statements

3.7.4 Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.8 Leasing

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.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. 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 expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

3.9 Employee benefits

3.9.1 Short-term and Long-term employee benefits

Short term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick 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.

Other long term employee benefits

Liabilities for annual leave and long service leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognised in the provision for employee entitlements and are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. Consideration is given to expected future wage and salary levels, departures and periods of service.

These employee benefit entitlements are presented as current liabilities in the balance sheet if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

3.9.2 Superannuation contributions

Contributions to defined contribution superannuation plans are expensed when employees have rendered services entitling them to the contributions.

3.9.3 Termination benefit

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

3.9.4 Bonus entitlements

A liability is recognised for bonus entitlements where contractually obliged or where there is a past practice that has created a constructive obligation.

3.10 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

3.10.1 Current tax

The tax currently receivable is based on the financial result for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other 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 Group'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.

3.10.2 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.

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.

Notes to the Financial Statements

3.10.3 Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

3.10.4 Tax consolidation

The entities, except the trusts within the Group 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 Group Limited. 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 those entities 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.

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.

3.11 Property, plant and equipment

The carrying amount of property, plant and equipment which is valued on the cost basis, is subject to impairment testing and is reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a property, plant and equipment exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. 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 method are reviewed at the end of each annual reporting period.

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

Leasehold improvements	5 years or the period of the lease
Computer equipment	3 years
Office furniture and fittings	5 years
Display home furniture, fixtures and fittings	5 years
Motor vehicles	5 years
Plant and equipment	5 years

3.12 Intangible assets

3.12.1 Intangible assets acquired separately

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. The useful life in relation to the licence is the time at which the licence is due for renewal.

3.12.2 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.

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.

Notes to the Financial Statements

3.13 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group 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).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least 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 (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

3.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Construction contracts

Construction work-in-progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. Contract costs include all costs directly related to specific contracts, and costs that are specifically chargeable to the customer under the terms of the contract. The stage of completion is measured using the percentage of completion method.

Land at cost:

Cost includes the costs of acquisition, development, borrowings and all other costs directly related to specific projects.

Speculative Homes and Displays

Cost includes the costs of building the speculative and display homes.

3.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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 the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When 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 (where the effect of the time value of money is material).

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 that reimbursement will be received and the amount of the receivable can be measured reliably.

3.15.1 Maintenance and warranty

Provisions for the cost of maintenance and warranty is the directors' best estimate of the expenditure required to settle the Group's obligations are under legislative requirements.

3.15.2 Make good

Provisions based on the directors' best estimates of the costs required to reinstate the display homes under legislation; or requirement to be at a saleable standard.

3.16 Financial instruments

3.16.1 Financial assets

Investments in subsidiaries are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs. Subsequent to initial recognition, investments are measured at cost.

3.16.2 Loans and receivables

Trade receivables, loans and other receivables are recorded at amortised cost using the effective interest method less impairment.

3.16.3 Investment in land fund

The Group has investments which are units held in a land fund that are stated at fair value because the directors consider that fair value can be reliably measured.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserves is reclassified to profit or loss.

3.17 Goods and services tax

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

- a) 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
- b) 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.

Notes to the Financial Statements

3.17 Goods and services tax (Cont'd)

Cash flows are included in the cash flow statement 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.

3.18 Share-based payment transactions

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

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.

Percentage of completion on the construction contracts

Estimate of construction contracts on a percentage completion basis, in particular with regard to accounting for variations, the timing of profit recognition and the amount of profit recognised can often result in an adjustment to the reported revenues and expenses and/or the carrying amount of assets and liabilities.

Provision for maintenance and warranties

At each year end the Group considers its legal and constructive obligations for warranties and maintenance on properties constructed. Typically, the Group makes provision for warranties for a period of up to seven years following the completion of a construction contract. The directors take into account the annual build program, history of defects relating to materials used or in services provided and the historical liabilities the Group has assumed in respect of warranties in estimating the provision for warranties. The directors use a present value methodology to recognise the best estimate of the expenditure required to settle the Group's obligation.

In April 2017, KPMG Actuarial Pty Ltd was engaged by Simonds Group Ltd to analyse historical maintenance and warranty spend and provide an estimate for the maintenance and warranty provision as at 30 June 2017. The Group has adopted the key assumptions provided by KPMG while retaining the model used historically for calculating the maintenance and warranty provision.

Provision for impairment losses on land development

The Group holds land stock for development, which is recorded as inventory in the financial statements. At 30 June 2017, the directors assessed the value of the land stock inventory, referencing contracts, other documentary evidence and comparative sales data to determine valuations of certain land titles.

Impairment of goodwill

The recoverable amount of a cash-generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections covering a five-year period based on financial budgets approved by management for the subsequent financial year. These growth rates do not exceed the long-term average growth rates for the industry in which each CGU operates.

Cash flow projections for CGUs are based on budgeted EBITDA during the projection period, increasing by underlying cash flow growth rates of 2.0% per annum. The cash flows beyond the five-year projection period have been extrapolated using a steady growth rate of 2.0%. The underlying growth rates have been determined by management based on most recent financial budgets and forecasts and expected industry growth rates.

In performing the value-in-use calculations for each CGU, the Group has applied post-tax discount rate to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rate applied is 17.0%.

Notes to the Financial Statements

5. Revenue

The following is an analysis of the Group's operations revenue for the year (excluding interest income – note 7).

Continuing operations	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Revenue from residential construction contracts	569,864	600,746
Revenue from rendering of registered training services	13,434	19,097
Revenue from developments	4,071	8,665
	587,369	628,508
Discontinued operations	6,194	34,372
	593,563	662,880

6. Segment information

6.1 Products and services from which reportable segments derive their revenue

Information on segment performance focusing on the types of products and services the Group provides.

No operating segments have been aggregated in arriving at the reportable segments of the Group. Specifically, the Group's reportable segments under AASB 8 Operating Segments are as follows:

- Residential construction - this includes activities relating to contracts for residential home construction, speculative home building and the building of display home inventory.
- Registered training - this includes activities relating to registered training provided by House of Learning Pty Ltd trading as Building Academy Australia and City-Wide Building and Training Services Pty Ltd.
- Development - this includes activities relating to land development and sales, and project management services.

Madisson Homes Pty Ltd (Madisson Homes) is a subsidiary of the Group and in the prior years formed part of the residential construction segment. Madisson Homes operated in the medium density market, building apartments and townhouses for commercial developers using the concepts, designs and specifications provided by the developers. For the year ended and as at 30 June 2017 this business has been presented as discontinued operations in note 10 with prior year comparatives restated.

6.2 Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

Segment	Segment revenue		Segment profit / (loss) ¹	
	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Residential construction	569,864	600,746	3,085	(4,023)
Registered training	13,434	19,097	433	2,811
Land development	4,071	8,665	(131)	(2,034)
	587,369	628,508	3,387	(3,246)
Discontinued operations	6,194	34,372	(2,714)	(18,067)
Income tax benefit / (expense)	-	-	(468)	6,422
Total	593,563	662,880	205	(14,891)

1. Segment profit/(loss) represents the profit/(loss) before tax generated by each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Notes to the Financial Statements

6. Segment information (Cont'd)

6.3 Segment assets and liabilities

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Segment assets		
Residential construction	105,857	110,434
Registered training	4,520	5,416
Land development	4,968	5,624
	115,345	121,474
Discontinued operations	1,002	2,237
Total segment assets	116,347	123,711
Segment liabilities		
Residential construction	115,524	118,006
Registered training	1,097	1,235
Land development	12	16
	116,633	119,257
Discontinued operations	2,839	7,779
Total segment liabilities	119,472	127,036

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to reportable segments.

Notes to the Financial Statements

6. Segment information (Cont'd)

6.4 Other segment information

	Interest expense		Depreciation and amortisation	
	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Residential construction	1,728	1,991	4,150	4,157
Registered training	-	141	870	1,423
Land development	-	80	-	14
	1,728	2,212	5,020	5,594
Discontinued Operations	-	-	-	168
Total	1,728	2,212	5,020	5,762

	Additions to non-current assets	
	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Residential construction	3,446	8,050
Registered training	879	1,342
Land development	10	-
	4,335	9,392

In addition to the interest expense, depreciation and amortisation reported above, impairment losses of \$1.413m (2016: \$4.391m) were recognised in respect of land stock held on hand and other current assets as at 30 June 2017. These impairment losses were attributable to the following reporting segments:

	Impairment losses	
	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Residential construction	768	6,356
Registered training	-	-
Land development	645	1,700
Total impairment	1,413	8,056

6.5 Revenue by Geographical region

The Group operates in one geographical area – Australia. The Group's revenue and profits are all generated from this region.

6.6 Information about major customers

No single customer contributed 10% or more to the Group's revenue for the year ended 30 June 2017 and the year ended 30 June 2016.

Notes to the Financial Statements

7. Interest income

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Interest income:		
Bank deposits	1	112
	1	112

8. Finance costs

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Interest on bank overdrafts, finance leases and loans	1,728	2,212
	1,728	2,212

9. Income taxes

9.1 Income tax recognised

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Current tax		
Benefit in respect of the current year	-	(23)
Benefit in respect of prior years	(55)	(735)
	(55)	(758)
Deferred tax		
(Benefit) / expense in respect of the current year	299	(6,230)
(Benefit) / expense in respect of prior years	224	566
	523	(5,664)
Consolidated income tax expense/(benefit) recognised in the current year	468	(6,422)
Income tax expense / (benefit) from continuing operations	1,309	(1,005)
Income tax expense / (benefit) from discontinued operations	(841)	(5,417)
	468	(6,422)

Notes to the Financial Statements

9.1 Income tax recognised (Cont'd)

The income tax expense can be reconciled to the accounting profit as follows:

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Profit / (Loss) before tax from continuing operations	3,387	(3,246)
Profit / (Loss) before tax from discontinued operations	(2,714)	(18,067)
Profit / (Loss) before tax	673	(21,313)
Income tax benefit calculated at 30% (2016: 30%)	202	(6,393)
Effect of Executive Share Based Payments non-deductible	37	-
Effect of expenses that are not deductible in determining taxable profit	60	140
	299	(6,253)
Adjustments recognised in the current year in relation to the current tax of prior years	169	(169)
Income tax expense / (benefit) recognised in profit or loss	468	(6,422)
Income tax expense / (benefit) from continuing operations	1,309	(1,005)
Income tax expense / (benefit) from discontinued operations	(841)	(5,417)
	468	(6,422)

The tax rate used for the 2017 and 2016 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

9.2 Current tax assets and liabilities

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Current tax asset		
Income tax refundable	1,441	4,109
	1,441	4,109

9.3 Deferred tax balances

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Deferred tax assets	5,839	3,946
Deferred tax liabilities	(8,439)	(6,097)
Net deferred tax	(2,600)	(2,151)

Notes to the Financial Statements

9.3 Deferred tax balances (Cont'd)

2017	Opening balance \$'000	Under / over \$'000	Recognised in profit or loss \$'000	Other \$'000	Closing balance \$'000
Construction Contracts income	(5,844)	(319)	(1,647)	-	(7,810)
Capitalised Courses and Product Design	(253)	25	(402)	-	(630)
Property, Plant, Equipment & Intangibles	444	2	399	-	845
Provision for warranty and contract maintenance	1,256	-	(61)	-	1,195
Employee Entitlements	1,364	24	(80)	-	1,308
Other	882	44	144	12	1,082
DTA on Losses & Carry Forward Non-Refundable R&D offset	-	10	1,346	54	1,410
	(2,151)	(214)	(301)	66	(2,600)

2016	Opening balance \$'000	Under / over \$'000	Recognised in profit or loss \$'000	Other \$'000	Closing balance \$'000
Construction Contracts income	(10,946)	-	5,102	-	(5,844)
Capitalised Courses and Product Design	(138)	(25)	(90)	-	(253)
Property, Plant, Equipment & Intangibles	571	(541)	787	(373)	444
Maintenance Liability	417	-	839	-	1,256
Employee Entitlements	1,492	-	(128)	-	1,364
Other	1,162	-	(280)	-	882
	(7,442)	(566)	6,230	(373)	(2,151)

Notes to the Financial Statements

10. Discontinued Operations

Following a comprehensive review instigated by the Directors on 16 November 2015, the Group announced a plan for the orderly closure of the Madisson business unit of the Group on 21 January 2016 upon completion of the remaining projects. All projects have been completed as at 30 June 2017.

The tables presented below show the loss incurred, inclusive of all costs associated with contractual obligations, impairments, and loss making projects relating to the Madisson business for the year ended 30 June 2017:

Loss for the year from the Madisson business

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Revenue	6,194	34,372
Expenses	(8,908)	(52,439)
Loss before tax	(2,714)	(18,067)
Attributable income tax benefit	841	5,417
Loss for the year	(1,873)	(12,650)

Statement of Cash Flows from the Madisson business

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Cash flows from operating activities	(2,870)	(6,102)
Cash flows from / (used in) investing activities	-	-
Cash flows from financing activities	2,875	6,708
Net (decrease) in cash and cash equivalents	5	606
Cash and cash equivalents at the beginning of the year	1	(605)
Cash and cash equivalents at the end of the year	6	1

11. Expenses for the year

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Loss on disposal of property, plant and equipment	(48)	(198)
Marketing and selling expenses	(19,480)	(20,022)
Corporate and administrative expenses	(29,608)	(31,088)
Employee benefits expense	(62,960)	(65,314)
Total expenses	(112,096)	(116,622)

Notes to the Financial Statements

12. Significant items for the year

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Transaction costs associated with proposed Scheme of Arrangement ⁽ⁱ⁾	(1,817)	-
Impairment of IT project costs	-	(3,665)
Impairment of non-core development land and other current assets	(1,413)	(1,700)
Impairment of display homes, non-core speculative land inventories associated with operation review and restructure	-	(2,691)
Costs associated with organisational review and management restructure including settlement of share based payments	(473)	(2,587)
Total significant items	(3,703)	(10,643)

⁽ⁱ⁾ On 31 August 2016, the Group announced a Scheme Implementation Agreement with SR Residential Pty Ltd (SR Residential) (which is jointly owned by entities associated with Roche Holdings Pty Ltd and Simonds Family Office Pty Ltd (SFO)) under which it was proposed that SR Residential would acquire all shares in the Company not already owned by associates of the Consortium by way of the Scheme. On 28 November 2016, the Group announced that the Scheme Implementation Agreement has been terminated by mutual agreement of the Group and SR Residential. During this process, the Group has incurred transaction costs of \$1.817m for year ending 30 June 2017.

13. Earnings per share

	Year ended 30/06/17 Cents per share	Year ended 30/06/16 Cents per share
From continuing operations		
Total basic profit/loss per share	1.44	(1.53)
Total diluted profit/loss per share	1.44	(1.53)
From continuing and discontinued operations		
Total basic profit/loss per share	0.14	(10.14)
Total diluted profit/loss per share	0.14	(10.14)

13.1 Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings are as follows:

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
From continuing operations		
Profit / (Loss) for the year attributable to owners of the Company	2,078	(2,241)
From continuing and discontinued operations		
Profit / (Loss) for the year attributable to owners of the Company	205	(14,891)
	Shares	Shares
Weighted average number of ordinary shares for the purposes of the basic earnings per share	143,841,655	146,834,376

Notes to the Financial Statements

13.2 Diluted earnings per share

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
From continuing operations		
Profit / (Loss) for the year attributable to owners of the Company	2,078	(2,241)
From continuing and discontinued operations		
Profit / (Loss) for the year attributable to owners of the Company	205	(14,891)
	Shares	Shares
Weighted average number of ordinary shares for the purposes of the basic earnings per share	143,841,655	146,834,376
Shares deemed to be issued for no consideration in respect of: Service Rights	31,204	-
Weighted average number of ordinary shares for the purposes of the diluted earnings per share	143,872,859	146,834,376

The following potential ordinary shares are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purpose of diluted earnings per share.

	Year ended 30/06/17 Shares	Year ended 30/06/16 Shares
Options	4,000,000	-
Performance Rights	3,660,683	-

These shares have been excluded from the diluted earnings per share (EPS) calculation on the basis that the exercise price of the options is higher than the average share price or the performance conditions are yet to be met at the end of the reporting period. Diluted loss per share is the same as basic loss per share for the year ended 30 June 2016. Potential ordinary shares are anti-dilutive as their conversion to ordinary shares will result in a decrease of loss per share. The calculation of diluted loss per share does not assume, conversion, exercise or other issue of potential ordinary shares that would have an anti-dilutive effect on loss per share.

14. Trade and other receivables

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Current		
Trade receivables ⁽ⁱ⁾	32,191	43,333
	32,191	43,333
Other receivables	499	297
	32,690	43,630

(i) The amounts pertaining to related party receivables are disclosed in note 30.

Notes to the Financial Statements

14. Trade and other receivables (Cont'd)

14.1 Trade receivables

The average settlement terms for progress invoices in relation to residential contracts are between 7 and 45 days. The Group has provided fully or written off all receivables that are known to be uncollectable or there is objective evidence that the Group will not be able to collect the outstanding amount. Prior to accepting a new customer for the construction of a dwelling, the Group ensures that appropriate contractual terms are in place with the customer and that the customer has secured financing in advance of the commencement of construction.

In determining the recoverability of a trade receivable the Group 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.

14.1.1 Age of receivables from continuing operations that are past due but not impaired

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
46 – 60 days	1,459	1,430
61 – 90 days	624	1,122
91 – 120 days	396	586
Over 120 days	2,053	2,619
Total	4,532	5,757
Average age (days)	110	113

Average credit terms for customers are 7 to 45 days. Receivables past due but not impaired primarily relate to final settlement payments upon completion of construction and supplier rebates, where terms vary.

15. Inventories

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Work in progress on residential construction contracts	28,226	23,391
Speculative and display homes, land stock	21,319	27,484
	49,545	50,875
Provision for impairment of inventories	(1,360)	(1,265)
	48,185	49,610

Notes to the Financial Statements

16. Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are as follows:

Name	Principle activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2017	2016
Simonds Homes Victoria Pty Ltd	Residential – Victoria	Australia	100%	100%
Simonds Homes NSW Pty Ltd	Residential – NSW	Australia	100%	100%
Simonds Queensland Constructions Pty Ltd	Residential – Queensland	Australia	100%	100%
Simonds SA Pty Ltd	Residential – South Australia	Australia	100%	100%
Simonds WA Pty Ltd	Residential – Western Australia	Australia	100%	100%
Madisson Homes Australia Pty Ltd	Residential – Victoria	Australia	100%	100%
Simonds Personnel Pty Ltd	Payroll service entity	Australia	100%	100%
Simonds Assets Pty Ltd	Asset service entity	Australia	100%	100%
Simonds IP Pty Ltd	Intellectual property service entity	Australia	100%	100%
Simonds Corporate Pty Ltd	Asset service entity	Australia	100%	100%
House of Learning Pty Ltd	Registered training organisation	Australia	100%	100%
City Wide Building and Training Services Pty Ltd	Registered training organisation	Australia	100%	100%
Jackass Flats Developments Pty Ltd	Land development and sales	Australia	100%	100%
Simonds Land Development Pty Ltd	Land development and sales	Australia	100%	100%
Bridgeman Downs Land Project Pty Ltd	Land development and sales	Australia	100%	100%
Discover Developments Pty Ltd	Land development and sales	Australia	100%	100%
Discover Gisborne Pty Ltd	Land development and sales	Australia	100%	100%
Hub Property Advisory Pty Ltd ATF Hub Property Advisory Unit Trust	Land development and sales	Australia	100%	100%

- Simonds Group Limited is the head entity within the tax consolidated group.
- All Group subsidiaries are members of the tax consolidated group.
- Simonds Group Limited and its subsidiaries have entered into a deed of cross guarantee with Simonds Group Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge an audited financial report.
- No subsidiaries have been acquired or incorporated in the year ended 30 June 2017.

The above companies represent a "Closed Group" for the Class Order. The closed Group's Statement of Profit or loss and Other Comprehensive Income for the year and closed group's Financial Position as at 30 June 2017 are the same as Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year and Consolidated Statement of Financial Position as at 30 June 2017 disclosed on page Pages 48 and 49 respectively.

Notes to the Financial Statements

17. Property, plant and equipment

	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
Cost							
Balance at 1 July 2015	3,438	2,287	2,547	469	6,368	1,293	16,402
Additions	1,353	1,178	657	705	1,868	26	5,787
Disposals	(1,686)	(1,535)	(677)	(391)	(1,571)	(1,160)	(7,020)
Balance at 30 June 2016	3,105	1,930	2,527	783	6,665	159	15,169
Cost							
Balance at 1 July 2016	3,105	1,930	2,527	783	6,665	159	15,169
Additions	563	258	78	39	975	22	1,935
Disposals	(120)	-	(706)	(134)	(1,383)	-	(2,343)
Balance at 30 June 2017	3,548	2,188	1,899	688	6,257	181	14,761
Accumulated depreciation							
Balance at 1 July 2015	(1,539)	(1,841)	(1,138)	(275)	(2,935)	(1,241)	(8,969)
Depreciation expense	(658)	(489)	(467)	(280)	(1,269)	(37)	(3,200)
Disposals / transfers	1,677	1,535	637	377	1,418	1,156	6,800
Balance at 30 June 2016	(520)	(795)	(968)	(178)	(2,786)	(122)	(5,369)
Accumulated depreciation							
Balance at 1 July 2016	(520)	(795)	(968)	(178)	(2,786)	(122)	(5,369)
Depreciation expense	(775)	(603)	(457)	(445)	(1,208)	(10)	(3,498)
Disposals / transfers	102	-	616	111	1,155	-	1,984
Balance at 30 June 2017	(1,193)	(1,398)	(809)	(512)	(2,839)	(132)	(6,883)
Net book value							
As at 30 June 2016	2,585	1,135	1,559	605	3,879	37	9,800
As at 30 June 2017	2,355	790	1,090	176	3,418	49	7,878

Notes to the Financial Statements

18. Intangible assets

	Computer Software \$'000	Capitalised courses \$'000	Goodwill from acquisitions \$'000	RTO Licence \$'000	Capitalised Product Designs \$'000	Total \$'000
Cost						
Balance at 1 July 2015	8,332	399	-	-	-	8,731
Additions	2,333	649	2,976	1,245	-	7,203
Impairment of IT project costs	(3,665)	-	-	-	-	(3,665)
Disposals	(752)	-	-	-	-	(752)
Balance at 30 June 2016	6,248	1,048	2,976	1,245	-	11,517
Cost						
Balance at 1 July 2016	6,248	1,048	2,976	1,245	-	11,517
Additions	366	842	-	-	1,192	2,400
Impairment of IT project costs	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance at 30 June 2017	6,614	1,890	2,976	1,245	1,192	13,917
Accumulated amortisation						
Balance at 1 July 2015	(4,597)	(54)	-	-	-	(4,651)
Amortisation Expense	(1,167)	(326)	-	(1,069)	-	(2,562)
Disposal/Transfers/Impairment	494	-	-	-	-	494
Balance 30 June 2016	(5,270)	(380)	-	(1,069)	-	(6,719)
Accumulated amortisation						
Balance at 1 July 2016	(5,270)	(380)	-	(1,069)	-	(6,719)
Amortisation Expense	(627)	(694)	-	(176)	(25)	(1,522)
Disposal/Transfers/Impairment	-	-	-	-	-	-
Balance 30 June 2017	(5,897)	(1,074)	-	(1,245)	(25)	(8,241)
Net Book Value						
As at 30 June 2016	978	668	2,976	176	-	4,798
As at 30 June 2017	717	816	2,976	-	1,167	5,676

Notes to the Financial Statements

19. Other assets

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Prepayments	2,977	3,255
Other assets	197	127
	3,174	3,382

20. Other financial assets

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Current		
Units held in land fund	1,260	-
	1,260	-
Non - current		
Units held in land fund	-	1,260
	-	1,260

21. Trade and other payables

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Trade payables	41,716	50,497
Construction accruals	12,553	14,380
Goods and services tax payable	2,212	750
Other payables and accruals	4,687	10,003
	61,168	75,630

22. Borrowings

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Current		
Insurance Finance	401	-
Commercial bills	1,995	-
Finance lease liability	1,479	1,790
	3,875	1,790
Non - current		
Commercial bills	4,330	2,000
Finance lease liability	2,019	2,500
Display fund facility	5,000	5,000
	11,349	9,500

Notes to the Financial Statements

22.1 Summary of borrowing arrangements

The Group has a debt facility with Commonwealth Bank of Australia (CBA), which has been extended to 7 November 2018 during the year ended 30 June 2017. Details of the facility are as follows:

Facility	Utilised \$'000	Unutilised \$'000	Interest Charge	Description	Maturity Date
Market Rate Loan	6,325	Nil	Variable Market Rate	The group's facilities are secured by all Simonds Group Limited corporate entities. Simonds have extended the existing corporate finance facility arrangements in place with Commonwealth Bank Australia to 7 November 2018.	7 Nov '18
Business Corporate Credit Card Facility	500	Nil	Corporate Charge Card Facility Interest Rate		
Bank Guarantees	1,465	635	Fixed Market Rate		
Multi Option Facility	Nil	22,400	Variable Market Rate		
Finance Lease	3,191	809	Fixed Market Rate	Asset under finance leases are secured by the assets leased with repayments periods not exceeding 5 years.	
Total	11,481	23,844			

In addition to the debt facility outlined above, the Group has additional facilities as below:

Facility	Utilised \$'000	Unutilised \$'000	Interest Charge	Description	Maturity Date
Finance Lease	307	Nil	Fixed Market Rate	Asset under finance leases are secured by the assets leased. These facilities are held with Westpac Banking Corporation and Global Rental & Leasing Pty Ltd.	Repayment periods are not exceeding 5 years.
Display Funds	5,000	Nil	Fixed Interest Rate	The Group entered in to a mortgage facility with Simonds Homes Display Fund with an initial expiry of 15 September 2016. The facility has been extended to 30 November 2018.	30 Nov '18
Insurance Premium Funding	401	Nil	Fixed Interest Rate	The Group entered in to a premium funding contract with Attvest Finance Pty Ltd, which covers various corporate insurances for period from 30 Apr '17 to 30 Apr '18.	30 Sep '17
Total	5,708	Nil			

Notes to the Financial Statements

23. Provisions

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Provision for employee benefits ⁽ⁱ⁾	6,278	6,387
Provision for warranty and contract maintenance ⁽ⁱⁱ⁾	13,648	14,209
Provision for make good	941	939
	20,867	21,535
Current	12,989	14,658
Non – current	7,878	6,877
	20,867	21,535

(i) The provision for employee benefits represents annual leave and long service leave entitlements accrued and compensation claims made by employees. The measurement and recognition criteria for employee benefits have been included in note 3 of the financial statements.

(ii) The provision for warranty claims represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties related to residential construction. The estimate has been made on the basis of historical warranty trends and may vary as a result of the annual build program, the history of defects relating to materials used or in the nature of services provided.

(iii) Provisions based on the directors' best estimates of the costs required to reinstate the display homes under legislation; or requirement to be at a saleable standard.

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the consolidated entity does not expect the full amount of annual leave classified as current liabilities to be settled wholly within the next 12 months. However, these amounts must be classified as current liabilities since the consolidated entity does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement. The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

The following amounts reflect annual leave that is not expected to be taken or paid within the next 12 months which is currently:

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Leave obligations expected to be settled after 12 months	1,124	1,423

24. Deposits and income in advance

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Arising from construction contracts	13,774	12,484

25. Issued capital

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
143,841,655 fully paid ordinary shares	12,911	12,911
	12,911	12,911

Notes to the Financial Statements

25. Issued capital (Cont'd)

Changes to the then 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 a par value.

	Number of shares		Share capital (\$'000)	
	Year ended 30/06/17	Year ended 30/06/16	Year ended 30/06/17	Year ended 30/06/16
Balance at beginning of the period	143,841,655	151,412,268	12,911	13,590
Cancelled Shares ⁽ⁱ⁾	-	(7,570,613)	-	(679)
Balance at end of the period	143,841,655	143,841,655	12,911	12,911

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Share buy - back reserve	(7,204)	-
Share buy - back ⁽ⁱ⁾	-	(7,883)
Share buy - back cancellation ⁽ⁱ⁾	-	679
Balance at the end of the year	(7,204)	(7,204)

(i) On 20 August 2015, the Group announced its intention to undertake an on-market share buy-back ("buy-back") to enable the Group to acquire up to a maximum of 7.570m shares within a 12-month period. The buy-back was part of the Group's ongoing capital management strategy, and determined by the Directors to be an appropriate use of Group capital resources given current market conditions at the time. The Group bought back 7,570,613 of its issued shares for a total amount of \$7.883m. As a result, a reduction in capital of \$0.679m has been recognised based on an implied value per share of 8.97c and the remaining balance was recorded in the share buy-back reserve.

26. Accumulated losses

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Balance at the beginning of the year	(39,280)	(16,359)
Profits/(Losses) attributable to owners of the Group (net of tax)	205	(14,891)
Payment of dividends (refer to note 27)	-	(8,030)
Balance at the end of the year	(39,075)	(39,280)

27. Dividends paid or payable

During the year, Simonds Group Limited made the following dividend payments:

	Year ended 30 June 2017		Year ended 30 June 2016	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Final dividend	-	-	5.3	8,030
	-	-	5.3	8,030

The company's adjusted franking account balance as at 30 June 2017 is \$8.061m (2016: \$10.704m).

Notes to the Financial Statements

28. Financial instruments

28.1 Capital risk management

Directors review the capital structure on an ongoing basis. As a part of this review the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues, and the issue or repayment of debt.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 22, cash, and equity attributable to equity holders of the parent, comprising issued capital, accumulated losses and dividends, as disclosed in notes 25, 26 and 27.

28.2 Categories of financial instruments

At the reporting date there are no significant concentrations of credit risk relating to loans and receivables at fair value through profit or loss. The carrying amount reflected in the statement of financial position represents the Group's maximum exposure to credit risk for such loans and receivables.

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Financial assets		
Cash and cash equivalents	10,204	3,176
Trade and other receivables	32,690	43,630
Other financial asset	1,260	1,260
Financial liabilities		
Trade and other payables	61,168	75,630
Borrowings	15,224	11,290

28.3 Financial risk management objectives

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial instruments is governed by the Group's policies which are approved by the directors. The Chief Financial Officer is responsible for managing the Group's treasury requirements in accordance with this policy.

28.4 Interest rate risk management

The Group is exposed to interest rate risk as the entities in the Group borrow funds at both fixed and variable interest rates. As at 30 June 2017, there were borrowings from CBA of \$6.325m (2016: \$2.000m), Simonds Homes Display Fund from Australian Executor Trustees Limited of \$5.000m (2016: \$5.000m), and other finance leases of \$3.498m (2016: \$4.290m).

The bill rates are benchmarked against the BBSY bid rate (Australian Bank Bill Swap Reference Rate – Average Bid Rate) on a quarterly basis. The overdraft rate is fixed at 7.75% p.a. charged on a monthly basis and the Simonds Homes Display Fund rate is fixed at 7.2% p.a. charged on a quarterly basis.

28.4.1 Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 30 June 2017 would decrease/increase by \$31,625 (2016: \$41,050). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in overdraft limit.

Notes to the Financial Statements

28.5 Credit risk management

Credit risk arises from financial assets which comprise cash and cash equivalents, trade and other receivables and the granting of financial guarantees. Exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets as well as in relation to financial guarantees granted.

Construction contracts require the customer to obtain finance prior to starting the build. Contracts for Speculative Housing, Displays and Land require payment in full prior to passing of title to customers. The Group has no significant concentrations of credit risk and does not hold any credit derivatives to offset its credit exposure.

Registered training is delivered under the terms provided by the Department of Education and Early Childhood Development (the Department) in accordance with the Victorian Training Guarantee Program.

28.6 Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Year ended 30 June 2017	Weighted average effective interest rate %	< 6 months \$'000	6 – 12 months \$'000	>1 – 5 years \$'000	Total \$'000
Financial Liabilities					
Finance lease liability	5.94	809	670	2,019	3,498
Borrowings	3.96	985	1,010	4,330	6,325
Overdraft	7.75	-	-	-	-
Simonds Homes Display Fund	7.2	90	-	5,000	5,090
Insurance premium funding	2.15	401	-	-	401
		2,285	1,680	11,349	15,314

Year ended 30 June 2016	Weighted average effective interest rate %	< 6 months \$'000	6 – 12 months \$'000	>1 – 5 years \$'000	Total \$'000
Financial Liabilities					
Finance lease liability	6.76	1,022	768	2,500	4,290
Borrowings	4.64	3	-	2,000	2,003
Overdraft	7.75	4,167	-	-	4,167
Simonds Homes Display Fund	7.2	91	-	5,000	5,091
		5,283	768	9,500	15,551

28.7 Fair value risk

The Group's investment in the land fund is measured at fair value at the end of each reporting period. The fair value risk arises as changes in one or more of the unobservable assumption inputs would significantly change the fair value determined.

The Group is exposed to fair value risk as the holding units of the land fund are not traded in active market. This financial asset has been classified as a level 3 investment. Fair value is calculated as the present value of expected future economic benefits derived from the ownership of the holding units.

Notes to the Financial Statements

29. Key management personnel compensation

The aggregate compensation made to directors and other members of key management personnel of the Company and the Group is set out below:

	Year ended 30/06/17 \$	Year ended 30/06/16 \$
Short-term employee benefits	1,641,167	2,627,732
Post-employment benefits	101,244	165,659
Other long-term benefits	37,478	165,674
Termination benefits	-	592,631
Share-based payments	116,374	774,352
	1,896,263	4,326,048

30. Related party transactions

30.1 Trading transactions

During the year group entities entered into the following transactions with related parties which are not members of the Group.

	Sale of goods		Leases and services rendered		Business combinations	
	Year ended 30/06/17 \$	Year ended 30/06/16 \$	Year ended 30/06/17 \$	Year ended 30/06/16 \$	Year ended 30/06/17 \$	Year ended 30/06/16 \$
Vallence Gary Simonds and related entities:						
One display home constructed at the group's usual list prices and in line with relevant internal discount policies	-	735,615	-	-	-	-
Sub-lease agreement with SFO Consulting Pty Ltd	-	1,703	-	-	-	-
Properties leased on an arms-length basis	-	-	522,485	450,398	-	-
Services received from OZSoft Solutions Pty Ltd (VETrack) and RTOMS Pty Ltd	-	-	286,198	688,767	-	-
Remuneration for employee services	-	-	96,480	91,542	-	-
Consulting expenses incurred during the year	-	-	-	20,000	-	-
	-	737,318	905,163	1,250,707	-	-
Leon Gorr and related entities:						
Legal services provided by HWL Ebsworth Lawyers	-	-	83,285	256,603	-	-
	-	-	83,285	256,603	-	-
Rhett Simonds and related entities:						
Construction of a residential home provided at cost	-	34,118	-	-	-	-
	-	34,118	-	-	-	-

Notes to the Financial Statements

30.1 Trading transactions (Cont'd)

	Sale of goods		Leases and services rendered		Business combinations	
	Year ended 30/06/17 \$	Year ended 30/06/16 \$	Year ended 30/06/17 \$	Year ended 30/06/16 \$	Year ended 30/06/17 \$	Year ended 30/06/16 \$
Matthew Chun and related entities:						
Construction of a residential home provided on an arms-length basis	683,400	-	-	-	-	-
Property development advisory fee	-	-	-	105,000	-	-
Acquisition of Hub Property Group (formerly Chun Property Advisory)	-	-	-	-	-	555,000
	683,400	-	-	105,000	-	555,000
Michael Gerolemou and related entities:						
Construction of a personal home as part of the normal course of business and abides by the Simonds Group Staff Discount Policy	-	460,027	-	-	-	-
	-	460,027	-	-	-	-
Paul McMahon and related entities:						
Two display homes leased on an arms-length basis	-	-	-	78,689	-	-
	-	-	-	78,689	-	-
John Thorburn and related entities:						
Display home leased on an arms-length basis	-	-	152,250	-	-	-
	-	-	152,250	-	-	-
Total	683,400	1,231,463	1,140,698	1,690,999	-	555,000

The following balances were outstanding at the end of the reporting period:

	Amounts owed by related parties		Amounts owed to related parties	
	Year ended 30/06/17 \$	Year ended 30/06/16 \$	Year ended 30/06/17 \$	Year ended 30/06/16 \$
Vallence Gary Simonds and related entities	-	-	-	36,000

Notes to the Financial Statements

30.2 Loans to related parties

During the year ended 30 June 2017 there were no loans to related parties (2016: Nil).

30.3 Other related party transactions

Other related party transactions include the salaries and other benefits paid to directors and other key management personnel. These are in the ordinary course of business.

On 31 August 2016, The Group announced the Scheme Implementation Agreement with SR Residential Pty Ltd (SR Residential) (which is jointly owned by entities associated with Roche Holdings Pty Ltd and Simonds Family Office Pty Ltd (SFO)) under which it was proposed that SR Residential would acquire all shares in the Company not already owned by associates of the Consortium by way of the Scheme.

On 28 November 2016, the Group announced that the Scheme Implementation Agreement has been terminated by mutual agreement of the Group and SR Residential. During this process, the Group has incurred transaction costs of \$1.817m (refer to note 12) disclosed as a significant item in the expenses for the year ended 30 June 2017.

31. Share based payments

31.1 Share based payments

Employee share plan

A range of different employee share scheme (ESS) interests were created as part of the Simonds Group Employee Share Plan. The Share plan has been created to promote employee share ownership amongst staff members and to encourage retention and appropriate reward for executives and employees.

Share based payments made to the management team during the year were \$0.229m (2016: \$1.332m).

3,406,800 performance rights (2016: 1,592,132 performance rights) were granted to 10 senior executives (2016: 8 senior executives) and the CEO was granted 4,000,000 options during the period. As at 30 June 2017, the following performance rights remaining on issue are: FY17: 3,406,800, FY16: 141,523 and FY15: 112,360.

Incentives	Financial Year	Tranche	Grant Date	Fair Value at Grant Date	Vesting Date	Other Vesting Condition	
Performance rights	FY17	Tranche 1	31 Jan'17	\$0.23	30 Sep' 19	Market	(1), (4)
	FY17	Tranche 2	31 Jan'17	\$0.35	30 Sep' 19	Non market	(1), (5)
	FY16	Tranche 1	30 Nov' 15	\$0.31	31 Aug' 18	Market	(2), (4)
	FY16	Tranche 2	30 Nov' 15	\$0.75	31 Aug' 18	Non market	(2), (5)
	FY15	Tranche 1	17 Nov' 14	\$1.03	31 Aug' 17	Market	(3), (4)
	FY15	Tranche 2	17 Nov' 14	\$1.55	31 Aug' 17	Non market	(3), (5)
	FY15	Tranche 3	17 Nov' 14	\$1.55	31 Aug' 17	Non market	(6)
Options	FY17	Options	31 Jan'17	\$0.11	30 Sep' 19	Non market vesting only	(5)
Service rights	FY15	Tranche 2	17 Nov' 14	\$1.61	24 Nov' 16	Non market vesting only	(7)

(1) Gateway Hurdle Condition exists whereby FY17 Performance Rights may not vest unless the individual remains employed up to and including 30 September 2019.

(2) Gateway Hurdle Condition exists whereby FY16 Performance Rights may not vest unless the individual remains employed up to and including 31 August 2018.

(3) Gateway Hurdle Condition exists whereby FY15 Performance Rights may not vest unless the individual remains employed up to and including 31 August 2017.

(4) Vesting condition linked to the Group's Total Shareholder Return (TSR) and the percentile ranking against the constituent companies within the S&P / ASX Small Ordinaries Index.

(5) Vesting condition linked to compound annual growth rate in Earnings Per Share (EPS) where EPS is calculated based on Net Profit Before Tax for the relevant period with the specific EPS methodology to be determined by the board.

(6) Vesting condition linked to achievement of Prospectus forecast earnings for the period ended 30 June 2015.

(7) There are no service rights remaining as at 30 June 2017. The 67,409 service rights vested during FY17 amounting to \$0.019m and remaining 16,852 were forfeited.

Notes to the Financial Statements

31.1 Share based payments (Cont'd)

The following table outlines the share based payments made under the management incentive and employee share plan for the period ended 30 June 2017:

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Employee share plan		
Share based payments	229	1,332
	229	1,332

31.2 Fair value of performance rights, service rights and options granted in the year

For performance rights subject to non-market vesting conditions the FY17 and FY16 performance rights (Tranche 2) used the Black Scholes Pricing Model, while FY15 (Tranche 2 and Tranche 3) the model used was a Binominal Approximation Option Valuation Model. FY17 EPS Options has been valued using the Black Scholes Model. Expected volatility is estimated using the daily rolling three-year standard deviation of a relevant Peer Group. The risk free rate is derived from the average of the 3 and 4-year Commonwealth Treasury Bond Rate. This yield was converted to a continuously-compounded rate for the purposes of the rights valuation.

	Fair value model inputs and assumptions					
	Fair value at grant date	Exercise Price	Expected life of instruments (days)	Expected volatility	Expected dividend yield	Risk - free rate
FY17 Performance rights:						
Tranche 1	\$0.23	\$0.00	972	50%	5.5%	1.91%
Tranche 2	\$0.35	\$0.00	972	50%	5.5%	1.91%
CEO Options:						
EPS	\$0.11	\$0.40	972	50%	5.5%	2.06%
FY16 Performance rights:						
Tranche 1	\$0.31	\$0.00	1,004	45%	6.0%	2.11%
Tranche 2	\$0.75	\$0.00	1,004	45%	6.0%	2.11%
FY15 Performance rights:						
Tranche 1	\$1.03	\$0.00	1,018	40%	4.92%	2.57%
Tranche 2	\$1.55	\$0.00	1,018	40%	4.92%	2.57%
Tranche 3	\$1.55	\$0.00	1,018	40%	4.92%	2.57%
FY15 Service rights:						
Tranche 2	\$1.61	\$0.00	738	40%	4.92%	2.71%

Notes to the Financial Statements

31 Share based payments (Cont'd)

31.3 Movements in performance rights, service rights and options during the year

The following reconciles the performance and service rights outstanding at the beginning and end of the year:

2017	Financial Year Issued	Opening balance	Granted during the year		Vested during the year		Forfeited during the year		Closing balance
		Number of rights	Number of rights	Weighted average fair value	Number of rights	Weighted average fair value	Number of rights	Weighted average fair value	Total number of rights
Performance Rights									
Tranche 1	FY2017	-	1,703,403	\$0.23	-	-	-	-	1,703,403
Tranche 2	FY2017	-	1,703,397	\$0.35	-	-	-	-	1,703,397
Tranche 1	FY2016	283,048	-	-	141,524	\$0.31	70,762	\$0.31	70,762
Tranche 2	FY2016	283,044	-	-	141,522	\$0.75	70,761	\$0.75	70,761
Tranche 1	FY2015	112,359	-	-	37,453	\$1.03	37,453	\$1.03	37,453
Tranche 2	FY2015	112,359	-	-	37,453	\$1.55	37,453	\$1.55	37,453
Tranche 3	FY2015	112,363	-	-	37,454	\$1.55	37,454	\$1.55	37,455
Service Rights									
Tranche 2	FY2015	84,261	-	-	67,409	\$1.61	16,852	\$1.61	-
CEO Options									
EPS	FY2017	-	4,000,000	\$0.11	-	-	-	-	4,000,000
TOTAL		987,434	7,406,800	\$0.19	462,815	\$0.89	270,735	\$0.95	7,660,684

The performance rights outstanding at the end of the year had an exercise price of \$0.00 (2016: \$0.00) and a weighted average contractual life of 973 days (2016: 1,009 days).

31.4 Performance and service rights vested during the year

Performance rights of 395,406 vested during the year ended 30 June 2017 as a result of the organisational review and management restructure. Tranche 1 service rights of 67,409 vested on 24 November 2016.

31.5 Performance and service rights forfeited during the year

There were 16,852 (2016: nil) service rights and nil (2016: 640,924) performance rights forfeited during the year.

Notes to the Financial Statements

31.6 Share based payments reserve

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Balance at the beginning of the year	30,248	29,424
Amounts expensed	229	404
Settlement of share based payments (non-cash) arising from organisation review and management restructure	-	928
Performance rights vested	(110)	(508)
Performance rights forfeited	(80)	-
Service rights vested	(19)	-
Service rights forfeited	(25)	-
Balance at the end of the year	30,243	30,248

32. Commitments for expenditure

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Lease commitments		
Non – cancellable operating lease payments		
No longer than 1 year	9,543	9,746
Longer than 1 year and not longer than 5 years	10,904	12,344
	20,447	22,090

The Group has no capital expenditure commitments. Lease commitments relate primarily to office leases, display home leases and information technology leases. The operating lease expense for the year ended 30 June 2017 is \$8.315m (2016: \$7.543m).

33. Auditors remuneration

	Year ended 30/06/17 \$	Year ended 30/06/16 \$
Audit or review of financial statements	345,600	328,500
Non – audit services – corporate advisory services	113,874	254,200
Tax services	249,647	285,600
	709,121	868,300

The Group's auditors are Deloitte Touche Tohmatsu.

Notes to the Financial Statements

34. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Cash and bank balances	10,204	3,176
	10,204	3,176

34.1 Reconciliation of profit for the year to net cash flows from operating activities

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Cash flows from operating activities		
Profit/Loss for the year	205	(14,891)
Income tax expense recognised in profit or loss	468	(6,422)
Finance costs recognised in profit or loss	1,728	2,212
Interest received	(1)	(112)
<u>Significant one-off items:</u>		
Impairment of IT project costs	-	3,665
Impairment of non-core development land and other current assets	645	1,700
Impairment of display homes, non-core speculative land inventories associated with operation review and restructure	-	2,691
Management incentive and share based payments	(5)	824
Depreciation and amortisation of non-current assets	5,020	5,762
	8,060	(4,571)
<u>Movements in working capital</u>		
Decrease in trade and other receivables	10,941	1,167
Decrease in inventories	780	17,685
(Increase) / decrease in other assets	208	(238)
Increase / (decrease) in trade and other payables	(13,172)	8,939
Increase / (decrease) in provisions	(669)	3,366
Increase / (decrease) in other liabilities	-	-
Cash generated by operating activities	6,148	26,348
Interest paid	(1,728)	(2,212)
Income taxes refunded / (paid)	2,648	(9,192)
Net cash generated from operating activities	7,068	14,944

Notes to the Financial Statements

34.2. Non-cash transactions

During the current year, the Group entered into non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows. The Group acquired \$2.168m of equipment under a finance lease in 2017 (2016: \$2.458m).

35. Parent entity information

The parent entity is Simonds Group Limited. 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.

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Statement of financial position		
Other financial assets	840	892
Intercompany loan receivables	41,116	41,105
Other receivables	-	1,527
Total assets	41,956	43,524
Intercompany loan payables	43,838	43,524
Trade and other payables	575	-
Total liabilities	44,413	43,524
Net assets / (liabilities)	(2,457)	-
Issued capital	12,911	12,911
Share buy-back reserve	(7,204)	(7,204)
Share based payments reserve	1,327	1,332
Retained earnings	(9,491)	(7,039)
Total equity / (deficit)	(2,457)	-
Income statement		
Dividend income	-	-
Operating expense	(2,452)	(13,193)
PROFIT / (LOSS) FOR THE YEAR	(2,452)	(13,193)
Other comprehensive income, net of income tax		
Items that will not be reclassified subsequently to profit or loss:	-	-
Items that may be reclassified subsequently to profit or loss:	-	-
Total comprehensive loss for the year	(2,452)	(13,193)

Notes to the Financial Statements

36. Business combinations

The Group has made no acquisitions during the financial year ended 2017.

During financial year ended 2016, the Group acquired City-Wide Building and Training Services Pty Ltd (CWBTS) and Hub Property Group (HUB) (formerly Chun Property Advisory Pty Ltd).

36.1 Subsidiaries acquired

	Principal activity	Date of acquisition	Proportion of shares acquired %
CWBTS	Provision of registered training services	01/07/2015	100
HUB	Development and consulting services	08/04/2016	100

36.2 Consideration transferred

	Year ended 30/06/16 \$'000
Cash	
CWBTS	4,543
HUB	555
Total	5,098

36.3 Assets and liabilities assumed at the date of acquisition

The accounting for the acquisition of CWBTS and HUB has been determined at financial year ended 30 June 2016. There are no other intangible assets identified other than the RTO license and the assets acquired and liabilities assumed are as follow:

	Year ended 30/06/16 \$'000
Cash	451
Trade receivables	837
Plant and Equipment	26
Inventory	26
RTO Licence	1,245
Total assets	2,585
Trade payables and provisions	89
Deferred tax liability	374
Total liabilities	463
Net assets	2,122
Cash paid	5,098
Net assets acquired	(2,122)
Goodwill⁽ⁱ⁾	2,976

(i) The total goodwill is comprised of \$2.603m from the acquisition of City-Wide Building and Training Services Pty Ltd (CWBTS) and \$0.373m from the acquisition of Hub Property Group (formerly Chun Property Advisory Pty Ltd).

Notes to the Financial Statements

36.4 Net cash outflow on acquisition of subsidiaries

	Year ended 30/06/16 \$'000
Consideration paid	
– Deposit pending regulatory approval ⁽ⁱ⁾	(500)
– Final payment on completion	(1,598)
Cash balance assumed at acquisition	451
	(1,647)

(i) Cash outflow of \$0.500m relates to a retention amount which was payable in accordance with the share purchase agreement pursuant to conditions being met.

37. Contingent liabilities and contingent assets

	Year ended 30/06/17 \$'000	Year ended 30/06/16 \$'000
Other guarantees ⁽ⁱ⁾	1,465	2,126

(i) Represents guarantees for property rentals, project contracts, crossing deposits and merchant facility. The Group has in place a guarantee with a Significant Investor Fund for the acquisition and leaseback of displays.

Litigation

There are a small number of legal matters relating to the construction of residential dwellings and personal injury claims from employees, contractors or the public that are the subject of litigation or potential litigation. A provision is raised in respect of claims where an estimate may be reliably established and legal or other advice indicates that it is probable that the Group will incur costs either in progressing its investigation of the claim or ultimately in settlement.

38. Subsequent events

There have been no events that have occurred subsequent to the reporting date that have significantly affected or may significantly affect the Group's operations, results or state of affairs in future years.

Shareholder Information

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 30 September 2017 (Reporting Date).

1. Corporate governance statement

The Company has prepared a Corporate Governance Statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company. In accordance with ASX

Listing Rule 4.10.3, the Corporate Governance Statement will be available on Simonds website www.simondsgroup.com.au, and will be lodged with ASX at the same time that this Annual Report is lodged with ASX.

2. Distribution of equity securities

The distribution and number of holders of equity securities on issue in the Company as at the Reporting Date, and the number of holders holding less than a marketable parcel of the Company's ordinary shares, based on the closing market price as at the Reporting Date, is as follows:

Holding	Class of equity security					
	Ordinary shares		Performance rights		Performance options	
	Holders	No. of shares	Holders	No. of performance rights	Holders	No. of performance rights
1 – 1,000	189	67,962	-	-	-	-
1,001 – 5,000	96	304,850	-	-	-	-
5,001 – 10,000	107	818,167	-	-	-	-
10,001 – 100,000	245	8,260,142	-	-	-	-
100,001 and over	68	134,390,534	10	3,660,684	1	4,000,000
Total	705	143,841,655	10	3,660,684	1	4,000,000

There were 197 holders of less than a marketable parcel of ordinary shares (\$500).

3. Twenty largest quoted equity security holders

The Company only has one class of quoted securities, being ordinary shares. The names of the twenty largest holders of ordinary shares,

the number of ordinary shares and the percentage of capital held by each holder is as follows:

Name	Number held	Percentage of issued shares
Simonds Custodians Pty Ltd	32,800,020	22.80%
McDonald Jones Homes	22,910,975	15.93%
Simonds Constructions Pty Ltd	21,485,018	14.94%
FJP Pty Ltd	15,270,660	10.62%
ABN Amro	8,314,975	5.78%
Henry Morgan Limited	8,105,272	5.63%
Citicorp Nominees Pty Limited	4,612,714	3.21%
J P Morgan Nominees Australia	2,408,043	1.67%
Madisson Constructions Pty Ltd	1,572,678	1.09%
National Nominees Limited	1,380,699	0.96%
Poal Pty Ltd	1,000,000	0.70%

Shareholder Information

3. Twenty largest quoted equity security holders (Cont'd)

Name	Number held	Percentage of issued shares
Banjo Superannuation Fund Pty	1,000,000	0.70%
Mr Mark Vujovich	880,000	0.61%
Aust Executor Trustees Ltd	844,310	0.59%
Moat Investments Pty Ltd	700,000	0.49%
Mr Hoang Huy Huynh	600,000	0.42%
Mast Financial Pty Ltd	500,000	0.35%
Intergrala Pty Ltd	425,000	0.30%
Robert Stubbs	381,384	0.27%
Jet Invest Pty Ltd	380,545	0.26%
	125,572,293	87.30%
Other shareholders	18,269,362	12.70%
Total shareholders	143,841,655	100.00%

4. Substantial Shareholders

As at the Reporting Date, the names of the substantial holders of Simonds and the number of equity securities in which those substantial

holders and their associates have a relevant interest, as disclosed in substantial holding notices given to Simonds, are as follows:

Name	Number held	Percentage of issued shares
Vallence Gary Simonds	56,138,895	39.03%
F.J.P. Pty Ltd	15,070,660	10.48%
McDonald Jones Homes	22,910,875	15.93%
Total	94,120,430	65.44%

5. Voting Rights

The voting rights attaching to each class of equity security are set out as follows:

5.1 Ordinary Shares

At a general meeting of Simonds, every holder of ordinary shares present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each ordinary share held.

5.2 Performance Rights

Performance rights do not carry any voting rights.

6. Unquoted equity securities

3,660,684 unlisted performance rights have been granted to 10 people and 4,000,000 unlisted performance options have been granted to 1 person. There are no people who hold 20% or more of performance rights that were not issued or acquired under an employee incentive scheme.

7. On-market buy-back

The Company is not currently conducting an on-market buy-back.



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