Simonds Homes Holdings Pty Ltd and its controlled entities

ACN 143 841 801
Special Purpose Financial Report
For the Financial Year Ended 30 June 2013

Simonds Homes Holdings Pty Ltd and its controlled entities

Special purpose financial report

for the financial year ended 30 June 2013

Directors' report

The directors of Simonds Homes Holdings Pty Ltd (the 'Company') submit herewith the annual report of the company for the financial year ended 30 June 2013. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

Mr V.G. Simonds

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

Principal activities

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

Review of operations

The consolidated net profit after tax attributable to the members of Simonds Homes Holdings Pty Ltd for the reporting period was $8.373 million (2012: $2.363 million).

Likely developments

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

Changes in state on affairs

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

Subsequent events

Subsequent to the financial year ended 30 June 2013, the group has entered into a new lease agreement as a result of management's decision to relocate its head office from 28-32 Albert Road, South Melbourne to 570 St Kilda Road, Melbourne. The group has recognised an impairment loss of $579,750 in the consolidated financial statements to reflect this event.

There has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Dividends

As of 30 June 2013 there were no dividends paid and declared. (2012: nil)

Indemnification of office and auditors

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

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

Auditor's independence declaration

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

Directors’ report (cont’d)

Rounding off amounts

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

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

On behalf of the directors

Vallence Gary Simonds
Director
Melbourne, 11 October 2013

Deloitte.

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

11 October 2013

Dear Sirs

Simonds Homes Holdings Pty Ltd

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

As lead audit partner for the audit of the consolidated financial report of Simonds Homes Holdings Pty Ltd for the financial year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Reid
Partner
Chartered Accountants

Directors' declaration

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

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company.

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

On behalf of the directors

Vallence Gary Simonds
Director
Melbourne, 11 October 2013

Consolidated Statement of profit or loss and other comprehensive income for the financial year ended 30 June 2013

	Notes	Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000
Revenue		547,259	467,446
Cost of sales		(436,294)	(373,377)
Gross profit		110,965	94,069
Other income		157	84
Administrative expenses	5	(82,475)	(76,023)
Marketing expenses		(15,098)	(14,018)
Finance costs	5	(2,012)	(2,414)
Profit before tax		**11,537**	**1,698**
Income tax expense		(3,164)	665
PROFIT FOR THE YEAR	5	**8,373**	**2,363**
Other comprehensive income, net of income tax			
Total items that will not be reclassified subsequently to profit or loss		-	-
Total items that may be reclassified subsequently to profit or loss		-	-
Other comprehensive income for the year, net of income tax		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**8,373**	**2,363**

Notes to the financial statements are included on pages 9-23

Consolidated statement of financial position as at 30 June 2013

	Notes	30/06/13	30/06/12
		$ '000	$ '000
Current Assets			
Cash and bank balances		13,560	-
Trade and other receivables	6	20,445	32,536
Inventories	7	84,060	74,346
Other assets	8	1,306	1,149
Total Current Assets		119,371	108,031
Non-Current Assets			
Trade and other receivables	6	15,388	14,851
Property, plant and equipment	9	6,466	8,414
Intangible assets	10	1,617	2,023
Deferred tax assets	11	9,086	6,065
Total Non-Current Assets		32,557	31,353
Total assets		151,928	139,384
Liabilities			
Current Liabilities			
Trade and other payables	12	77,978	71,378
Borrowings	13	8,052	27,822
Provisions	14	9,647	8,187
Deferred revenue	15	5,228	6,638
Total Current Liabilities		100,905	114,025
Non-Current Liabilities			
Borrowings	13	10,848	4,919
Provisions	14	8,328	5,822
Deferred tax liabilities	16	12,411	3,555
Total Non-Current Liabilities		31,587	14,296
Total liabilities		132,492	128,321
Net assets		**19,436**	**11,063**
Equity			
Issued capital	17	822	822
Retained earnings		18,614	10,241
Total equity		**19,436**	**11,063**

Notes to the financial statements are included on pages 9-23

Consolidated statement of changes in equity for the year ended 30 June 2013

	Notes	Issued capital $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2011		822	7,878	8,700
Distributions for the year		-	-	-
Profit for the year		-	2,363	2,363
Other comprehensive income for the year, net of income tax		-	-	-
Total comprehensive income for the year		-	2,363	2,363
Issue of ordinary shares		-	-	-
Balance at 30 June 2012		**822**	**10,241**	**11,063**
Distributions for the year		-	-	-
Profit for the year	18	-	8,373	8,373
Other comprehensive income for the year, net of income tax		-	-	-
Total comprehensive income for the year		-	8,373	8,373
Issue of ordinary shares		-	-	-
Balance at 30 June 2013		**822**	**18,614**	**19,436**

Notes to the financial statements are included on pages 9-23

Consolidated statement of cash flows for the year ended 30 June 2013

	Notes	Year ended 30/06/13	Year ended 30/06/12
		$ '000	$ '000
Cash flows from operating activities			
Receipts from customers		548,119	464,476
Payments to suppliers and employees		(524,557)	(465,217)
Cash generated from operations		23,562	(741)
Interest paid		(1,869)	(2,414)
Income taxes paid		(2,712)	-
Net cash generated by operating activities	19	18,981	(3,155)
Cash flows from investing activities			
Interest received		53	79
Payment for property, plant and equipment, and intangibles		(1,622)	(3,137)
Proceeds from sale of property, plant and equipment, and intangibles		193	510
Net cash used in investing activities		(1,376)	(2,548)
Cash flows from financing activities			
Repayment of borrowings		(26,650)	(8,965)
Proceeds from borrowings		15,424	12,751
Repayment of finance leases		(2,850)	(1,325)
Amounts advanced and repayments from/(to) related parties		10,850	(3,602)
Net cash used in financing activities		(3,226)	(1,141)
Net increase in cash and cash equivalents		14,379	(6,844)
Cash and cash equivalents at the beginning of the year		(819)	6,025
Cash and cash equivalents at the end of the year	19	13,560	(819)

Notes to the financial statements are included on pages 9-23

1 GENERAL INFORMATION

Simonds Homes Holdings Pty Ltd (the 'Company') is a for-profit proprietary company incorporated in Australia. The consolidated financial statements of the company as at and for the financial year ended 30 June 2013 comprises the Company and its controlled entities (together referred to as the 'Group').

The Company's registered office and principal place of business are as follows:
2nd Floor, 28-32 Albert Road
South Melbourne, VIC 3205

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

2 APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

2.1 Standards and Interpretations affecting amounts reported in the current period
The following new and revised Standards and Interpretations have been adopted in the current year but have had no effect on the amounts reported in these financial statements.

Standards affecting presentation and disclosure

Amendments to AASB 101 'Presentation of Financial Statements'	The amendment (part of AASB 2011-9 'Amendments to Australian Accounting Standards Presentation of Items of Other Comprehensive Income' introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income. The amendments (part of AASB 2012-5 'Further Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle) requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). When the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position.The related notes to the third statement of financial position are not required to be disclosed.

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

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

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

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'	1 January 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	30 June 2014
AASB 10 'Consolidated Financial Statements' and AASB 2011-7	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2015	30 June 2016

3 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of Consolidation and common control transactions

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

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

(b) Revenue Recognition

Rendering of construction services

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date.

Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and it is probable that the economic benefits will flow to the company.

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

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

Sale of display/spec. homes

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

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

Interest income

Interest income is recognised on an accrual basis.

Other

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Income Tax

Tax consolidation

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

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

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

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

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

Nature of tax funding arrangements and tax sharing arrangements

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

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

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Adjustments are made for transactions and events occurring within the tax-consolidated group that do not give rise to a tax consequence for the Group or that have a different tax consequence at the level of the Group.

Deferred tax

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Income Tax (cont'd)

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

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

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

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

<u>Current and deferred tax for the period</u>

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

(d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:
i.) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii.) for receivables and payables which are recognised inclusive of GST.

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

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

(e) Cash and cash equivalents

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

(f) Financial Assets

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

<u>Financial assets at FVTPL</u>

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

<u>Held-to-maturity investments</u>

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

3 **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

(f) Financial Assets (cont'd)

AFS financial assets

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

De-recognition of financial assets

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

Financial Liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

Financial liabilities at FVTPL are stated fair value with any gain or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

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

Finance costs are recognised in profit or loss in the period in which they are incurred.

(g) Inventories

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Property, plant and equipment and intangible assets

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

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

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

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

<u>Internally-generated intangible assets – research and development expenditure</u>
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:
• the technical feasibility of completing the intangible asset so that it will be available for use or sale;
• the intention to complete the intangible asset and use or sell it;
• the ability to use or sell the intangible asset;
• how the intangible asset will generate probable future economic benefits;
• the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
• the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

(i) Leased Assets

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

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

(l) Borrowings
Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised profit or loss over the period of the borrowing using the effective interest rate method.

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(p) Comparatives

In accordance with AASB 101, management has elected to present the consolidated statement of profit or loss and other comprehensive income by function. The change to reclassify expenses by function can provide more relevant and reliable information to users of the financial statement. As a result, comparatives have been reclassified and repositioned for consistency with current year presentation.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY

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

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

	Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000
5 PROFIT FOR THE YEAR		
Profit for the year	8,373	2,363
Profit for the year has been arrived at after charging:		
Loss on sale or disposal of non-current assets	180	506
Office leasing expense	5,656	5,257
Depreciation and amortisation expense	3,933	3,411
Employee benefits expense	51,758	48,417
Finance costs	2,012	2,414
Bad debt	947	-
6 TRADES AND OTHER RECEIVABLES		
Current		
Trade receivables (i)	19,343	20,137
Allowance for doubtful debts	(227)	(170)
	19,116	19,967
Goods and Services Tax receivable	998	-
Other	187	211
Loans to related parties (ii)	-	12,358
Loan to Corporation	144	
	20,445	32,536
Non-current		
Loans to related parties (ii)	15,132	14,851
Loan to Corporation	256	-
	15,388	14,851

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

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

(ii) Loans to related parties are disclosed on a net basis because in the opinion of the directors, the company has the right to offset loan balances.

	Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000
7 INVENTORIES		
Construction contracts	42,597	30,682
Spec, display homes and land at cost	41,463	43,664
	84,060	74,346
8 OTHER ASSETS		
Bond and deposits	123	66
Prepayments	1,183	1,083
	1,306	1,149

9 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements $'000	Computer equipment $'000	Office furniture and fittings $'000	Display home furniture, fixtures & fittings $'000	Motor Vehicles $'000	Plant and equipment $'000	Total $'000
Carrying amount							
Balance at 1 July 2012	3,057	1,595	1,038	128	5,514	1,289	12,621
Additions	209	124	602	4	1,027	-	1,966
Disposals	(1)	(31)	(40)	-	(838)	-	(910)
Balance at 30 June 2013	3,265	1,688	1,600	132	5,703	1,289	13,677
Accumulated amortisation							
Balance at 1 July 2012	(792)	(949)	(264)	(48)	(1,528)	(626)	(4,207)
Impairment losses recognised in profit or loss	(580)	-	-	-	-	-	(580)
Depreciation expense	(726)	(535)	(298)	(19)	(1,093)	(271)	(2,942)
Disposals / transfers	1	31	40	-	446	-	518
Balance at 30 June 2013	(2,097)	(1,453)	(522)	(67)	(2,175)	(897)	(7,211)
Net book value							
As at 30 June 2012	2,265	646	774	80	3,986	663	8,414
As at 30 June 2013	1,168	235	1,078	65	3,528	392	6,466

9.1 Impairment losses recognised in the year

During the year, as the result of the Group's decision to relocate offices, the Group carried out a review of the recoverable amount of leasehold improvements as they are depreciated over the period of the estimated useful life. The review led to the recognition of an impairment loss of $579,750, which has been recognised in profit or loss.

The impairment losses have been included in the profit or loss in the other expenses line item.

	Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000
10 INTANGIBLE ASSETS		
	Computer software	
Carrying amount	3,804	3,234
Accumulated amortisation	(2,187)	(1,211)
Net book value	1,617	2,023
11 DEFERRED TAX ASSETS		
Tax losses recognised	-	-
Temporary differences	9,086	6,065
	9,086	6,065
12 TRADE AND OTHER PAYABLES		
Current		
Trade payables	39,145	32,460
Amounts due to customers under construction contract	32,095	27,811
Other payables and accruals	6,342	4,342
Income tax payable	396	5,779
Goods and services tax payable	-	986
	77,978	71,378
13 BORROWINGS		
Current		
Secured - at amortised cost		
Bank overdraft	-	819
Commercial bills (i)	4,546	24,914
Equipment finance (ii)	1,285	-
Finance lease liability (iii)	550	2,089
Unsecured - at amortised cost		
Loan from a related party (iv)	1,671	-
	8,052	27,822
Non Current		
Secured - at amortised cost		
Commercial bills (i)	10,000	2,142
Finance lease liability (iii)	848	1,248
Unsecured - at amortised cost		
Loan from a related party (iv)	-	1,529
	10,848	4,919

(i) The Group's financing facilities are secured by:

- Deed of cross guarantee and indemnity by Mr. Vallence Gary Simonds and other entities controlled by Mr. Vallence Gary Simonds.
- Registered first and exclusive mortgage debenture over the assets and uncalled capital of the Group.
- Registered first and exclusive mortgage debenture over the assets and uncalled capital of other entities controlled by Mr. Vallence Gary Simonds.
- Various residential mortgages over properties owned by other entities controlled by Mr. Vallence Gary Simonds.

The commercial bill facility of $4,546 million to Jackass Flat has a term of 2 years which matures on 30 Jan 2015. In accordance to the facility agreement dated 30 Jan 2013, the bill is required to be repaid upon the sales of the land. Management has assessed the budget and the business plan at the end of the year and considered the debt is likely to be repaid in full in the next 12 months. Therefore, the loan has been classified as current liability in the consolidated financial report.

	Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000

13 BORROWINGS (CONT'D)

(ii) The equipment loan is secured by 64 motor vehicles. The loan is at a fixed rate of 8.48% with repayment due on 19 June 2014.

(iii) Assets under finance lease. Secured by the assets leased. The borrowings are at an average fixed rate of 6.29% with repayments periods not exceeding 5 years.

(iv) Loan from a related party is unsecured, interest bearing and repayable on 12 October 2013.

14 PROVISIONS

	Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000
Current		
Employee benefits	4,863	4,004
Warranty and contracted maintenance provision	4,784	4,183
	9,647	8,187
Non-current		
Employee benefits	1,026	766
Warranty provision	7,302	5,056
	8,328	5,822

15 DEFERRED REVENUE

	Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000
Arising under construction contracts	5,228	6,638

16 DEFERRED TAX LIABILITIES

	Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000
Temporary differences	12,411	3,555

17 ISSUED CAPITAL

	30/06/13 $	30/06/12 $
27,928,858 fully paid ordinary shares (30 June 2012: 27,928,858)	822,057	822,057

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

The holders of ordinary shares are entitled to receive dividends if declared from time to time and are entitled to one vote per share at meetings of the Company.

18 RETAINED EARNINGS

	30/06/13	30/06/12
Net profit for the year	8,373	2,363
Balance at end of year	18,614	10,241

	Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000

19 CASH AND CASH EQUIVALENTS

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

	Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000
Cash and bank balances	13,560	(819)
Reconciliation of profit for the year to net cash flows from operating activities		
Cash flows from operating activities		
Profit for the year	8,373	2,363
Income tax expense recognised in profit or loss	3,164	(665)
Finance costs recongised in profit or loss	2,012	2,414
Interest received	(53)	(79)
Loss on disposal of property, plant and equipment	180	506
Depreciation and amortisation of non-current assets	3,933	3,411
Impairment loss recognised on inventories and loans to related parties	1,049	-
Impairment of non-current assets	580	-
	19,238	7,950
Movements in working capital		
Decrease/(increase) in trade and other receivables	(124)	(352)
(Increase)/decrease in inventories	(9,936)	18,539
(Increase)/decrease in other assets	(156)	(51)
Increase/(decrease) in trade and other payables	10,573	(27,659)
Increase in provisions	3,967	832
Cash generated from operations	23,562	(741)
Interest paid	(1,869)	(2,414)
Income taxes paid	(2,712)	-
Net cash generated by / (used in) operating activies	18,981	(3,155)

20 COMMITMENTS FOR EXPENDITURE

	Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000
Non-cancellable operating lease payments		
Not longer than 1 year	4,746	4,675
Longer than 1 year and not longer than 5 years	1,941	2,645
	6,687	7,320

21 SUBSEQUENT EVENTS

Subsequent to the financial year ended 30 June 2013, the group has entered into a new lease agreement as a result of management's decision to relocate its head office from 28-32 Albert Road, South Melbourne to 570 St Kilda Road, Melbourne. The group has recognised an impairment loss of $579,750 in the consolidated financial statements to reflect this event.

There are no other subsequent events that require disclosure in this report.

22 REMUNERATION OF AUDITORS

	Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000
Audit or review of the financial statements	130	150
Other non-audit services	10	10
	140	160

	Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000
23 IMPUTATION CREDITS		
Arising from payment of the provision for income tax	2,712	-

24 PARENT ENTITY INFORMATION

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

	Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000
Statement of Financial Position		
Other financial assets	822	822
Trade and other receivables	1,436	6,210
Total Assets	2,258	7,032
Trade and other payables	397	5,779
Total Liabilities	397	5,779
Issued Capital	822	822
Retained earnings	1,039	431
TOTAL EQUITY	1,861	1,253
Income statement		
Operating expense	-	-
LOSS FOR THE YEAR	-	-
Other comprehensive income, net of income tax		
Total items that will not be reclassified subsequently to profit or loss	-	-
Total iems that may be reclassified subsequently to profit or loss	-	-
Other comprehensive income for the year, net of income tax	-	-
Income tax	608	432
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	608	432

25 CONTINGENT LIABILITIES

		Year ended 30/06/13 $ '000	Year ended 30/06/12 $ '000
Customer loan guarantees	(i)	-	50
Other guarantees	(ii)	5,611	2,564
		5,611	2,614

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

(ii) Represents guarantees for property rentals, project contracts, crossing deposits and merchant facility.

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

We have audited the accompanying financial report, being a special purpose financial report, of Simonds Homes Holdings Pty Ltd, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 4 to 23.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We have conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

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

Opinion

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

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2013 and of their performance for the year ended on that date; and

(b) complying with Australian Accounting Standards to the extent described in Note 3, and the *Corporations Regulations 2001.*

Basis of Accounting

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Reid
Partner
Chartered Accountants
Melbourne, 11 October 2013