

Appendix 4D

For the half year ended 31 December 2018

Simonds Group Limited

ACN: 143 841 801

This half year report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2.A.

SIMONDS GROUP LIMITED (ASX: SIO)

APPENDIX 4D

HALF YEAR ENDED 31 DECEMBER 2018

Half year ended: Half year ended 31 December 2018

Previous corresponding period: Half year ended 31 December 2017

Results for Announcement to the Market for the half year ended 31 December 2018					
Revenue from ordinary activities from continuing operations (\$m)	Up	59.7	by	20.0%	to 351.4
Profit from ordinary activities before tax from continuing operations (\$m)	Up	7.7	by	427.8%	to 9.5
Profit from ordinary activities after tax from continuing operations (\$m)	Up	5.4	by	490.9%	to 6.5
Loss after tax from discontinued operations (\$m)	Down	0.7	by	-	to (0.7)
Net Profit after tax (\$m)	Up	4.7	by	427.3%	to 5.8
Net profit attributable to members (\$m)	Up	4.7	by	427.3%	to 5.8

Refer to the Simonds Group Limited Interim Financial Report and the Director's Report for commentary on the above results.

Net tangible asset backing per ordinary share	Amount per share
As at 31 December 2018 (cents)	0.48
As at 31 December 2017 (cents)	(4.83)

Dividends	Amount per share	Franked amount per share
For the half year ended 31 December 2018 (cents)	-	-
For the half year ended 31 December 2017 (cents)	-	-



Simonds Group
31 December 2018

Simonds Group Limited

ABN 54 143 841 801

Interim Financial Report for the half year ended 31 December 2018



Modernist façade on the Cezanne in the Masterpiece range.

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Simonds Group Limited

Interim Financial Report for half year ended 31 December 2018

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Directors' report

The directors of Simonds Group Limited ("the Company") submit herewith the financial report of the consolidated entity consisting of the Company and the entities it controlled (the "Group") for the half year ended 31 December 2018. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Information about the directors

The names of the directors of the Company during or since the end of the half year are:

Name	Date appointed	Current Position
Iain Kirkwood	20 September 2017	Independent Non-Executive Director and Chairman
Kelvin Ryan	5 March 2018	Chief Executive Officer (CEO) and Managing Director
Neil Kearney	20 September 2017	Independent Non-Executive Director
Delphine Cassidy	20 September 2017	Independent Non-Executive Director
Rhett Simonds	20 April 2016	Non-Executive Director
Mark Simonds	20 September 2017	Executive Director
Piers O'Brien	20 September 2017	Non-Executive Director
Scott Mahony	20 September 2017	Non-Executive Director

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 (Discover Developments).

With continual operations since 1949, Simonds Homes is one of Australia's largest volume homebuilders, with display homes located across the Australian eastern seaboard and South Australia. The Simonds Homes range includes single and double storey detached homes, targeted toward first and second home buyers predominantly located in the metropolitan area of Melbourne, Sydney, Brisbane and Adelaide as well as large regional cities.

Builders Academy Australia 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's core offering is "builders training builders". Completion of courses offered enables successful students to increase their career and employment opportunities; as well as providing a well-trained network of employees, suppliers and contractors for Simonds Homes.

The Group maintains a small land development portfolio via direct land ownership as well as participating in other land development projects.

Operations

Group revenue from continuing operations for the period was \$351.4m compared to the previous corresponding period of \$291.7m. Simonds Homes recorded 1,320 site starts for the period, an increase of 128 or 10.7% on the previous corresponding period. The increase in Group revenue is predominantly due to the impact of higher site starts and changes in product mix.

Balance sheet

Improved operating results and cash flow management over the period have enabled the Group to improve its net asset position of \$1.026m at 30 June 2018 to a net asset position of \$6.794m at 31 December 2018. The Group's net indebtedness (measured by cash and cash equivalents less borrowings) has increased marginally, from \$1.088m at 30 June 2018 to \$1.161m at 31 December 2018.

The Group continued to operate within its banking covenants throughout the period. In August 2018 Simonds signed a revised facility agreement to extend the existing borrowing facilities for a further 3 years to September 2021.

Operating cash flows

The Group generated \$4.040m in operating cash flows during the half year ended 31 December 2018, an increase of \$0.141m in comparison with the prior corresponding period. Improved operating cash flows were derived from increased customer billings and tighter cost controls.

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.

Our business, like any other, faces risks that may impair its ability to execute its strategy or achieve its objectives. There are some risks, specific to the Group's home building business, delivery of training courses, and land developments, as well as external risks such as 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.

Dividends

As announced on 20 February 2019, the directors have declared \$nil dividend in relation to the half year ended 31 December 2018 (2017: \$nil).

Auditor's independence declaration

The auditor's independence declaration is included after this report on page 8.



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 directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the directors

A handwritten signature in dark ink, appearing to read 'Iain Kirkwood', with a small dot at the end.

Iain Kirkwood
Chairman
Melbourne, 20 February 2019

20 February 2019

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

Dear Board Members

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 review of the financial statements of Simonds Group Limited for the half-year ended 31 December 2018, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely,



DELOITTE TOUCHE TOHMATSU



Genevra Cavallo
Partner
Chartered Accountant

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

We have reviewed the accompanying half-year financial report of Simonds Group Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Simonds Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

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

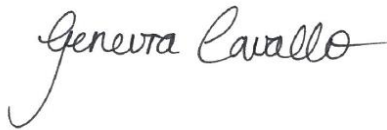
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Simonds Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Genevra Cavallo
Partner
Chartered Accountants
Melbourne, 20 February 2019



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 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

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors

A handwritten signature in dark ink, appearing to read 'Iain Kirkwood', with a small dot at the end.

Iain Kirkwood
Chairman
Melbourne, 20 February 2019



Condensed consolidated statement of profit or loss and other comprehensive income

For the half year ended 31 December 2018

	Notes	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Continuing operations			
Revenue	2	351,405	291,730
Cost of sales		(273,463)	(227,329)
Gross profit		77,942	64,401
Expenses	4	(65,509)	(58,043)
Profit before significant items, financing items, depreciation and amortisation		12,433	6,358
Significant items	6	-	(1,190)
Profit before financing items, depreciation and amortisation		12,433	5,168
Depreciation and amortisation charges		(2,300)	(2,683)
Profit before financing items and tax		10,133	2,485
Financing items			
Interest income		-	1
Interest expense		(599)	(720)
Net financing cost		(599)	(719)
Profit before tax		9,534	1,766
Income tax expense		(2,992)	(620)
Profit from continuing operations after tax		6,543	1,146
Discontinued operations			
Loss from discontinued operations after tax	5	(715)	-
Profit after tax for the half year		5,828	1,146
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Net fair value gain on available for sale financial asset		-	308
Reclassification adjustment relating to available for sale financial asset		(236)	-
Total comprehensive income for the half year		5,592	1,454
Earnings per share			
		Cents per share	Cents per share
From continuing operations			
Basic	10	4.55	0.80
Diluted	10	4.53	0.80
From continuing and discontinued operations			
Basic	10	4.05	0.80
Diluted	10	4.03	0.80

The accompanying notes form part of these financial statements.



Condensed consolidated statement of financial position

As at 31 December 2018

	Notes	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Assets			
<i>Current Assets</i>			
Cash and bank balances		10,323	7,010
Trade and other receivables		26,286	34,947
Accrued revenue		45,389	38,363
Inventories	9	31,285	29,544
Other financial assets		-	1,197
Other assets		2,535	2,363
Total current assets		115,818	113,424
<i>Non-Current Assets</i>			
Property, plant and equipment		8,582	7,177
Intangible assets		6,097	5,667
Total non-current assets		14,679	12,844
Total assets		130,497	126,268
Liabilities			
<i>Current Liabilities</i>			
Trade and other payables		64,577	71,739
Deferred revenue		1,548	1,722
Customer deposits		17,508	18,298
Tax payable		3,494	3,432
Borrowings	8	8,397	2,362
Provisions		12,796	12,497
Total current liabilities		108,320	110,050
<i>Non-Current Liabilities</i>			
Borrowings	8	3,086	5,736
Provisions		8,523	8,205
Deferred tax liabilities		3,774	1,251
Total non-current liabilities		15,383	15,192
Total liabilities		123,703	125,242
Net Assets		6,794	1,026
Equity			
Issued capital		12,911	12,904
Reserves	11	22,184	23,423
Accumulated losses		(28,301)	(35,301)
Total equity		6,794	1,026

The accompanying notes form part of these financial statements.

Condensed consolidated statement of changes in equity

For the half year ended 31 December 2018

	Notes	Issued capital \$'000	Share buy-back reserve \$'000	Share based payments reserve \$'000	Investment revaluation reserve \$'000	Accumulated losses \$'000	Total \$'000
Balance at 1 July 2017		12,911	(7,204)	30,243	-	(39,075)	(3,125)
Employee share plan		-	-	112	-	-	112
Profit for the period		-	-	-	-	1,146	1,146
Other comprehensive income for the year, net of income tax		-	-	-	308	-	308
Balance at 31 December 2017		12,911	(7,204)	30,355	308	(37,929)	(1,559)
Balance at 1 July 2018		12,904	(7,204)	30,391	236	(35,301)	1,026
Treasury shares held by Trust		7	-	(7)	-	-	-
Employee share plan		-	-	176	-	-	176
Profit for the period		-	-	-	-	5,828	5,828
Transfer to accumulated losses		-	-	(1,172)	-	1,172	-
Reclassification adjustment relating to available for sale financial asset	11	-	-	-	(236)	-	(236)
Balance at 31 December 2018		12,911	(7,204)	29,388	-	(28,301)	6,794

The accompanying notes form part of these financial statements.



Condensed consolidated statement of cash flows

For the half year ended 31 December 2018

	Notes	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash flows from operating activities			
Receipts from customers		353,900	307,709
Payments to suppliers and employees		(349,261)	(304,529)
Cash generated from operations		4,639	3,180
Finance costs		(599)	(720)
Income taxes refunded		-	1,439
<i>Net cash generated from operating activities</i>		4,040	3,899
Cash flows from investing activities			
Interest received		-	1
Proceeds from disposal of property, plant and equipment		67	84
Proceeds from sale of business	12	-	10
Payments for property, plant and equipment		(1,212)	(1,192)
Payments for intangibles		(993)	(1,142)
<i>Net cash used in investing activities</i>		(2,138)	(2,239)
Cash flows from financing activities			
Proceeds from borrowings		4,330	171
Repayment of borrowings		(1,767)	(6,726)
Payment for finance leases		(1,152)	(696)
<i>Net cash generated / (used in) from financing activities</i>		1,411	(7,251)
Net increase / (decrease) in cash and cash equivalents		3,313	(5,591)
Cash and cash equivalents at the beginning of the period		7,010	10,204
<i>Cash and cash equivalents at the end of the period</i>		10,323	4,613

The accompanying notes form part of these financial statements.

Notes to the consolidated financial statements (continued)

Notes to the consolidated financial statements

1 Significant accounting policies

1.1 Statement of compliance

This half year financial report is a general purpose condensed consolidated interim financial report prepared in accordance with *Corporations Act 2001* and AASB 134 '*Interim Financial Reporting*'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 '*Interim Financial Reporting*'.

The half year report does not include any notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

1.2 Basis of preparation

The condensed 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 and in the most recent annual financial report.

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 are 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.

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

New and amended accounting standards relevant to the Group that are effective for the period are as follows:

AASB 15 '*Revenue from Contracts with Customers*'

In the current year, the Group has applied *AASB 15 Revenue from Contracts with Customers* (which has come into effect for the Group from 1 July 2018). Details of the new requirements of AASB 15 as well as their impact on the Group's consolidated financial statements are described below.

AASB 15, as adopted by the Group from 1 July 2018, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue and AASB 111 Construction Contracts.

Significant judgments and estimates are used in determining the impact of AASB 15, such as the assessment of the probability of customer approval of variations and acceptance of claims, estimation of project completion date and assumed levels of project productivity. In making this assessment we have considered, for applicable contracts, the individual status of legal proceedings, including arbitration and litigation.

The Group's accounting policies for its revenue streams are disclosed in detail in Note 1.5.

Notes to the consolidated financial statements (continued)

AASB 9 'Financial instruments'

This standard replaces AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation of impairment on financial assets, and new general hedge accounting requirements. It also carries forward guidance on recognition and de-recognition of financial instruments from AASB 139.

To assess for any expected credit loss under AASB 9, there is consideration around the probability of default upon initial recognition of the asset. For trade receivables, loan and other receivables the Group applies the simplified approach permitted by AASB 9, whereby the loss allowance is measured at an amount equal to lifetime expected credit loss. Lifetime expected credit loss is the amount the Group expects to lose due to default events that are possible over the life of the financial instrument.

The Group assesses expected credit loss in a way that reflects:

- an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

For all other financial instruments in-scope of impairment requirements, the Group assesses expected credit loss on a forward-looking basis and the impairment methodology applied will depend on whether there has been a significant increase in credit risk.

1.4 Re-assessment of accounting policy in relation to work-in-progress on residential home building contracts as a result of the new accounting standards noted above

The Group has reviewed its accounting policy with respect to work in progress for the various residential home building contracts entered into with customers following the adoption of accounting standard *AASB 15 'Revenue from Contracts with Customers'*, noting the following pertinent facts:

- The Group enters into contracts with customers for residential home building. Under these contracts, the Group has the right of access to the land to discharge its obligations under the contract, which includes obtaining permits and licences, as well as undertaking site and building works. However, this right expires at the completion date of the building. The Group at no stage obtains ownership nor is granted any option to acquire ownership or title to the completed works. The risk and benefits of ownership remain with the customer.
- The benefit of services performed by the Group is transferred to the customer by reference to the stage of completion of the contract, based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract value.
- The Group has no alternate use of the asset and has an enforceable right to payment for works completed to date.

Prior to adopting the new accounting standard on 1 July 2018, the Group had determined costs plus a margin in meeting its obligations under the residential home building contracts but not invoiced to customers should be accounted for as 'Inventory/ work-in-progress' under AASB 102 – with the carrying value stated at the aggregated of contract costs incurred to date plus recognised profits less recognised losses and progress billings.

In applying the implementation guidance for AASB 15, the Group has concluded these contracts should be treated as a 'construction and services contract' entered into by the Group with the customer. The impact of the change in disclosure resulted in a balance sheet re-classification from inventory to accrued revenue. As shown in the table below, there is no impact on working capital or net assets as a result of this re-classification.



Notes to the consolidated financial statements (continued)

	As reported 30 June 2018 \$'000	Accounting Policy adjustments \$'000	AASB 15 Transition adjustments \$'000	Adjusted Opening balance 30 June 2018 \$'000
Accrued revenue	-	38,363	-	38,363
Inventories	67,907	(38,363)	-	29,544
Current asset impact	-	-	-	-
Non-current assets impact	-	-	-	-
Total assets impact	-	-	-	-
Deferred revenue	-	1,722	-	1,722
Customer deposits	-	18,298	-	18,298
Deposits and income in advance	20,020	(20,020)	-	-
Current liability impact	-	-	-	-
Non-current liability impact	-	-	-	-
Total liability impact	-	-	-	-

There were no impacts identified on adoption of AASB 9.

1.5 Accounting policies applied from 1 July 2018

The accounting policies and methods of computation applied by the Group in this condensed consolidated interim financial report are the same as those applied by the Group in the financial report for the year ended 30 June 2018, except for the following amended policies for the new accounting standards effective for financial years beginning on or after 1 January 2018 outlined in Note 1.3.

1.5.1 Revenue Recognition

Revenue was previously recognised when it is probable that work performed will result in revenue; whereas under the new standard, revenue is recognised when it is highly probable that a significant reversal of revenue will not occur.

Construction contracts

Contracts entered into are for the construction of residential homes, speculative home building and display home inventory. The construction of each dwelling is taken to be one performance obligation. The transaction price is normally fixed at the start of the contracts. When a variation for the building works is required and agreed upon per the contract the variation will be included in the transaction price and accounted for accordingly. As a result, the one performance obligation recognised and fulfilled over time and as such revenue is recognised over time.

Revenue earned is referenced to the stage of completion of the contract activity, based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Our customers are invoiced on achievement of each key milestone in the build program. Invoices are paid on normal commercial terms. Deposit payments received prior to work being performed are recognised as deferred revenue on the balance sheet.

Registered training courses

The Group derives revenue by providing training courses to students. The performance obligation is fulfilled over the duration of the course. The transaction price is determined and agreed at the beginning of the course and is not variable unless the student stops part way through the course. Revenue is recognised in the accounting period in which the courses are delivered and when the Group is entitled to claim course funding from the relevant federal or state government body. This funding is not considered a state government grant. Funding received in respect of courses is in relation to specific students completing a period of study for a specific course. Payment is received following invoice on normal commercial terms.

Notes to the consolidated financial statements (continued)

Development

The Group generates revenue from the sale of land developments for residential homes.

Revenue in respect of the sale of land developments is recognised when control passes to a third party along with fulfillment of all performance obligations on a contract. Revenue is measured at the transaction price agreed under the contract. Payment is received on actual settlement of individual parcels of land, when control is transferred to the customer. Costs in relation to individual settlements are recognised in proportion to the total costs for the project and based on the percentage of revenue recognised for each settled unit.

Variable consideration

Where consideration in respect of a contract is variable, the expected value of revenue is only recognised when the uncertainty associated with the variable consideration is subsequently resolved, known as “constraint” requirements. The Group assesses the constraint requirements on a periodic basis when estimating the variable consideration to be included in the transaction price. The estimate is based on all available information including historic performance. Where variations in design or requirements are entered into, the transaction price is updated to reflect these when the variation has been agreed.

Contract fulfilment costs

Costs incurred prior to the commencement of a contract may arise due to feasibility studies, environmental impact studies and preliminary design activities as these are costs incurred to fulfil a contract. Where these costs are expected to be recovered, they are capitalised and amortised over the course of the contract consistent with the transfer of service to the customer. Where the costs, or a portion of these costs, are reimbursed by the customer, the amount received is recognised as deferred revenue and allocated to the performance obligations within the contract and recognised as revenue over the course of the contract.

Incremental costs

Commissions payable to sales consultants in respect of contracts to build are recognised as an asset when expected to be recovered and released over the period of the build.

Financing components

The Group does not have any contracts where the period between the transfer of the promised goods or services to the customer represents a financing component. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Interest revenue is recognised on an accruals basis.

Dividend income is recognised when the dividend is declared.

Contract assets and liabilities

The Group has adopted the terms accrued revenue for ‘contract assets’ and deferred revenue for ‘contract liabilities’ as defined within AASB 15. A contract asset is the Group’s right to payment for goods and services transferred to a customer if that right to payment is conditional on something other than passage of time. A contract liability is the Group’s obligation to transfer goods or services to a customer at the earlier of (a) when the customer pays consideration or (b) the time that the customer’s consideration is due for goods and services the Group will yet provide.

Notes to the consolidated financial statements (continued)

1.5.2 Non-derivative financial assets

Classification

From 1 July 2018, the Group has classified its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- Those to be measured at amortised cost.

The classification depends on the Group's business model for managing financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Measurement of cash and cash equivalents, trade receivables, loan and other receivables remain at amortised cost consistent with the comparative period.

Impairment

For trade receivables, loan and other receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime loss to be recognised from initial recognition of the receivables. For all other financial instruments, the Group assesses expected credit loss on a forward-looking basis and the impairment methodology applied will depend on whether there has been a significant increase in credit risk.

1.6 Standards and interpretations on issue not yet adopted

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

AASB 16 'Leases' (effective 1 January 2019)

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 leases onto their statements of financial position.

The Group is in the process of implementing changes to its systems, but the actual impact at the time of adoption will depend on future economic conditions, including:

- the Group's borrowing rate at 1 July 2019,
- the composition of the Group's lease portfolio at that date,
- the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use recognition exemptions for low value leases and/or short-term leases (under 12 months).

The Group is currently evaluating the population of leased assets in order to assess the impact of the AASB 16 on our lease portfolio, designing and implementing new processes and controls. Until this effort is completed, the Group cannot determine the effect of the AASB 16 on our results of operations, financial condition or cash flows.



Notes to the consolidated financial statements (continued)

2 Revenue

The following is an analysis of the Group's revenue for the half- year (excluding interest income).

	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Continuing operations		
Revenue from residential construction contracts	346,069	284,899
Revenue from rendering of registered training services	4,999	6,154
Revenue from land developments	337	677
	351,405	291,730
Discontinued operations	-	-
	351,405	291,730

3 Segment information

3.1 Products and services from which reportable segments derive their revenue

The Group reports segment information on the same basis as the internal management reporting structure. Management has determined the operating segments based on the types of products and services provided by the Group. The Group has three reportable segments under AASB 8 as follows:

- (i) *Residential Construction* - this includes activities relating to contracts for residential home building, speculative home building and the building of display homes which are recognised over time;
- (ii) *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 which are recognised over time; and
- (iii) *Land Development* - this includes activities relating to land developments and sales which are recognised at a point in time.

Madisson Homes is a wholly-owned subsidiary of the Group and previously 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. This business unit has been presented as a discontinued operation since January 2016.

3.2 Segment revenues and results

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

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.

Corporate overheads have been allocated to each of the segments in determining segment profit.

	Segment revenue Half year ended		Segment profit / (loss) Half year ended	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Continuing operations				
Residential construction	346,069	284,899	8,924	1,885
Registered training	4,999	6,154	408	127
Land development	337	677	202	(246)
	351,405	291,730	9,534	1,766
Discontinued operations	-	-	(1,021)	-
Consolidated segment revenue and profit before tax for the period	351,405	291,730	8,513	1,766

**Notes to the consolidated financial statements (continued)****3.3 Segment assets and liabilities**

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Segment assets		
Residential construction	123,155	118,957
Registered training	3,668	3,681
Land development	2,133	2,948
	<u>128,956</u>	<u>125,586</u>
Discontinued operations	1,541	682
Total segment assets	130,497	126,268
Segment liabilities		
Residential construction	119,609	122,099
Registered training	1,922	1,735
Land development	-	97
	<u>121,531</u>	<u>123,931</u>
Discontinued operations	2,172	1,311
Total segment liabilities	123,703	125,242

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

4 Expenses for the half year

Continuing operations		
Profit on disposal of property, plant and equipment and intangibles	23	55
Divestment of Hub Property Advisory Pty Ltd ⁽ⁱ⁾	-	(285)
Marketing and selling expenses	(11,406)	(9,770)
Corporate and administrative expenses	(15,627)	(14,829)
Employee benefits expense	(38,499)	(33,214)
	<u>(65,509)</u>	<u>(58,043)</u>
Discontinued operations	(1,021)	-
Total expenses	(66,530)	(58,043)

- (i) On 19 December 2017, the Group disposed its interest in Hub Property Advisory Pty Ltd. The disposal is consistent with the Group's strategy to focus its activities in residential construction and registered training.

5 Discontinued Operations**5.1 Madisson Homes Pty Ltd discontinued operation**

Madisson Homes Pty Ltd operated in the medium density market, building apartments and townhouses for commercial developers using the concepts, designs and specifications provided by the developers. 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.

Notes to the consolidated financial statements (continued)

5.2 The profit/(loss) for the half year from discontinued operations are summarised as follows:

	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Revenue	-	-
Expenses	(1,021)	-
Loss before tax	(1,021)	-
Attributable income tax benefit	306	-
Loss for the period	(715)	-

5.3 Cash flow from discontinued operations:

Net cash inflows/ (outflows) from operating activities	(6)	11
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6 Significant items

Business review and management restructure	-	(1,190)
Total significant items	-	(1,190)

7 Dividends

During the half year ended 31 December 2018 the Group has not made any dividend payments (2017: \$nil) and no interim dividend has been declared for the half year ended 31 December 2018.

8 Borrowings

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
<i>Current</i>		
Insurance Finance	-	675
Commercial bills	2,089	-
Finance lease liability	1,308	1,687
Display fund facility	5,000	-
	8,397	2,362
<i>Non – current</i>		
Commercial bills	1,150	-
Finance lease liability	1,936	736
Display fund facility	-	5,000
	3,086	5,736

Notes to the consolidated financial statements (continued)

8.1 Summary of borrowing arrangements

Details of the Group's borrowing facilities are as follows:

Facility	Utilised \$'000	Unutilised \$'000	Interest Charge	Description	Maturity Date
Market Rate Loan	3,290 ¹	525	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.	1 May 2020
Bank Guarantees	1,162	838	Fixed Market Rate		30 September 2021
Multi Option Facility	Nil	22,500	Variable Market Rate		
Business Corporate Credit Card Facility	1,000	-	Option Index Rate	Charged Card facility made available to Simonds Group	2 August 2019
Finance Lease	3,208	1,791	Fixed Market Rate	Asset under finance leases are secured by the assets leased with repayments periods not exceeding 5 years.	Repayment periods are not exceeding 5 years
Total	8,660	25,654			

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

Finance Lease	36	Nil	Fixed Market Rate	Asset under finance leases are secured by the assets leased. These facilities are held with Westpac Banking Corporation.	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 that expires on 30 September 2019. This facility is secured by first mortgages over a number of display homes owned and recognised in inventories by the Group.	30 September 2019
Total	5,036	Nil			

¹ As at 31 December 2018 in the Statement of Financial Position, there is \$0.051m of capitalised borrowing costs that offset this utilised market rate loan.



Notes to the consolidated financial statements (continued)

9 Inventories

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Speculative & display homes, land stock ⁽ⁱ⁾	33,345	31,573
Provision for impairment of inventories	(2,060)	(2,029)
	31,285	29,544

- (i) The Group's obligations under Display Funds (Note 8) are secured by mortgages over 12 displays homes which are recorded within inventories and have a carrying value of \$6.324m at 31 December 2018 (HY18: \$5.085m).

10 Earnings per share

	31 Dec 2018 Cents per share	31 Dec 2017 Cents per share
<i>From continuing operations</i>		
Total basic profit/loss per share	4.55	0.80
Total diluted profit/loss per share	4.53	0.80
<i>From continuing and discontinued operations</i>		
Total basic profit/loss per share	4.05	0.80
Total diluted profit/loss per share	4.03	0.80

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

	31 Dec 2018 \$'000	31 Dec 2017 \$'000
<i>From continuing operations</i>		
Profit for the half year attributable to owners of the Company	6,543	1,146
<i>From continuing and discontinued operations</i>		
Profit for the half year attributable to owners of the Company	5,828	1,146
	Shares	Shares
Weighted average number of ordinary shares for the purposes of the basic earnings per share	143,841,655	143,841,655

**Notes to the consolidated financial statements (continued)****10.2 Diluted earnings per share**

	31 Dec 2018 \$'000	31 Dec 2017 \$'000
<i>From continuing operations</i>		
Profit for the half year attributable to owners of the Company	6,543	1,146
<i>From continuing and discontinued operations</i>		
Profit for the half year attributable to owners of the Company	5,828	1,146
	Shares	Shares
Weighted average number of ordinary shares used in the calculation of basic earnings per share	143,841,655	143,841,655
Performance rights ⁽ⁱ⁾	676,506	-
Weighted average number of ordinary shares for the purposes of the basic earnings per share	144,518,161	143,841,655

- (i) For December 2018 there are 598,043 (December 2017: 6,855,625) equity settled performance rights excluded from the diluted earnings per share calculation on the basis that the vesting conditions are unlikely to be met at the end of the vesting period.

11 Reserves

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Share Buy-back Reserve	(7,204)	(7,204)
Share Based Payment Reserve	29,388	30,391
Investment Revaluation Reserve	-	236
	22,184	23,423

12 Disposal of subsidiary

During the half year ended 31 December 2018 there were no disposals of subsidiaries.

13 Subsequent events

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