

Financial Report

Simonds Group Limited (formerly Simonds Homes Holdings Pty Ltd)
For the year ended 30 June 2014

Simonds Group Limited
Financial Report for year ending 30 June 2014

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Directors' report

The directors of Simonds Group Limited submit herewith the annual report of the Company for the financial year ended 30 June 2014. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about the directors

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

Name	Date appointed	Position
Vallence Gary Simonds	24 May 2010	Chairman
Paul McMahon	25 September 2014	Managing Director, Chief Executive Officer
Matthew Chun	25 September 2014	Non-executive director
Leon Gorr	25 September 2014	Non-executive director
Richard Colless	25 September 2014	Non-executive director

The particulars of the Directors are as follows:

Name	Experience and directorships
Vallence Gary Simonds	<ul style="list-style-type: none"> • Gary established Simonds in 1949 and has had a career spanning more than 65 years within the Australian homebuilding industry • Gary has dedicated his career to Simonds and its growth into one of Australia's leading home builders
Paul McMahon	<ul style="list-style-type: none"> • Paul has been in his current role for 7 years (3 years as Group General Manager and 4 years as CEO) • Paul has over 15 years of experience working in the Australian homebuilding industry having initially joined Simonds in 1999 as the Finance Manager for Simonds Group • Paul re-joined Simonds as GM/CEO and built the current management team and overseen the growth in site starts and the establishment of Builders Academy Australia
Matthew Chun	<ul style="list-style-type: none"> • Matthew has over 22 years of senior management and corporate advisory experience and currently runs a private property development and advisory business based in Melbourne • Matthew was previously an Executive Director and CEO of ASX listed Becton Property Group • Prior to Becton Property Group Matthew held positions at Cbus Super Fund and Coles Myer • Matthew holds a Bachelor of Economics from La Trobe University, a Graduate Diploma in Property, Graduate Diploma in Applied Investment and Finance and is a licenced Estate Agent
Leon Gorr (B.Juris., LLB, MAdmin (Monash))	<ul style="list-style-type: none"> • Leon has over 40 years of experience as a client trusted adviser and has been involved within the house construction industry throughout this period • Leon joined HWL Ebsworth's commercial group in 2011 and acts as an advisor across commercial transactions and investments, domestic and offshore estate and succession planning, tax planning and dispute resolution matters • Leon is currently a director of W.A.Blue Gum Ltd (19 years) and Balanced Securities Limited (16 years), Leon was previously a director of Starpharma Ltd • In 2011 Leon was acknowledged for his contribution to the tax profession being inducted as a "Tax Legend" at the 50th Tax Institute of Victoria State Convention

Directors' report (cont'd)

Name	Experience and directorships
Richard Colless	<ul style="list-style-type: none"> Founded Pacific Mutual Australia Limited and served as its Executive Director of Pacific Mutual Australia Limited, a major Australian and New Zealand real estate fund manager Member of JPMorgan Australia Advisory Board from 2005 to 2010 Formerly Consultant to the NSW Premier's Office (1998-1999) and Director of Events NSW (1998-2011) Non-Executive director and Chairman of ING Real Estate Management Ltd, from 2004 until September 2010 Served as Chairman of the Sydney Swans AFL from 1994 to 2014 (the longest serving chairman in the AFL)

Directors' Shareholding

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

Simonds Group Limited			
Directors	Fully Paid Ordinary shares Number of units	Share options Number of units	Convertible notes Number of units
V.G. Simonds	27,928,858	-	-

Company Secretary

Mr. Robert Stubbs held the position of company secretary of Simonds Group Limited from 25 September 2014.

Principal activities

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

Review of operations

The consolidated net profit after tax attributable to the members of Simonds Group Limited for the reporting period was \$7.491 million (2013: \$7.719 million).

Changes in the state of affairs

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

Subsequent events

The following subsequent events have arisen since 30 June 2014:

- The Company changed its name to Simonds Group Limited on 26 September 2014, converting from a private company to a public company.

Future developments

The Group is anticipating a capital restructure within the coming months. As a result a number of wholly owned subsidiary company's names may change and the constitution of Simonds Group Limited may change, subject to the approval of its shareholders. Some dormant entities will be wound up as part of this capital restructuring.

Dividends

The directors declared a fully franked dividend of 5.7 cents per share (\$1.61 million) to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2014. This dividend has been paid and has been included in these financial statements.

Directors' report (cont'd)

Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Director of the Company (as named above), the Company secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Auditor's independence declaration

The auditor's independence declaration is included after this report on page 5.

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

On behalf of the Directors



Vallence Gary Simonds
Chairman

Melbourne, 3 October 2014

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

3 October 2014

Simonds Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Simonds Group Limited.

As lead audit partner for the audit of the consolidated financial report of Simonds Group Limited for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely,



DELOITTE TOUCHE TOHMATSU



Andrew Reid
Partner
Chartered Accountants

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

We have audited the accompanying financial report, of Simonds Group Limited, which comprises the consolidated statement of financial position as at 30 June 2014, 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 9 to 51.

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 in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

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.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

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 Group Limited would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Simonds Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Andrew Reid
Partner
Chartered Accountants
Melbourne, 3 October 2014

Directors' declaration

The directors declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 3.1 to the financial statements; and
- c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity

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

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 3.2 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

On behalf of the Directors



Vallence Gary Simonds
Chairman
Melbourne, 3 October 2014

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2014

	Notes	Year ended 30/06/14 \$'000	Year ended 30/06/13 \$'000 (restated)
Revenue	5	543,803	547,259
Cost of sales		<u>(424,487)</u>	<u>(436,294)</u>
Gross profit		119,316	110,965
Interest income	7	361	157
Other gains and losses	8	(217)	(180)
Administration expenses		(86,699)	(82,295)
Inventory write-down	14	(6,466)	-
Marketing and selling expenses		(14,105)	(15,098)
Finance costs	9	<u>(1,220)</u>	<u>(2,012)</u>
Profit before tax		10,970	11,537
Income tax expense	10	<u>(3,479)</u>	<u>(3,818)</u>
PROFIT FOR THE YEAR		7,491	7,719
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss:		-	-
Items that may be reclassified subsequently to profit or loss:		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>7,491</u>	<u>7,719</u>
Profit for the year attributable to:			
Owners of the Company		<u>7,491</u>	<u>7,719</u>
Total comprehensive income attributable to :			
Owners of the Company		<u>7,491</u>	<u>7,719</u>
Earnings per share			
Basic (cents per share)	12	<u>0.27</u>	<u>0.28</u>
Diluted (cents per share)	12	<u>0.27</u>	<u>0.28</u>

The accompanying notes form part of these financial statements

Consolidated statement of financial position as at 30 June 2014

	Notes	Year ended 30/06/14 \$'000	Year ended 30/06/13 \$'000 (restated)	Year ended 30/06/12 \$'000 (restated)
Assets				
<i>Current Assets</i>				
Cash and bank balances	29	15,895	13,560	-
Trade and other receivables	13	42,946	20,445	32,536
Inventories	14	63,947	84,060	74,346
Other assets	18	1,705	1,306	1,149
Total current assets		124,493	119,371	108,031
<i>Non-Current Assets</i>				
Trade and other receivables	13	160	15,388	14,851
Property, plant and equipment	16	6,839	6,466	8,414
Intangible assets	17	1,889	1,617	2,023
Deferred tax assets	10	2,284	1,970	931
Total non-current assets		11,172	25,441	26,219
Total assets		135,665	144,812	134,250
Liabilities				
<i>Current Liabilities</i>				
Trade and other payables	19	82,789	81,290	71,378
Borrowings	20	1,170	8,052	27,822
Provisions	21	10,126	9,647	8,187
Income in advance	22	7,184	5,228	6,638
Total current liabilities		101,269	104,217	114,025
<i>Non-Current Liabilities</i>				
Borrowings	20	1,700	10,848	4,919
Provisions	21	7,265	8,328	5,822
Deferred tax liabilities	10	10,535	12,408	8,192
Total Non-Current Liabilities		19,500	31,584	18,933
Total liabilities		120,769	135,801	132,958
Net assets		14,896	9,011	1,292
Equity				
Issued capital	23	822	822	822
Retained earnings	24	14,074	8,189	470
Total equity		14,896	9,011	1,292

The accompanying notes form part of these financial statements

Consolidated statement of changes in equity for the year ended 30 June 2014

	Issued capital \$'000	Retained earnings \$'000	Total \$'000
Balance at 30 June 2012	822	10,241	11,063
Restatement (please refer to note 3.4 for details)	<u>-</u>	<u>(9,771)</u>	<u>(9,771)</u>
Balance at 1 July 2012 (Restated)	822	470	1,292
Profit for the year	-	7,719	7,719
Other comprehensive income for the year, net of income tax	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>-</u>	<u>7,719</u>	<u>7,719</u>
Balance at 30 June 2013 (Restated)	<u>822</u>	<u>8,189</u>	<u>9,011</u>
Dividends paid	-	(1,606)	(1,606)
Profit for the year	-	7,491	7,491
Other comprehensive income for the year, net of income tax	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>-</u>	<u>5,885</u>	<u>5,885</u>
Balance at 30 June 2014	<u>822</u>	<u>14,074</u>	<u>14,896</u>

The accompanying notes form part of these financial statements

Consolidated statement of cash flows for the year ended 30 June 2014

	Year ended 30/06/14	Year ended 30/06/13
Notes	\$'000	\$'000
Cashflows from operating activities		
Receipts from customers	538,292	548,119
Payments to suppliers and employees	(510,010)	(524,557)
Cash generated from operations	28,282	23,562
Interest paid	(1,220)	(1,869)
Income taxes paid	-	(2,712)
<i>Net cash generated from operating activities</i>	27,062	18,981
Cashflows from investing activities		
Interest Received	361	53
Proceeds from disposal of plant, property and equipment	427	193
Payments for plant, property and equipment	(3,387)	(1,622)
<i>Net cash used in investing activities</i>	(2,599)	(1,376)
Cash flows from financing activities		
Repayment of borrowings (external)	(15,114)	(26,650)
Proceeds from borrowing (external)	-	15,424
Payment for leases	(975)	(2,850)
Amounts advanced from and (repaid) to related parties	(4,433)	10,850
Dividends paid to shareholder	(1,606)	-
<i>Net cash used in financing activities</i>	(22,128)	(3,226)
<i>Net increase in cash and cash equivalents</i>	2,335	14,379
Cash and cash equivalents at the beginning of the year	13,560	(819)
Cash and cash equivalents at the end of the year	29 15,895	13,560

The accompanying notes form part of these financial statements

Notes to financial statements

1. General information

On 26 September 2014, Simonds Homes Holdings Pty Ltd completed its conversion to a public company. The Company's name changed to Simonds Group Limited (the Company) on that date.

The Company is incorporated in Australia and is a for-profit entity. The Company's registered office and principal place of business is as follows:

Level 4, 570 St Kilda Road
MELBOURNE VIC 3004

These financial statements comprise the consolidated financial statements of the Company and the entities it controls (the "Group"). The entities controlled by the Company are detailed in note 15 to the financial report. The principal activities of the Group are the design and construction of residential dwellings, the development of residential land and providing registered training courses.

2. Application of new and revised accounting standards

The Group has applied all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

As explained below, the adoption of these new and revised Standards and Interpretations has not resulted in changes to the Group's accounting policies and has not affected the amounts reported or disclosure and presentation for the current or prior periods.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

In the current year, the Group has applied for the first time AASB 10 together with the amendments to AASB 10 regarding the transitional guidance. AASB 11, AASB 12 and AASB 128 (as revised in 2011) are not applicable to the Group. AASB 10 *Consolidated Financial Statements* was issued in August 2011 and replaces the guidance on control and consolidation in AASB 127 *Consolidated and separate Financial Statements* and in Interpretation 112 *Consolidation - Special Purpose Entities*. The Group has reviewed its investments in other entities to assess whether the conclusion to consolidate is different under AASB 10 than under AASB 127. No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

The Group has applied AASB 13 *Fair Value Measurement* for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements, except for share based payment transactions that are within the scope of AASB 2 'Share-based Payment', leasing transactions that are within the scope of AASB 117 'Leases', and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

2. Application of new and revised accounting standards (cont'd)

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (cont'd)

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, AASB 13 includes extensive disclosure requirements.

AASB 13 requires prospective application from 1 July 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by AASB 13 for the comparative period.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

The revised standard has changed the accounting for the Group's annual leave obligations. Where the entity does not expect annual leave to be taken within 12 months of the respective service being provided, that portion of annual leave obligations are now measured on a discounted basis. The whole annual leave obligation is a short-term liability as the entity does not have the right to defer settlement beyond 12 months. However, the impact of this change was immaterial since the majority of the leave is still expected to be taken within a short period after the end of the reporting period.

AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to AASB 7 'Disclosures - Offsetting Financial Assets and Financial Liabilities' for the first time in the current year. The amendments to AASB 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments have been applied retrospectively. As the Group does not have any offsetting arrangements in place, the application of the amendments does not have any material impact on the consolidated financial statements.

2. Application of new and revised accounting standards (cont'd)

Standards and interpretations not yet effective

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

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2017	30 June 2018
AASB 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2013-3 'Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	30 June 2015
AASB 2013-4 'Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards - Investment Entities'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	30 June 2015
AASB 2014-1 'Amendments to Australian Accounting Standards' - Part E: 'Financial Instruments'	1 January 2015	30 June 2016

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied the financial year ending
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016	30 June 2017
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1 July 2016	30 June 2017
IFRS 15 'Revenue from Contracts with Customers'	1 January 2017	30 June 2018

The Directors have yet to assess the impact of the adoption of these Standards and Interpretations in future periods on the financial statements of the Group. The Group does not intend to adopt these Standards or Interpretations before their effective date.

3. Significant accounting policies

3.1 Statement of compliance

3.1.1 First-time adoption of Australian International Financial Reporting Standards disclosure requirements

This financial report is the first general purpose financial report prepared by the Company. The Company has complied with all of the recognition, measurement and disclosure requirements of Australian equivalents to International Financial Reporting Standards (A-IFRS) with effect from 1 July 2012. This policy choice has been accounted for in accordance with Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards.

As the Company applied the recognition and measurement requirements of A-IFRS prior to 1 July 2012, there have been no changes to amounts previously recognised in prior period financial statements. On this basis, the directors have elected not to present a detailed explanation on the transition to A-IFRS. The Company has included additional disclosures in these financial statements.

These consolidated financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board (AASB) and comply with other requirements of the law.

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The consolidated financial statements were authorised for issue by the Directors on 3 October 2014

3.2 Basis of preparation

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

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability

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 are rounded off to the nearest thousand dollars, unless otherwise indicated.

3. Significant accounting policies (cont'd)

3.2 Basis of preparation (cont'd)

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

The principle accounting standards are set out below.

3.3 Refinancing of borrowing facilities

The Company's borrowing facilities comprise a bank overdraft, Commercial Bills, Equipment Finance and Finance Lease Liabilities as set out in note 20 and note 26 in this financial report. At 30 June 2014 the drawn facilities, with the exception of the finance lease liability, were classified as current liabilities due to the short term nature of the financing arrangements. The Company is in the process of renegotiating its borrowing facilities with its current financier and expects to renew and obtain its financier's approval of all facilities by 31 October 2014. In the period covered by this financial report, there were no breaches of covenants on any of the borrowing facilities.

3.4 Restatement of deferred and current tax balances

During 2014, as part of an overall review of the Group's tax structure, the Company identified an error in the deferred tax balances relating to construction work in progress (WIP) and purchase order liabilities, which required restatement of the comparative financial statements.

It was impracticable to allocate the deferred tax liabilities on WIP between opening balance liabilities due to the level of granularity of information available in prior periods. Accordingly, opening retained earnings at 1 July 2012 was reduced by \$9.771 million as a result of an increase in the opening deferred tax liability.

The Company was able to allocate the restatement of the deferred tax liability relating to purchase order liabilities between prior periods. Consequently, profit for the year ending 30 June 2013 was reduced by \$0.654 million as a result of a comparable increase in current tax liabilities.

The overall restatement of tax liabilities has reduced opening net assets at 1 July 2013 by \$10.425 million.

3.5 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is

3. Significant accounting policies (cont'd)

3.5 Basis of consolidation (cont'd)

attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

3.6 Business combinations

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

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. Significant accounting policies (cont'd)

3.6 Business combinations (cont'd)

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139, or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

3.7 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business (see 3.6 above) less accumulated impairment losses, if any.

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

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

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

3.8 Revenue recognition

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

3.8.1 Construction Contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

3. Significant accounting policies (cont'd)

3.8 Revenue recognition (cont'd)

When 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.

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

3.8.2 Sale of Speculative Homes, Displays and Land

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

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

3.8.3 Rendering of registered training services

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

3.8.4 Interest income

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

3.9 Leasing

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

3.9.1 The Group as lessee

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

3. Significant accounting policies (cont'd)

3.9 Leasing (cont'd)

qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.10 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.

3.11 Employee benefits

3.11.1 Short-term and Long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. 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 Group in respect of services provided by employees up to reporting date.

3.11.2 Superannuation contributions

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

3.11.3 Termination benefit

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

3.11.4 Bonus entitlements

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

3. Significant accounting policies (cont'd)

3.12 *Taxation*

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

3.12.1 Current tax

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

3.12.2 Deferred tax

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

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

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 Group 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 Group intends to settle its current tax assets and liabilities on a net basis.

3.12.3 Current and deferred tax for the year

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

3. Significant accounting policies (cont'd)

3.12 Taxation (cont'd)

3.12.4 Tax consolidation

The entities, except the trusts within the Group have formed a tax-consolidated group with effect from 1 July 2010 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Simonds Group Limited. Current tax expense (income), deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in those entities using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

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 Group as an equity contribution or distribution.

The Group 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.

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts.

The tax funding arrangements require payments to (from) the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call. Contributions to fund the tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

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

3. Significant accounting policies (cont'd)

3.13 *Property, plant and equipment*

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

Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. The following estimated useful lives are used in the calculation of depreciation:

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

3.14 *Intangible assets*

3.14.1 Intangible assets acquired separately

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

3.14.2 Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

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

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

3. Significant accounting policies (cont'd)

3.15 *Impairment of tangible and intangible assets other than goodwill*

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.16 *Inventories*

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

Construction contracts

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

Land at cost:

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

Speculative Homes and Displays

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

3. Significant accounting policies (cont'd)

3.17 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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

3.17.1 Warranties

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

3.17.2 Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less cumulative amortisation recognised in accordance with AASB 118 'Revenue'.

3.18 Financial instruments

3.18.1 Financial assets

Investments in Subsidiaries

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

Loans and receivables

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

3.18.2 Debt and Equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instruments.

3. Significant accounting policies (cont'd)

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

3.20 Share-based payment transactions

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

Provision for warranties

At each year end the Group considers its legal and constructive obligations for warranties and maintenance on properties constructed. Typically, the Group makes provision for warranties for a period of at least seven years following the completion of a construction contract. The directors take into account the annual build program, history of defects relating to materials used or in services provided and the historical liabilities the Company has assumed in respect of warranties in estimating the provision for warranties. At 30 June 2014, the Group recorded a provision for warranties for \$11.021 million as disclosed in note 21.

Recoverability of internally generated intangible assets

The Group has developed bespoke building program software, which supports the estimating, ordering and project management of the residential construction business. The total costs capitalised in relation to this intangible asset are \$1.399 million and the asset is amortised over a three year period (refer to note 17). The directors annually review the software modules in use and the remaining estimated useful life of the software and consider whether any impairment loss is required to be recognised on the internally generated software. No impairment was recognised at 30 June 2014.

Provision for Display Homes

The Group builds and maintains display homes on residential estates as part of the ongoing marketing activity of the residential construction business. The display homes unsold at reporting date are recorded as inventory in the statement of financial position. At each reporting date the directors assess the display home program and the probability of impairment losses being incurred on the display home inventory. The provision for loss on display home inventory of \$1.972m, as recorded in note 14 is based on the directors' best estimate on the proceeds from sales of these assets less the selling costs.

Provision for Land development

The Group holds land stock for development, which is recorded as inventory in the financial statements. At 30 June 2014, the directors assessed the value of the land stock inventory, using an external valuer to determine the fair value of certain land titles. Consequently, as set out in note 14, a provision of \$4.49 million has been made in this financial report to write down Group's land stock to its estimated net realisable value.

Percentage of completion on the construction contracts

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

5. Revenue

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

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Revenue from residential construction	536,050	538,598
Revenue from registered training (external only)	3,829	1,347
Revenue from land development	3,924	7,314
	543,803	547,259

6. Segment information

6.1 Products and services from which reportable segments derive their revenue

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of products and service the Group provides. No operating segments have been aggregated in arriving at the reportable segments of the Group. Specifically the Group's reportable segments under AASB 8 are as follows:

- *Residential Construction* - this includes activities relating to contracts for residential home construction, speculative home building and the building of display home inventory.
- *Registered training* - this includes activities relating to registered training provided by House of Learning Pty Ltd trading as Building Academy Australia.
- *Land development* - this includes activities relating to land developments and sales.

6.2 Segment revenues and results

The following is an analysis of the Groups revenue and results by reportable segment.

	Segment revenue		Segment profit	
	Year ended 30/06/14	Year ended 30/06/13	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000	\$'000	\$'000
Residential construction	536,050	538,598	14,802	10,933
Registered training	3,829	1,347	1,365	469
Land development	3,924	7,314	(5,197)	135
Total	543,803	547,259	10,970	11,537

Segment revenue reported represents revenue generated from external customers. There were inter-segment sales in the current year of \$0.592m in relation to training services. (2013: \$0.592m).

Segment profit represents the profit before tax earned by each segment. This is the measure of reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. Corporate overheads have been allocated to each of the segments in determining segment profit.

6. Segment information (cont'd)

6.3 Segment assets and liabilities

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Segment assets		
Residential construction	116,597	123,346
Registered training	4,003	490
Land development	15,065	20,976
Total Segment assets	135,665	144,812
Segment liabilities		
Residential construction	119,731	130,981
Registered training	542	42
Land development	496	4,778
Total segment liabilities	120,769	135,801

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

6.4 Other segment information

	Interest expense		Depreciation and amortisation	
	Year ended 30/06/14	Year ended 30/06/13	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000	\$'000	\$'000
Residential construction	512	1,218	3,827	3,933
Registered training	-	-	-	-
Land development	708	794	-	-
Total	1,220	2,012	3,827	3,933

6. Segment information (cont'd)

6.4 Other segment information (cont'd)

In addition to the interest expense and the depreciation and amortisation reported above, impairment losses of \$6.466 million (2013: nil) were recognised in respect of the display homes and land stock held on hand as at 30 June 2014. These impairment losses were attributable to the following reporting segments:

	Impairment losses	
	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Residential	1,972	-
Registered training	-	-
Land development	4,494	-
Total impairment	6,466	-

6.5 Revenue by Geographical region

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

6.6 Information about major customers

No single customer contributed 10% or more to the Groups revenue for the year ended 30 June 2014 and the year ended 30 June 2013.

7. Interest income

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Interest income:		
Bank deposits	361	157
	361	157

8. Other gains and losses

Loss on disposal of property, plant and equipment	217	180
	217	180

No other gains or losses have been recognised, other than disclosed in note 14 in relation to impairment losses recorded on inventory of display homes and land stock.

9. Finance costs

Interest on bank overdrafts and loans	739	1,565
Other interest expense	481	447
	1,220	2,012

10. Income taxes

10.1 Income tax recognised

	Year ended 30/06/14	Year ended 30/06/13	Year ended 30/06/12
	\$'000	\$'000	\$'000
Current tax			
In respect of the current year (restated)	5,666	641	5,779
In respect of prior years	-	-	-
	5,666	641	5,779
Deferred tax			
In respect of the current year	(2,187)	3,177	(6,444)
Total income tax expense/(benefit) recognised in the current year	3,479	3,818	(665)

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

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Profit before tax from continuing operations	10,970	11,537
Income tax expense calculated at 30% (2013: 30%)	3,291	3,461
Effect of income that is exempt from taxation	-	-
Effect of expenses that are not deductible in determining taxable profit	188	357
	3,479	3,818
Adjustments recognised in the current year in relation to the current tax of prior years	-	-
Income tax expense recognised in profit or loss	3,479	3,818

The tax rate used for the 2014 and 2013 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

The income tax payable in respect of the year ended 30 June 2013 has been restated by \$0.654 million as described in note 3.4

10. Income taxes (cont'd)

10.2 Current tax assets and liabilities

	Year ended 30/06/14 \$'000	Year ended 30/06/13 \$'000	Year ended 30/06/12 \$'000
Current tax liabilities			
Income tax payable	8,979	3,708	5,779
	8,979	3,708	5,779

10.3 Deferred tax balances

Deferred tax assets	2,284	1,970	931
Deferred tax liabilities	10,535	12,408	8,192
Net deferred tax	8,251	10,438	7,261

2014	Opening balance \$'000	Under / over \$'000	Recognised in profit or loss \$'000	Recognised directly in equity \$'000	Other \$'000	Closing balance \$'000
Construction						
Contracts income	(12,408)	-	2,077	-	-	(10,331)
Capitalised						
Expenses	(120)	-	(101)	-	-	(221)
Property, Plant &						
Equipment	445	-	67	-	-	512
Blackhole Expenses	210	-	(84)	-	-	126
Maintenance Liability	193	-	55	-	-	248
Employee						
Entitlements	1,248	-	(19)	-	-	1,229
Other	(165)	-	165	-	-	-
Doubtful Debts	159	-	27	-	-	186
	(10,438)	-	2,187	-	-	(8,251)

2013	Opening balance \$'000	Under / over \$'000	Recognised in profit or loss \$'000	Recognised directly in equity \$'000	Other \$'000	Closing balance \$'000
Construction						
Contracts income	(8,643)	-	(3,765)	-	-	(12,408)
Capitalised						
Expenses	(112)	-	(8)	-	-	(120)
Property, Plant &						
Equipment	(115)	-	560	-	-	445
Blackhole Expenses	275	-	(65)	-	-	210
Maintenance Liability	177	-	16	-	-	193
Employee						
Entitlements	862	-	386	-	-	1,248
Other	(78)	-	(87)	-	-	(165)
Doubtful Debts	373	-	(214)	-	-	159
	(7,261)	-	(3,177)	-	-	(10,438)

11. Profit for the year

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Profit for the year has been arrived at after charging (crediting):		
Loss on sale or disposal of non-current assets	217	180
Office Leasing Expense	6,059	5,656
Depreciation and Amortisation Expense	3,827	3,933
Employee Benefits Expense	51,385	48,631
Post-employment benefits (Defined Contribution Plan)	3,518	3,117
Inventory write-down	6,466	-
Finance Costs	1,220	2,012
Impairment of related party receivables	-	947
Bad debt	93	57

12. Earnings per share

	Year ended 30/06/14	Year ended 30/06/13
	Cents per share	Cents per share
Basic earnings per share	0.27	0.28
Diluted earnings per share	0.27	0.28

12.1 Basic earnings per share

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

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Profit for the year attributable to owners of the Company	7,491	7,719
Earnings used in the basic earnings per share	7,491	7,719
	Shares	Shares
Weighted average number of ordinary shares for the purposes of the basic earnings per share	27,928,858	27,928,858

12 Earnings per share (cont'd)

12.2 Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are as follows.

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Earnings used in the calculation of basic earnings per share	7,491	7,719
Relevant adjustments	-	-
Earnings used in the calculation of diluted earnings per share from continuing operations	7,491	7,719

13. Trade and other receivables

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Current		
Trade receivables	24,853	19,343
Allowance for doubtful debts	(320)	(227)
	24,533	19,116
Goods and Services Tax receivable	-	998
Other	425	331
Loans to related parties (refer to note 13.2)	17,988	-
	42,946	20,445
Non-current		
Loans to related parties (refer to note 13.2)	-	15,132
Other	160	256
	160	15,388

13.1 Trade receivables

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

13. Trade Receivables (cont'd)

13.1 Trade Receivables (cont'd)

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

13.1.1 Age of receivables that are past due but not impaired

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
46-60 days	930	917
61-90 days	714	1,398
91-120 days	1,065	844
Over 120 days	1,543	1,565
Total	4,252	4,724
Average age (days)	104	93

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

13.1.2 Movement in allowance for doubtful debts

Balance at the beginning of the year	227	170
Impairment losses recognised on receivables	145	210
Amounts written off during the year as uncollectible	(52)	(143)
Amounts recovered during the year	-	(10)
Balance at the end of the year	320	227

13.2 Loans to related parties

Loans to related parties are disclosed on a net basis as the related party loans are under the common control of Mr. Vallence Gary Simonds. The loans to related parties are non-interest bearing loans.

Loans to related parties are to be settled within the next 12 months.

13.3 Other

Other receivables are generally made up of Asset Protection deposits with councils and other operating activities of the Group.

14. Inventories

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Work in progress on construction contracts	35,955	42,597
Speculative & display homes, land stock	34,458	41,463
Impairment of display homes and land stock	(6,466)	-
	63,947	84,060

Write downs of display homes and land stock to net realisable value recognised as an expense during the year ended 30 June 2014 amounted to \$6.466 million (2013: \$nil). The expense has been disclosed as a separate item on the Consolidated Statement of Profit or loss and other Comprehensive Income.

15. Subsidiaries

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

Name	Principle activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2014	2013
Simonds Homes Melbourne Pty Ltd	Residential – Victoria	Australia	100%	100%
Simonds Industries Pty Ltd	Residential – Victoria	Australia	100%	100%
Simonds Queensland Constructions Pty Ltd	Residential – Queensland	Australia	100%	100%
Simonds SA Pty Ltd	Residential – South Australia	Australia	100%	100%
Simonds WA Pty Ltd	Residential – Western Australia	Australia	100%	100%
Madisson Homes Australia Pty Ltd	Residential – Victoria	Australia	100%	100%
Simonds Personnel Pty Ltd	Payroll service entity	Australia	100%	100%
Simonds Leasing Pty Ltd	Asset service entity	Australia	100%	100%
Simonds IP Pty Ltd	Intellectual property service entity	Australia	100%	100%
Simonds Development Projects Pty Ltd	Asset service entity	Australia	100%	100%
Jackass Flat Developments Pty Ltd	Land development and sales	Australia	100%	100%
House of Learning Pty Ltd	Registered training organisation	Australia	100%	100%
Simonds Homes Melbourne Unit Trust	Dormant Trust	Australia	100%	100%
Simonds Development Projects Unit Trust	Dormant Trust	Australia	100%	100%
Jackass Flat Developments Unit Trust	Dormant Trust	Australia	100%	100%

- Simonds Group limited is the head entity within the tax consolidated group.
- The Groups subsidiaries are members of the tax consolidated group.
- The above listed wholly owned subsidiaries have entered into a deed of cross guarantee with Simonds Group Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge an audited financial report.

16. Property, plant and equipment

Cost	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
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
Cost							
Balance at 1 July 2013	3,265	1,688	1,600	132	5,703	1,289	13,677
Additions	875	310	662	70	1,797	-	3,714
Disposals	(1,940)	(15)	(100)	(7)	(1,186)	(20)	(3,268)
Balance at 30 June 2014	2,200	1,983	2,162	195	6,314	1,269	14,123

* The Groups' obligations under finance leases (note 20) are secured by equipment with a carrying value of \$0.716 million (2013: \$1.285 million) and motor vehicles with a carrying value of \$2.154 million (2013: \$1.398 million)

16. Property, plant and equipment (cont'd)

	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
Accumulated depreciation							
Balance at 1 July 2012	(792)	(949)	(264)	(48)	(1,528)	(626)	(4,207)
Impairment losses*	(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)
Accumulated depreciation							
Balance at 1 July 2013	(2,097)	(1,453)	(522)	(67)	(2,175)	(897)	(7,211)
Depreciation expense	(655)	(193)	(329)	(110)	(1,215)	(180)	(2,682)
Disposals / transfers*	1,857	12	78	5	643	14	2,609
Balance at 30 June 2014	(895)	(1,634)	(773)	(172)	(2,747)	(1,063)	(7,284)
Net book value							
As at 30 June 2013	1,168	235	1,078	65	3,528	392	6,466
As at 30 June 2014	1,305	349	1,389	23	3,567	206	6,839

* In June 2013, as the result of the expiry of the office lease agreement, the directors relocated the head office of the Group. This led to the recognition of an impairment loss of \$0.58 million, which was been recognised in the Statement of profit or loss and other comprehensive income for the financial year ended 30 June 2013.

17. Intangible assets

	Computer Software
	<u>\$'000</u>
Cost	
Balance at 1 July 2012	3,234
Additions	615
Disposals	<u>(45)</u>
Balance at 30 June 2013	<u>3,804</u>
Cost	
Balance at 1 July 2013	3,804
Additions	1,417
Disposals	<u>-</u>
Balance at 30 June 2014	<u>5,221</u>
Accumulated amortisation	
Balance at 1 July 2012	(1,211)
Depreciation Expense	(998)
Disposal/Transfers	<u>22</u>
Balance 30 June 2013	<u>(2,187)</u>
Accumulated amortisation	
Balance at 1 July 2013	(2,187)
Depreciation Expense	(1,145)
Disposal/Transfers	<u>-</u>
Balance 30 June 2014	<u>(3,332)</u>
Net Book Value	
As at 30 June 2013	<u>1,617</u>
As at 30 June 2014	<u>1,889</u>

18. Other assets

	Year ended 30/06/14	Year ended 30/06/13
	<u>\$'000</u>	<u>\$'000</u>
Prepayments	1,548	1,183
Other assets	<u>157</u>	<u>123</u>
	1,705	1,306
Current	1,705	1,306
Non-current	<u>-</u>	<u>-</u>
	1,705	1,306

19. Trade and other payables

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Trade payables	33,284	39,145
Construction accruals	31,959	32,095
Income tax payable	8,979	3,708
Goods and service tax payable	930	-
Other payables and accruals	7,637	6,342
	82,789	81,290

20. Borrowings

Current		
<u>Secured – at amortised cost</u>		
Commercial bills (i)(v)	-	4,546
Equipment finance (ii)	716	1,285
Finance lease liability (iii)	454	550
<u>Unsecured – at amortised cost</u>		
Loan from a related party (iv)	-	1,671
	1,170	8,052
Non – current		
<u>Secured – at amortised cost</u>		
Commercial bills (i)	-	10,000
Finance lease liability (iii)	1,700	848
	1,700	10,848

20.1 Summary of borrowing arrangements

- (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 Group has unused commercial bills facilities of \$13.133 million as at 30 June 2014.
- (ii) The equipment finance is a facility secured by 64 motor vehicles. The loan is at a fixed rate of 8.48% with repayment on 4 July 2014.
- (iii) Assets under finance lease are secured by the assets leased. The borrowings are at an average fixed rate of 6.70% with repayments periods not exceeding 5 years.
- (iv) The loan from a related party is unsecured and not interest bearing.
- (v) The existing bank facility agreements will expire in February 2015 and June 2015 respectively. The Group is currently in the process of negotiating the facilities with the bank. As at 30 June 2014, the Group has no external borrowings, except the finance and equipment lease liabilities

21. Provisions

	Year ended 30/06/14	Year ended 30/06/13
Employee benefits (i)	\$'000 5,837	\$'000 5,889
Warranty and contract maintenance provision (ii)	11,021	12,086
Provision for make good	533	-
	17,391	17,975
Current	10,126	9,647
Non – current	7,265	8,328
	17,391	17,975

(i) The provision for employee benefits represents annual leave and long service leave entitlements accrued and compensation claims made by employees.

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

22. Income in advance

Arising from construction contracts	7,184	5,228
	7,184	5,228
Current	7,184	5,228
Non-current	-	-
	7,184	5,228

23. Issued capital

27,928,858 fully paid ordinary shares (30 June 2013 27,928,858 shares)	822	822
	822	822

23 Issued Capital (cont'd)

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

23.1 Fully paid ordinary shares

	Number of shares		Share capital	
	Year ended 30/06/14	Year ended 30/06/13	Year ended 30/06/14	Year ended 30/06/13
Balance as at 01 July 2013	27,928,858	27,928,858	822,059	822,059
Issue of shares	-	-	-	-
Balance as at 30 June 2014	27,928,858	27,928,858	822,059	822,059

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.

24. Retained earnings

	Year ended 30/06/14	Year ended 30/06/13	Year ended 30/06/12
	\$'000	\$'000	\$'000
Retained earnings	14,074	8,189	470
Balance at the beginning of the year (restated)	8,189	470	(1,893)
Profit attributable to owners of the Company	7,491	7,719	2,363
Payment of dividends	(1,606)	-	-
Balance at the end of the year	14,074	8,189	470

Refer to Note 3.4 for details of the restatement of prior period balances relating to current and deferred tax.

25. Dividends

	2014		2013	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Fully paid ordinary shares				
Interim dividend	-	-	-	-
Final dividend	5.7	1,606	-	-
	5.7	1,606	-	-

The director declared a fully franked dividend of 5.7 cents per share (\$1.61 million) to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2014. This dividend has been paid and has been included in these financial statements.

26. Financial instruments

26.1 Capital risk management

The Board of Director's reviews the capital structure on an ongoing basis. As a part of this review the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group will balance its overall capital structure through the payment of dividends, new share issues, and the issue or repayment of debt.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 20, cash, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings / (accumulated losses), as disclosed in notes 29, 23 and 24.

Operating cash flows are used to maintain and expand the Group's assets, as well as to make the routine outflows of payables, tax, dividends and repayment of maturing debt.

26.2 Categories of financial instruments

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

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	15,895	13,560
Trade and other receivables	43,106	35,833
Financial liabilities		
Trade and other payables	82,789	81,290
Borrowings	2,870	18,900

26.3 Financial risk management objectives

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

26.4 Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. As at 30 June 2014, there were no borrowings.

Interest rate is managed by using a mix of fixed and variable rate debt with the Group's target of approximately 50% of forecast average borrowings held at fixed or variable capped rates of interest. Forecast borrowings are derived from rolling cashflow forecasts which include an allowance for potential acquisitions.

The rates are benchmarked against the BBSY bid rate (Australian Bank Bill Swap Reference Rate – Average Bid Rate) on a quarterly basis.

26 Financial instruments (cont'd)

26.4.1 Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- i) profit for the year ended 30 June 2014 would decrease/increase by \$79,350 (2013: decrease/increase by \$94,500). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings; and
- ii) other comprehensive income for the year ended 30 June 2014 would decrease/increase by \$nil (2013: decrease/increase by \$nil).

The Group's sensitivity to interest rates has decreased during the current year mainly due to the reduction in loans.

26.5 Credit risk management

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

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

Registered training is delivered under the terms provided by the Department of Education and Early Childhood Development (the Department) in accordance with the Victorian Training Guarantee Program. The directors do not consider the terms of this program to expose the Group to material credit risk. Revenue from registered training services is recognised over the duration of the course by reference to the percentage of services provided and when the Group is entitled to invoice the Department for services delivered.

26.6 Liquidity risk management

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

26 Financial instruments (cont'd)

26.6 Liquidity risk management (cont'd)

Year ended 30 June 2014	Weighted average effective interest rate %	< 6 months \$'000	6 -12 months \$'000	>1 -5 years \$'000	Total \$'000
Financial Liabilities					
Equipment finance	8.48	716	-	-	716
Finance lease liability	6.70	252	202	1,700	2,154
Borrowings	5.21	-	-	-	-
Financial Guarantees	-	8,723	-	-	8,723
		9,691	202	1,700	11,593

Year ended 30 June 2013	Weighted average effective interest rate %	< 6 months \$'000	6 -12 months \$'000	>1 -5 years \$'000	Total \$'000
Financial Liabilities					
Equipment finance	8.48	308	977	-	1,285
Finance lease liability	6.29	472	78	848	1,398
Loan from related party	7.42	1,671	-	-	1,671
Borrowings	6.13	980	3,566	10,000	14,546
Financial Guarantees (i)	-	5,611	-	-	5,611
		9,042	4,621	10,848	24,511

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

27. Key management personnel compensation

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

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Short-term employee benefits	8,960	7,641
Post-employment benefits	285	245
Termination benefits	564	-
	9,809	7,886

28. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below. Transactions relate predominantly to expenses incurred by the parent company on behalf of related parties that are not members of the Group.

28.1 Trading Transactions

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

	Year ended 30/06/14	Year ended 30/06/13
	\$	\$
Loans to the entities controlled by the same shareholder	<u>2,857,000</u>	<u>281,000</u>

28.2 Loans to related parties

Please refer to note 13 for details of loans to related parties.

29. Cash and cash equivalents

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

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Cash and bank balances	<u>15,895</u>	<u>13,560</u>
	<u>15,895</u>	<u>13,560</u>

29. Cash and cash equivalents (cont'd)

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

Cash flows from operating activities

Profit for the year	7,491	7,719
Income tax expense recognised in profit or loss	3,479	3,818
Finance costs recognised in profit or loss	1,220	2,012
Interest received	(361)	(53)
Loss on disposal of property, plant and equipment	217	180
Depreciation and amortisation of non-current assets	3,827	3,933
Impairment loss recognised on inventories and loans to related parties	6,466	1,049
Impairment of property, plant and equipment	-	580
	<u>22,339</u>	<u>19,238</u>
Movements in working capital		
(Increase)/decrease in trade and other receivables	(4,513)	(124)
(Increase)/decrease in inventories	13,647	(9,936)
(Increase)/decrease in other assets	(399)	(156)
Increase/(decrease) in trade and other payables	(2,208)	10,573
Increase/(decrease) in provisions	(584)	3,967
Increase/(decrease) in other liabilities	-	-
Cash generated by operating activities	<u>28,282</u>	<u>23,562</u>
Interest paid	(1,220)	(1,869)
Income taxes paid	<u>-</u>	<u>(2,712)</u>
Net cash generated by / (used in) operating activities	<u>27,062</u>	<u>18,981</u>

30. Commitments for expenditure

	Year ended 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Lease commitments		
<u>Non – cancellable operating lease payments</u>		
No longer than 1 year	7,106	4,746
Longer than 1 year and not longer than 5 years	<u>12,218</u>	<u>1,941</u>
	<u>19,324</u>	<u>6,687</u>

The Group has no capital expenditure commitments.

31. Auditors remuneration

	\$	\$
Audit or review of financial statements	188,000	130,000
Non – audit services	200,000	10,000
	388,000	140,000

The Group's auditors are Deloitte Touche Tohmatsu Limited

32. Parent entity information

The parent entity is Simonds Group Limited (formerly 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 30/06/14	Year ended 30/06/13
	\$'000	\$'000
Statement of financial position		
Other financial assets	822	822
Trade and other receivables	6,867	1,436
Total assets	7,689	2,258
Trade and other payables	5,828	397
Total liabilities	5,828	397
Issued capital	822	822
Retained earnings	1,039	1,039
Total equity	1,861	1,861
Income statement		
Dividend Income	1,606	-
Operating expense	-	-
Income tax (expense)/benefits	-	608
PROFIT FOR THE YEAR	1,606	608
Other comprehensive income, net of income tax		
Items that will not be reclassified subsequently to profit or loss:	-	-
Items that may be reclassified subsequently to profit or loss:	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,606	608

33. Contingent liabilities

	Year ended 30/06/14	Year ended 30/06/13
	<u>\$'000</u>	<u>\$'000</u>
Other guarantees (i)	<u>8,723</u>	<u>5,611</u>
	<u>8,723</u>	<u>5,611</u>

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

The Group has in place a guarantee with a Significant Investor Fund for the acquisition and leaseback of displays. There have been no funds received to date.

34. Subsequent events

The following subsequent events have arisen since 30 June 2014:

The following directors were appointed to the Board post year end:

Directors	Position
Paul McMahon	Managing Director, Chief Executive Officer
Matthew Chun	Non-executive director
Leon Gorr	Non-executive director
Richard Colless	Non-executive director

The Company changed its name to Simonds Group Limited on 26 September 2014, converting from a private company to a public company.