

Appendix 4D

For the half year ended 31 December 2019

Simonds Group Limited

ACN: 143 841 801

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

SIMONDS GROUP LIMITED (ASX: SIO)

APPENDIX 4D

HALF YEAR ENDED 31 DECEMBER 2019

Half year ended: Half year ended 31 December 2019

Previous corresponding period: Half year ended 31 December 2018

Results for Announcement to the Market for the half year ended 31 December 2019					
Revenue from ordinary activities from continuing operations	Down	(\$23.9m)	by	(6.8%)	to \$327.5m
Profit from ordinary activities before tax from continuing operations	Down	(\$3.2m)	by	(33.7%)	to \$6.3m
Profit from ordinary activities after tax from continuing operations	Down	(\$2.4m)	by	(36.9%)	to \$4.1m
Loss after tax from discontinued operations	-	-	by	0.0%	to (\$0.7m)
Net Profit after tax	Down	(\$2.4m)	by	(41.4%)	to \$3.4m
Net profit attributable to members	Down	(\$2.4m)	by	(41.4%)	to \$3.4m

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 share¹	Amount per share
As at 31 December 2019 (cents)	(11.63)
As at 30 June 2019 (cents)	3.49

Net assets backing per share at 31 December 2019 was 10.49 cents (30 June 2019: 7.93 cents)

Dividends	Amount per share	Franked amount per share
For the half year ended 31 December 2019 (cents)	-	-
For the half year ended 31 December 2018 (cents)	-	-

¹ Net tangible asset doesn't include Intangible assets and Right-of-use assets.



Simonds Group
31 December 2019

Simonds Group Limited

ABN 54 143 841 801

Interim Financial Report for the half year ended 31 December 2019



Simonds Homes are proud to partner Breakfast TV's biggest giveaway ever. TODAY's "Win a house" Competition, April 2020.

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Simonds Group Limited

Interim Financial Report for half year ended 31 December 2019

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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 2019. 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	Joint Chief Executive Officer (CEO) and Managing Director
Rhett Simonds ¹	20 April 2016	Joint Chief Executive Officer and Managing Director
Neil Kearney	20 September 2017	Independent Non-Executive Director
Delphine Cassidy	20 September 2017	Independent 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 (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'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 \$327.480m compared to the previous corresponding period of \$351.405m. Simonds Homes recorded 1,143 site starts for the period, a

¹ On 29 January 2020 Simonds announced that it was implementing a Joint CEO structure with Rhett Simonds joining Kelvin Ryan as Joint CEO and Managing Director from 1 February 2020.



reduction of 177 or 13.4% on the previous corresponding period. The reduction in Group revenue is predominantly due to the impact of lower 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 \$11.408m at 30 June 2019 to a net asset position of \$15.091m at 31 December 2019. The Group's net indebtedness (measured by cash and cash equivalents less borrowings) has decreased significantly, from \$1.218m net indebtedness at 30 June 2019 to a net surplus of \$13.255m at 31 December 2019.

During the half year the Company repaid the Simonds Homes Display Fund of \$5.000m at maturity in September 2019.

Due to a change in accounting standards, certain operating leases are now represented on the balance sheet as 'Right-of-use assets' of \$23.857m and a 'Lease liability' of \$23.559m. Refer to the Notes to the Interim Financial Report for more information on the impact of the implementation of the new accounting standard that has required this change in accounting treatment.

Operating cash flows

The Group generated \$22.710m in operating cash flows during the half year ended 31 December 2019, an increase of \$18.670m in comparison with the prior corresponding period, impacted in part by the reclassification of payments for leases previously accounted for as operating leases from operating to financing activities. Improved operating cash flows were derived from customer collections as well as the continued focus on cost efficiency.

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.

Subsequent events

On 29 January 2020 Simonds announced that it was implementing a Joint CEO structure with Rhett Simonds joining Kelvin Ryan as Joint CEO and Managing Director from 1 February 2020.

Subsequent to half year reporting date, the Group has increased its Asset Finance facility limit from \$5.000m to \$6.000m.

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

Dividends

As announced on 26 February 2020, the directors have declared no dividend in relation to the half year ended 31 December 2019 (2018: \$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 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



Iain Kirkwood
Chairman
Melbourne, 26 February 2020

26 February 2020

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 2019, 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 faithfully,



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 2019, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration of the consolidated entity comprising the company and the entities it controlled at the 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 2019 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 2019 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, 26 February 2020

Directors' declaration

The directors declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the Group 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 Group.

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



Iain Kirkwood
Chairman
Melbourne, 26 February 2020



Condensed consolidated statement of profit or loss and other comprehensive income

For the half year ended 31 December 2019

	Notes	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Continuing operations			
Revenue	2	327,480	351,405
Cost of sales		(252,762)	(273,463)
Gross profit		74,718	77,942
Expenses	4	(58,855)	(65,509)
Profit before financing items, depreciation and amortisation		15,863	12,433
Depreciation and amortisation charges		(8,815)	(2,300)
Profit before financing items and tax		7,048	10,133
<i>Financing items</i>			
Interest expense		(777)	(599)
Net financing cost		(777)	(599)
Profit before tax		6,271	9,534
Income tax expense		(2,179)	(2,992)
Profit from continuing operations after tax		4,092	6,543
Discontinued operations			
Loss from discontinued operations after tax	5	(716)	(715)
Profit after tax for the half year		3,376	5,828
Other comprehensive income, net of income tax			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Reclassification adjustment relating to available for sale financial asset		-	(236)
Total comprehensive income for the half year		3,376	5,592
Earnings per share			
		Cents per share	Cents per share
From continuing operations			
Basic	9	2.85	4.55
Diluted	9	2.69	4.53
From continuing and discontinued operations			
Basic	9	2.35	4.05
Diluted	9	2.22	4.03

The accompanying notes form part of these financial statements.

**Condensed consolidated statement of financial position****As at 31 December 2019**

	Notes	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Assets			
<i>Current Assets</i>			
Cash and bank balances		14,343	9,702
Trade and other receivables		20,372	27,430
Tax receivable		-	1,120
Accrued revenue		31,187	53,711
Inventories	8	36,944	35,459
Other assets		1,116	2,820
Total current assets		103,962	130,242
<i>Non-Current Assets</i>			
Property, plant and equipment		5,589	8,021
Intangible assets		7,970	6,388
Right-of-use assets	11	23,857	-
Deferred tax assets		711	-
Total non-current assets		38,127	14,409
Total assets		142,089	144,651
Liabilities			
<i>Current Liabilities</i>			
Trade and other payables		56,829	78,148
Deferred revenue		1,764	782
Customer deposits		15,516	15,300
Tax payable		5,130	-
Borrowings	7	1,088	9,036
Lease liability		9,533	-
Provisions		13,821	13,416
Total current liabilities		103,681	116,682
<i>Non-Current Liabilities</i>			
Borrowings	7	-	1,884
Lease liability		14,026	-
Provisions		9,291	8,576
Deferred tax liabilities		-	6,101
Total non-current liabilities		23,317	16,561
Total liabilities		126,998	133,243
Net Assets		15,091	11,408
Equity			
Issued capital		12,911	12,911
Reserves	10	22,479	22,318
Accumulated losses		(20,299)	(23,821)
Total equity		15,091	11,408

The accompanying notes form part of these financial statements.

Condensed consolidated statement of changes in equity

For the half year ended 31 December 2019

	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 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	-	-	-	(236)	-	(236)
Balance at 31 December 2018	12,911	(7,204)	29,388	-	(28,301)	6,794
Balance at 1 July 2019	12,911	(7,204)	29,522	-	(23,821)	11,408
Treasury shares held by Trust	-	-	-	-	-	-
Employee share plan	-	-	307	-	-	307
Profit for the period	-	-	-	-	3,376	3,376
Transfer to accumulated losses	-	-	(146)	-	146	-
Balance at 31 December 2019	12,911	(7,204)	29,683	-	(20,299)	15,091

The accompanying notes form part of these financial statements.



Condensed consolidated statement of cash flows

For the half year ended 31 December 2019

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Notes		
Cash flows from operating activities		
Receipts from customers	397,527	353,900
Payments to suppliers and employees	(371,606)	(349,261)
Cash generated from operations	25,921	4,639
Finance costs	(777)	(599)
Income taxes (paid)	(2,434)	-
<i>Net cash generated from operating activities</i>	22,710	4,040
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	74	67
Payments for property, plant and equipment	(1,681)	(1,212)
Payments for intangibles	(2,664)	(993)
<i>Net cash used in investing activities</i>	(4,271)	(2,138)
Cash flows from financing activities		
Proceeds from borrowings	-	4,330
Repayment of borrowings	(6,753)	(1,767)
Payment for finance leases	-	(1,152)
Repayment of lease liability	(7,045)	-
<i>Net cash generated / (used in) from financing activities</i>	(13,798)	1,411
Net increase / (decrease) in cash and cash equivalents	4,641	3,313
Cash and cash equivalents at the beginning of the period	9,702	7,010
<i>Cash and cash equivalents at the end of the period</i>	14,343	10,323

The accompanying notes form part of these financial statements.

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 the *Corporations Act 2001* and AASB 134 '*Interim Financial Reporting*' ("AASB 134"). 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 '*Share-based Payment*' ("AASB 2"), leasing transactions that are within the scope of AASB 117 '*Leases*' ("AASB 117"), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 '*Inventories*' ("AASB 102") or value in use in AASB 136 '*Impairment of Assets*' ("AASB 136").

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the company's 2019 annual financial report for the financial year ended 30 June 2019, except for the accounting policy on leases described below which has changed as a result of the adoption of AASB 16 '*Leases*' ("AASB 16"). The accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

1.3 Application of new and revised accounting standards

1.3.1 Amendments to AASBs and the new interpretations that are mandatorily effective for the current year

During the half year ended 31 December 2019, the Group has applied the below Accounting Standards issued by the Australian Accounting Standards Board (AASB) that was mandatorily effective for the Group for accounting periods that begin on or after 1 July 2019.

Interpretation 23 Uncertainty over Income Tax Treatments and AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments

This interpretation is effective for the Group from 1 July 2019 and is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates ('tax amounts'), when there is uncertainty over income tax treatments under AASB 112 Income Taxes.

Notes to the consolidated financial statements (continued)

In this respect a company must:

- Use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together;
- Assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so;
- Determine tax amounts on a basis that is consistent with the tax treatment included in its income tax filings if an entity concludes that it is probable that a particular tax treatment will be accepted by the taxation authorities;
- Determine tax amounts using the most likely amount or expected value of the tax treatment (whichever provides better predictions of the resolution of the uncertainty) If an entity concludes that it is not probable that a particular tax treatment will be accepted by the taxation authorities.

There is no material impact on the Group as a result of the implementation of this Interpretation.

AASB 16 Leases

This standard supersedes the previous lease accounting standards, including AASB 117, 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 the statement of financial position.

The Group has applied AASB 16 Leases with effect from 1 July 2019 using the cumulative catch-up approach, under which comparative amounts are not restated, and the liability is calculated as the present value of outstanding payments using the incremental borrowing rate at the date of transition.

The Group as lessee

New definition of a lease

The Group assesses whether a contract is or contains a lease based on the definition of a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in AASB 16. At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

Impact on lessee accounting

Leases formerly classified as operating lease under AASB 117

Previously, the Group classified property leases as operating leases under AASB 117. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019.

Right-of-use assets are initially measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

In accordance with AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired. This replaces the previous requirement to recognise a provision/onerous lease contract.

Notes to the consolidated financial statements (continued)

The Group used a number of practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application. These leases are recorded directly in the profit and loss as a lease expense as the lease is utilised;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. some low value IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term when the contract contains options to extend or terminate the lease
- applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

In addition, lease incentives are recognised as part of the measurement of the right-of-use assets and lease liabilities under AASB 16, whereas under AASB 117 they resulted in the recognition of a lease incentive that was amortised as a reduction of rent expenses, generally on a straight-line basis.

Leases classified as finance leases under AASB 117

The Group leases a number of motor vehicles that prior to 1 July 2019 included both vehicles subject to operating lease agreements and vehicles subject to finance lease agreements. Vehicles operating under finance leases were classified as finance leases under AASB 117. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 July 2019 were determined at the carrying amount of the lease asset and lease liability under AASB 117 immediately before that date.

Financial impact of the initial application of AASB 16

The tables below show the amount of adjustment for each financial statement line item affected by the application of AASB16 for the current and prior years.

Impact on profit or loss

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Increase in depreciation of right -of -use assets	6,143	-
Increase in finance costs	351	-
Decrease in other expenses	(6,684)	-
(Increase) in profit for the half year	(190)	-

The Group recognised \$22.304m right-of-use assets and corresponding lease liability at transition date, as a result of adoption of AASB 16. As at 31 December 2019, the Group has a right-of-use asset of \$23.857m and a corresponding lease liability of \$23.559m in respect of these leases. The impact on profit or loss is a decrease in expenses of \$6.684m and an increase depreciation by \$6.143m along with an increase interest expense of \$0.351m.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including certain IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term, as permitted by AASB 16. The expense of \$0.218m for these low value and short-term leases is recorded in the Statement of Profit or Loss as Expenses.

The application of AASB 16 has had an impact on the consolidated statement of cash flows of the Group.

Notes to the consolidated financial statements (continued)

Under AASB 16, leases must be presented as:

- Cash payments for the principal portion for a lease liability, as part of financing activities;
- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by AASB 107 '*Statement of Cash Flows*' ("AASB 107") (the Group has opted to include interest paid as part of operating activities). The Group has elected to show as financing activities; and
- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are as part of operating activities.

Under AASB 117, all lease payments on operating leases were presented within cash payments to suppliers and employees, with the Group's cash flows from operating activities.

Consequently, the net cash generated by operating activities has increased by \$6.684m, being the lease payments and net cash used in financing activities has increased by the same amount.

New accounting policy on leases as a result of AASB 16 leases adoption, applicable from 1 July 2019

Lease contracts entered after 1 July 2019

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The Group applies AASB 136 to determine whether a right-of-use assets is impaired.

The lease liability is initially measured at the present value of the lease payments that are not paid at the initial application date or commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease

Notes to the consolidated financial statements (continued)

payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

For leases of low value and short-term leases the Group recognise the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the lease assets are consumed.

Policies applicable prior to 1 July 2019

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.

Leases are classified as operating leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee. Payment made under operating leases (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the period of the lease.

1.3.2 Standards and interpretations in issue not yet adopted

New standards and Interpretations not yet applicable and do not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements is as below:

- AASB 2018-7 Amendment to Australian Accounting Standards – Definition of Material (effective 1 January 2020)
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework (effective 1 January 2020)
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS standards not yet issued in Australia (effective 1 January 2020)

2 Revenue

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

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Continuing operations		
Revenue from residential construction contracts	321,732	346,069
Revenue from rendering of registered training services	5,748	4,999
Revenue from land developments	-	337
	327,480	351,405
Discontinued operations	-	-
	327,480	351,405

Notes to the consolidated financial statements (continued)

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 'Operating Segments' ("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 Developments* - this includes activities relating to land developments and sales which are recognised at a point in time.

Madisson Homes Pty Ltd (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 Executive Officer (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		Segment profit / (loss)	
	Half year ended		Half year ended	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	\$'000	\$'000	\$'000	\$'000
Continuing operations				
Residential construction	321,732	346,069	5,256	8,924
Registered training	5,748	4,999	1,028	408
Land developments	-	337	(13)	202
	327,480	351,405	6,271	9,534
Discontinued operations	-	-	(1,022)	(1,021)
Consolidated segment revenue and profit before tax for the period	327,480	351,405	5,249	8,513



Notes to the consolidated financial statements (continued)

3.3 Segment assets and liabilities

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Segment assets		
Residential construction	133,453	136,822
Registered training	3,727	3,549
Land developments	3,270	3,497
	<u>140,450</u>	<u>143,868</u>
Discontinued operations	<u>1,639</u>	<u>783</u>
Total segment assets	<u>142,089</u>	<u>144,651</u>
Segment liabilities		
Residential construction	121,923	129,484
Registered training	2,263	1,075
Land developments	525	333
	<u>124,711</u>	<u>130,892</u>
Discontinued operations	<u>2,287</u>	<u>2,351</u>
Total segment liabilities	<u>126,998</u>	<u>133,243</u>

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

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Continuing operations		
Profit on disposal of property, plant and equipment and intangibles	30	23
Marketing and selling expenses	(10,135)	(11,406)
Corporate and administrative expenses	(9,682)	(15,627)
Employee benefits expense	(39,068)	(38,499)
	<u>(58,855)</u>	<u>(65,509)</u>
Discontinued operations	<u>(1,022)</u>	<u>(1,021)</u>
Total expenses	<u>(59,877)</u>	<u>(66,530)</u>

Please note that Corporate and current period administrative expenses shown above no longer include operating lease expenses (refer to Note 1.3.1 for further information on this change).

5 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 were completed during the 2017 financial year, and accordingly the Madisson Homes business has been treated as a discontinued operation from that time.



Notes to the consolidated financial statements (continued)

5.1 Loss for the half year from discontinued operations are summarised as follows:

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Revenue	-	-
Expenses	(1,022)	(1,021)
Loss before tax	(1,022)	(1,021)
Attributable income tax benefit	306	306
Net loss after tax for the period	(716)	(715)

5.2 Cash flow from discontinued operations:

Net cash inflows/ (outflows) from operating activities	(4)	(6)
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6 Dividends

During the half year ended 31 December 2019 the Group has not made any dividend payments (2018: \$nil) and no interim dividend has been declared for the half year ended 31 December 2019.

7 Borrowings

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
<i>Current</i>		
Other borrowings	-	717
Commercial bills	1,088	2,179
Finance Lease liability ¹	-	1,140
Display fund facility	-	5,000
	1,088	9,036
<i>Non – current</i>		
Finance lease liability	-	1,884
	-	1,884

In September 2019 the Display fund facility was repaid at maturity.

With the implementation of AASB 16 finance lease liabilities are no longer included in 'Borrowings' but as 'Lease Liabilities' in the Condensed consolidated statement of financial position for the current financial period.

¹ With the implementation of AASB 16 for leases these liabilities are now no longer included in 'Borrowings' but separately as 'Lease Liabilities' in the Condensed consolidated statement of financial position for the current financial period.

Notes to the consolidated financial statements (continued)

7.1 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	1,120 ¹	-	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	1,248	752	Fixed Market Rate		30 September 2021
Multi Option Facility	-	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 2021
Equipment Financing Facilities	2,456	2,544	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	5,824	25,796			

8 Inventories

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Speculative & display homes, land stock	38,751	37,216
Provision for impairment of inventories	(1,807)	(1,757)
	36,944	35,459

¹ As at 31 December 2019 in the Statement of Financial Position, there is \$0.032m of capitalised borrowing costs that offset this utilised market rate loan.



Notes to the consolidated financial statements (continued)

9 Earnings per share

	31 Dec 2019 Cents per share	31 Dec 2018 Cents per share
<i>From continuing operations</i>		
Total basic profit/loss per share	2.85	4.55
Total diluted profit/loss per share	2.69	4.53
<i>From continuing and discontinued operations</i>		
Total basic profit/loss per share	2.35	4.05
Total diluted profit/loss per share	2.22	4.03

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

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<i>From continuing operations</i>		
Profit for the half year attributable to owners of the Company	4,092	6,543
<i>From continuing and discontinued operations</i>		
Profit for the half year attributable to owners of the Company	3,376	5,828
	Shares	Shares
Weighted average number of ordinary shares for the purposes of the basic earnings per share	143,841,655	143,841,655

9.2 Diluted earnings per share

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<i>From continuing operations</i>		
Profit for the half year attributable to owners of the Company	4,092	6,543
<i>From continuing and discontinued operations</i>		
Profit for the half year attributable to owners of the Company	3,376	5,828
	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	8,178,721	676,506
Weighted average number of ordinary shares for the purposes of the basic earnings per share	152,020,376	144,518,161

Notes to the consolidated financial statements (continued)

10 Reserves

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Share Buy-back Reserve	(7,204)	(7,204)
Share Based Payment Reserve	29,683	29,522
	22,479	22,318

11 Leases

The Group leases commercial offices, display homes, display home furniture and motor vehicles. The leases are typically with an option to renew and lease payments are reviewed when approaching the lease expiry date to reflect market rentals.

The Group also leases IT equipment with contract terms of one to three years. These leases are considered to be short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases, as permitted by AASB 16.

The total cash outflow for leases amount to \$7.045m. (December 2018: \$7.028m)

Information about leases for which the Group is a lessee is presented below.

11.1 Right of use assets

Opening balance	-	-
Finance leased assets ¹	2,476	-
Additions to right-of use assets	34,883	-
Depreciation charge for the year	(6,143)	-
Derecognition of right-of-use asset	(7,359)	-
Closing balance	23,857	-

Of the \$34,883m in "Additions to right-of use assets" \$22.191m relates to additions due to the implementation of the new lease standard, \$2.917m relates to new lease agreements and \$9.775m relates to new leases agreements due to extension of / or changed terms of previous lease agreements.

Included in "Derecognition of right-of-use asset" of \$7.359m noted above is \$7.283m of renegotiated leases and \$0.076m relates to leases that have ended.

¹ These assets were previously recognised as finance leased assets under AASB 117 and included in 'Property, plant and equipment' on the 'Condensed consolidated statement of financial position'.

**Notes to the consolidated financial statements (continued)****11.2 Amount recognised in profit or loss**

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<i>Lease under AASB 16</i>		
Interest on lease liabilities	(351)	-
Depreciation expense on right-of-use assets	(6,143)	-
Expenses relating to short-term leases	(60)	-
Expense relating to low value assets	(158)	-
Profit on lease revaluation	81	-
<i>Leases previously recognised under AASB 117</i>		
Operating lease expense	-	(5,877)
Depreciation expense on finance leases	-	(608)
Interest expense on finance leases	-	(72)
	(6,631)	(6,557)

11.3 Commitment for short-term leases and low value assets:

Relating to leases classified as short-term and/or low value leases, the Group is committed to payments of \$0.338m for leases under 1 year in duration and \$0.500m for leases between 1 year and 5 years.

12 Subsequent events

On 29 January 2020 Simonds announced that it was implementing a Joint CEO structure with Rhett Simonds joining Kelvin Ryan as Joint CEO and Managing Director from 1 February 2020.

Subsequent to half year reporting date, the Group has increased its Asset Finance facility limit from \$5.000m to \$6.000m.

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