# Simonds Group

ANNUAL REPORT 2015

The Simonds Group 2015 Annual General Meeting will be held on Wednesday 18th November at the Pullman Hotel 65 Queens Road, Melbourne, commencing at 1:00pm

Simonds Group

## Contents

# Chairman's welcome

"The past 12 months have been an exciting period for our business as we have transitioned from a private family-owned business to a public company…"

**Dear Investors,**

Welcome to the Simonds Group's inaugural Annual Report. This report aims to provide our investors with a further understanding of the opportunities and growth ahead of us in the coming years.

The past 12 months have been an exciting period for our business as we have transitioned from a private family owned business to a public company following our IPO in November 2014.

This transition has not only provided great challenges but also great excitement; with the past year being one of hard work, great commitment, and it has required a huge amount of energy, drive and intense activity across a number of fronts. I am proud to say that our team and staff have truly showed the depth of skill, knowledge and passion that we have within our business.

At the core of our company are our two key businesses Simonds Homes and Builders Academy Australia (BAA). I am immensely proud of what these businesses have achieved in their respective markets, both with strong brand awareness, continued growth and recognition as leaders within their industries. With more than 65 years experience, Simonds Homes truly is "The Great Australian Builder" and BAA continues to stay true to its core values of being 'builders training builders'.

I am pleased to report that the Group has exceeded the forecasts outlined in the prospectus. Both Simonds Homes and BAA have achieved higher profits than forecast, as well as site starts and student numbers respectively. Both of our businesses compete in challenging markets and we are proud that each business unit continues to grow organically on the strength of their market leading brands.

I look forward to another prosperous year in FY16 and thank you for your continued support.

**Gary Simonds**
Chairman

# Letter from the Managing Director & CEO


**Dear Investors,**

Following our first year as trading as a public company, I am pleased to report that our FY15 results have enabled us to deliver a number of positive outcomes for our Shareholders.

A maiden share dividend of 5.3c per share (fully franked) was announced which reflected a 65% payout ratio for the seven month trading period since the company listed in November 2014.

In addition to the strong dividend payment, the Group also announced an on-market share buy-back program as part of the Group's overall capital management strategy and focus on increasing value for shareholders. The buy-back program was strongly supported by the Simonds Group's Board and will see the Group buy-back up to 5% of the total shares on issue.

Pleasingly, the Group's strategic priorities continue to be executed in line with the companies overarching strategy and in many cases these strategies are ahead of schedule. With a strong national building market and Builders Academy Australia's (BAA) exceptional growth, Group revenue increased by 16.7% on FY14 to $634.4m.

Both Simonds Homes Australia (SHA) and BAA posted record profits for their respective businesses and it is anticipated that this growth will continue in FY16 as both businesses set new benchmarks for their own performance. The Group's pro forma EBITDA result of $34.8m was an increase of 61.1% on FY14.

## A year of continued growth

FY15 was a year of solid growth for the Group. This result reflects numerous strategic decisions taken over the past three years and has been reinforced by very strong market demand for both new homes and quality training in the VET sector.

SHA achieved record site starts of 2,471 dwellings, which was up 11.8% on last year and this increase was aptly assisted by maturing strategic plans in our three growth states of South Australia, New South Wales and Queensland. BAA added a second Certificate IV course in February 2015 which was very well received and course expansion is set to continue with some exciting opportunities due to come into effect in FY16.

The $4.0m acquisition of City-Wide Building and Training Services (CWBTS) was finalised in July 2015 and will play a key role in continuing Builders Academy Australia's growth over the coming years. CWBTS is strategically located in Tweed Heads which is on the border of New South Wales and Queensland, giving BAA access to train students in both states.

As a result of the acquisition, Builders Academy New South Wales and Builders Academy Queensland will be in a position to replicate the model that has seen such success for Builders Academy Victoria. The business as a

# Letter from the Managing Director & CEO *continued…*

whole will be well placed to grow its position as a high-quality training provider in an area of critical skills shortage.

Another key highlight for FY15 was securing an expanded three-year debt facility with the Commonwealth Bank of Australia (CBA). The expanded facility of $39m will allow for greater flexibility to support the Group's organic growth plans, as well as supporting future acquisition opportunities.

## Mission and vision

Given the growth of our business over the past few years, we are  no longer just a building company that operates primarily in Victoria. Our business is now far more diverse and is spread wider geographically than ever before. As a result, we have taken stock of where our business now sits and have adopted a companywide program to establish a new mission and vision statement that reflects our employees, our customers, our students and our investors. The result of this program was the following:

***We're building futures...together***

This is a hybrid version of our previous mantra, "We're in it together…" which still means a great deal to myself, as well as our loyal employees. Beneath this new mantra sits our staff selected values that will drive our business forward and continue to keep our number one asset, our people, working towards our strategic priorities and their own professional development.

## Our key strengths and drivers

In order to achieve our aspirations, we need to understand our key strengths and drivers that have underpinned our success for more than 65 years. Whilst our market and businesses continue to evolve, the same key strengths and drivers remain consistent in achieving great quality outcomes:

- Recruiting and developing industry-leading talent – engaged, passionate and accountable employees and contractors
- Superior market knowledge with responsive tactical behaviours to ensure sales volumes
- Valuing customer feedback that underpins our technology, delivery and product innovation
- Focusing on delivering our products and services on time, every time, within budget, with a great quality outcome
- Meeting the financial requirements of our shareholders.

## Safety

The Group continues to look for ways to improve our safety systems and we pride ourselves as being a top performer in our respective industries. We provide a systematic and collaborative framework and we have chosen to align our systems and processes with an internationally recognised safety management standard. We take the implied moral obligation placed on us as an employer seriously, and we understand the legislative requirements in the jurisdictions that we work.

We continue to promote a strong and ethical work health and safety management program by providing a framework that:

- Identifies and control health and safety risks
- Reduce the potential for accidents
- Ensures legal compliance
- Contributes to continuous improvement performance

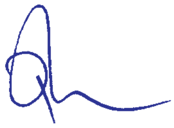
Effective safety management provides the discipline required to achieve the ultimate goal of an injury and illness free work environment, also while achieving 100% legal compliance.

## Our markets

We believe that both of our businesses strategically hit the most stable points of the building and training markets - affordable housing and skills shortages. These remain at the forefront of government planning and underpin key drivers of the Australian economy. Over the past year, much has been talked about in the media in regards to house prices and reviews within the vocational education and training (VET) sector. We believe that our businesses target the strongest parts of these markets and  they are proudly run with the very best governance practices.

## Our people

I would like to take this opportunity to thank our loyal staff, trades, suppliers, trainers and industry partners. Your combined efforts over the past year have been exceptional and you continue to enable our business to deliver high quality, affordable outcomes for our customers and students. Thank you all.



**Paul McMahon**
Managing Director & CEO

**5.3c**
DIVIDEND
(7 month period from listing)

▲ **16.7%**
REVENUE

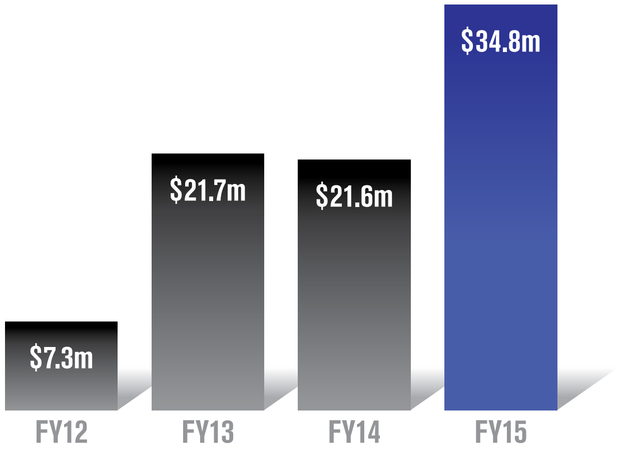
▲ **61.1%**
EBITDA
(Pro forma)

▲ **11.8%**
SITE STARTS

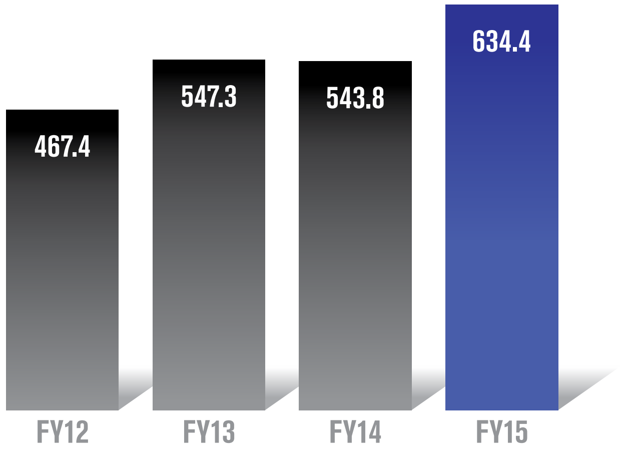
**5,578**
ENROLMENTS

# Financial highlights

Pro forma EBITDA ($m)




Pro forma revenue ($m)




| Pro forma historical | | | | |
|---|---|---|---|---|
| $m | FY13 | FY14 | FY15 | Prospectus |
| Revenue | 547.3 | 543.8 | 634.4 | 638.2 |
| Gross Profit | 112.2 | 116.7 | 142.3 | 140.7 |
| | *20.5%* | *21.5%* | *22.4%* | *22.0%* |
| **EBITDA** | **21.7** | **21.6** | **34.8** | **34.0** |
| **NPAT** | **11.3** | **11.7** | **21.1** | **20.4** |
| EPS (cents) | | | 13.9 | |
| DPS (cents) | | | 5.3 | |
| Div Payout Ratio (on 7 month period since listing) | | | 65% | |

| Statutory Reconciliation ($m) | EBITDA | NPAT |
|---|---|---|
| **Pro forma result** | **34.8** | **21.1** |
| IPO Share-based Payments (non-cash) | (26.8) | (26.8) |
| IPO Costs | (4.9) | (4.9) |
| Restructure & Non-Recurring Items | (0.7) | (0.7) |
| Tax Adjustment | 0.0 | 2.4 |
| **Statutory result** | **2.4** | **(8.9)** |

**Pro forma results**

- Gross Profit of $142.3m compared to prospectus forecast of $140.7m
- EBITDA result of $34.8m compared to prospectus forecast of $34.0m
- NPAT result of $21.1m compared to prospectus forecast of $20.4m
- Earnings per share (EPS) of 13.9c
- Return on capital of 154%

## Share buy-back and dividend

With strong operating cash flows and a previously announced $39 million 3-year corporate debt facility, the Group has long-term confidence in its capital management program. The capital management strategy, combined with funding assurance and strong operational cash flows, enabled Simonds Group to announce a share buy-back scheme effective from 7th September 2015. The Group intends to purchase up to 5% of issued capital as part of the share buy-back; approximately 7.5 million shares.

Fully deployed, this share buy-back would result in annualised EPS growth and the Board believes it represents good value for shareholders where Simonds' shares are trading at a significant discount to the underlying value. This buy-back enhances the Group's existing capital structure whilst still maintaining appropriate balance sheet capacity to fund both organic growth and expansion strategies.

The Simonds Group Board was also pleased to announce the Group's maiden dividend of 5.3 cents for the 7-month period since listing. This dividend represented a payout ratio of 65% which was in keeping with the Group's previously stated guidance on payout ratios.

| Balance Sheet ($m) | | FY15 | FY14 |
|---|---|---|---|
| Assets | Cash / Equivalents | 5.5 | 15.9 |
| | Receivables | 45.0 | 42.9 |
| | Inventories | 71.7 | 63.9 |
| | PP&E | 7.4 | 6.8 |
| | Other | 14.5 | 6.2 |
| **Total Assets** | | **144.1** | **135.7** |
| Liabilities | Trade / other payables | 75.7 | 82.8 |
| | Debt | 2.8 | 2.9 |
| | Provisions | 18.2 | 17.4 |
| | Other | 20.7 | 17.7 |
| **Total Liabilities** | | **117.4** | **120.8** |
| **Net Assets** | | **26.7** | **14.9** |

## Balance sheet

The Group continues to maintain low debt levels utilising its existing facility to cover the working capital requirements of the investments into display homes. However, as at 30 June 2015, the only debt drawn on the corporate debt facility was $2.8m of asset lease finance. This 3-year $39.0m corporate debt facility reflects the confidence of the Group's lending partner and provides significant certainty for the Group in planning future growth strategies.

The increase in 'Other Assets' of $8.3m mostly reflects the payment for the acquisition of the Builders Academy New South Wales and Queensland business (CWBTS), and the ongoing investment in the Group's IT transformation project. There was also a $1.4 million movement in Deferred Tax assets.

The Group has an ongoing commitment to improving productivity through technology; this investment, over FY15 and through to FY16, is a reflection of the commitment to further streamline the Group's sales and construction operations.

# Financial highlights *continued…*

| Summary Cash Flows (pro forma) ($m) | FY15 | FY14 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from customers | 609.0 | 538.3 |
| Payments to suppliers/employees** | (588.2) | (516.2) |
| Interest paid | (1.0) | (1.2) |
| Income taxes paid | (10.3) | 0.0 |
| **Net cash generated from operating activities** | **9.5** | **20.9** |
| **Cash flows from display homes activity** | | |
| Net cash from display homes activities** | (15.7) | 6.2 |
| **Cash flows from investing activities** | | |
| Net cash from investing activities | (8.4) | (2.6) |
| **Cash flows from financing activities** | | |
| Net cash from financing activities | 4.2 | (22.1) |
| **Net increase (decrease) in cash** | **(10.4)** | **2.4** |
| **Cash / Equivalents at end of the year** | **5.5** | **15.9** |

**Pro forma summary reflects proceeds (investment) in Display Homes separately

## Cash flow

Simonds Group's operations continue to produce significant, consistent cash flows from both the residential construction and registered training businesses. Cash flow from operations was $9.5m for FY15 after providing $10.3m of income taxes paid.

## Investing in display homes

As outlined previously, the display home expansion across all of Simonds Homes Australia's regions (in particular in Queensland and New South Wales) resulted in a significant investment of over $15.7m in FY15. Once opened, these displays will be sold and leased back under normal investment arrangements and will provide a net inflow of display home cash flow during FY16.

# Board of Directors

## **Gary Simonds** *Chairman*

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 growing Simonds into one of Australia's leading home builders. Gary holds directorships for a number of private Australian companies.

## **Paul McMahon** *Managing Director & Chief Executive Officer*

Paul has over 15 years experience working in the Australian homebuilding industry having initially joined Simonds in 1999. He has led the executive team of Simonds Group for the last 7 years and has overseen the significant growth of Simonds Homes Australia. Paul was responsible for the successful establishment of Builders Academy Australia as well as the Simonds Group's listing on the ASX.

## **Susan Oliver** *Non-Executive Director*

Susan is currently a Non-Executive Director of CNPR Limited and Coffey International Limited. Susan is also Chair of Scale Investors Limited. Her past Directorships include Chair of Fusion Retail Brands Pty Ltd as well as being a former Non-Executive Director of VLine Corporation, Programmed Maintenance Services Limited, Transurban Group Limited, Just Group Limited, Centro Properties Group and MBF Australia Limited. Susan has been a company Director for more than 19 years and has expertise in building profitable enterprise, restructuring and turnarounds. She has senior management experience in both public and private sectors spanning construction, urban renewal, policy, professional services, innovation and industry development. With a background in strategy, marketing, technology and scenario planning, Susan also manages her own advisory practice and start-up information technology companies and is founding Chair of an angel investor group.

## **Matthew Chun** *Non-Executive Director*

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. He was previously an Executive Director and CEO of ASX listed company, 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.

## **Richard Colless** *Non-Executive Director*

Richard founded and served as Executive Director of Pacific Mutual Australia Limited, a major Australian and New Zealand real estate fund manager. His previous roles included being on a range of public and private company boards. This included being a member of the JPMorgan Australia Advisory Board, consultant to the NSW Premier's Office, Director of Events NSW, Non-Executive Director and Chairman of ING Real Estate Management Ltd. Richard was also Chairman of the Sydney Swans AFL from 1994 to 2014 (the longest serving chairman in the AFL).

## **Leon Gorr** *Non-Executive Director*

Leon has for over 40 years practiced as a solicitor, rendering services as a client-trusted adviser. He has been involved within the house construction industry throughout this period. Leon joined HWL Ebsworth's commercial group in 2011 acting as an advisor across commercial transactions and investments, corporate governance and compliance, 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) and was previously a director of Starpharma Ltd. In 2011 Leon was acknowledged as a 'Tax Legend' at the 50th Tax Institute of Victoria State Convention for his contribution to the tax profession. Leon holds a Bachelor or Jurisprudence and Bachelor of Laws, Masters of Administration and is admitted as a Barrister and Solicitor of the Supreme Court of Victoria and Federal and High Court of Australia.

# Diversified earnings strategy

Simonds Group

**SIMONDS** THE GREAT AUSTRALIAN BUILDER

- Exceeded prospectus forecast
- FY15 pro forma EBITDA of $24.7m (Prospectus $24.3m)
- 2,471 site starts (excluding Madisson Projects Australia)

**BUILDERS ACADEMY** AUSTRALIA

- Exceeded prospectus forecast
- FY15 pro forma EBITDA of $10.4m (Prospectus $9.8m)
- 5,578 course enrolments

**DISCOVER** DEVELOPMENTS

- Land development division
- First site acquired in FY15
- Plans to develop 2-3 projects of 50 lots p.a.

Simonds Group has come a long way from when it was solely a building company with operations only in Victoria and this is reflected in the FY15 results of Simonds Homes Australia (SHA) and Builders Academy Australia (BAA).

For a long time the business has had a strategic focus on broadening revenue streams, not only geographically but also by identifying opportunities to grow the business through product and brand diversity. This evolving strategy will help deal with the peaks and troughs of both market and business sector conditions.

BAA contributed a significant EBITDA result of $10.4m which was approximately 30% of the Group's overall EBITDA result. SHA continued to increase its revenues and recorded an EBITDA result of $24.7m for FY15. Looking ahead to the next few years it is envisaged that the proportion of earnings between BAA and Simonds Homes Australia will remain relatively consistent with this past year.

Discover Developments is a newly formed arm of the business that will bring two key benefits to the group: earnings diversification and land supply to SHA. The first two land parcels were secured in FY15, resulting in a total of 67 house lots. Several potential land opportunities will continue to be investigated.

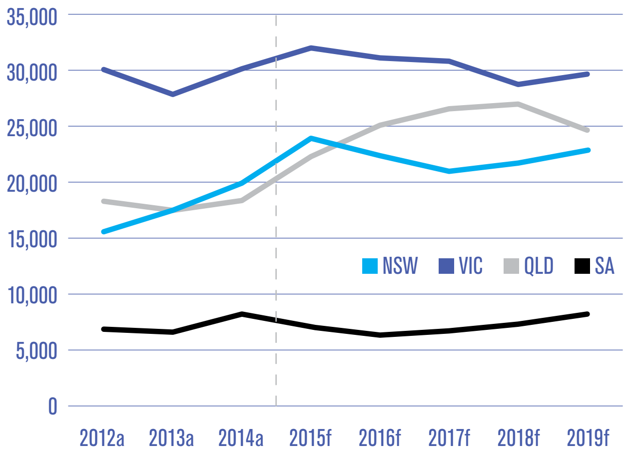
Simonds Group recognise that it continues to be best suited to a capital-light model, therefore future developments are likely to be entered into land funds that contain 2-3 projects per fund. The intention is for Simonds Group to only take a modest stake in each fund and also receive project management fees through facilitating the projects internally. This strategy will diversify earnings for the Group through a minimal risk approach.

Simonds Group has no intention of becoming a large land vendor and will only secure land sites that can deliver on the strategic and financial metrics that have been identified. These developments will typically be parcels that are either too small for the major land vendors or in regional areas that are not being serviced by other land developers.

# Market forces

## Housing

**Detached dwellings forecast (000's)**




*Source: HIA July 2015 update*

### Demand for new housing to remain strong

Due to a combination of underlying demand, migration and low interest rates, national housing commencements are forecast to remain strong for the remainder of the decade. Although there is expected to be a slight reduction in overall national site starts, that is only in comparison to the boom period experienced over the past two years. All states that the Group operates within are expected to have housing starts at levels similar to, or higher than, long-term averages, with Queensland being the state with the most anticipated growth.

The housing industry continues to be underpinned by population growth and in particular, overseas and interstate migration. Although the forecast net migration figures are not at the heights of recent years, migration will continue to be a consistent driver of activity in the Australian housing industry.

If young people feel that they have security in their jobs and interest rates are at reasonable levels, then they will most often look to enter the housing market. Unemployment appears to have stabilised in most parts of the country and although bank lending has tightened up somewhat, Simonds Homes Australia's target market of affordable housing should continue to have strong demand.

## VET training

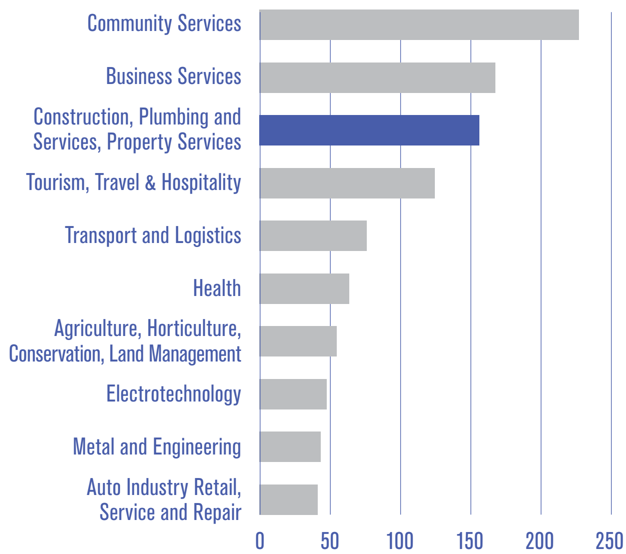
### Opportunity for growth in the building and construction 'vertical'

Builders Academy Australia (BAA) operates in the vocational education vertical of building and construction which focuses on the significant number of training opportunities that sit within the building and construction industry. The vertical has the third highest level of students being funded by governments and it is primarily driven by a combination of skills shortages and a vast number of experienced trades without formal qualifications.

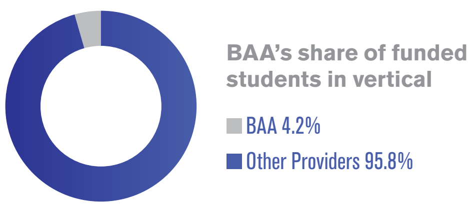
There is a significant upside to increasing the scope of course offerings. BAA has only just scratched the surface with this vertical and will continue to build on the existing programs by rolling out further programs in the next few years.

The national skills shortage list highlights that a large proportion of occupations currently in shortage sit within the building and construction industry. This reinforces a promising future for BAA, as support for up-skilling in these areas is essential and unlikely to be compromised.

**Top 10 govt. funded verticals by student numbers (000's)**




*Source: NCVER 2014 calendar year*




*Source: NCVER (data reflects BAA FY15 student enrolments / NCVER 2014 funding statistics)*

# Building futures through our communities


Simonds Group have been building quality homes for Australians for over 65 years. We believe in creating affordable homes where our customers raise their families, realise their dreams and where vibrant communities are created. The spirit of community is in our DNA at Simonds Group and our people are a great testament to this.

Throughout our proud history, our employees have proactively recognised opportunities to provide support in local communities where our combined contribution has made a significant difference in the lives of many.

We believe that building futures and enriching lives is much more than housing construction. At Simonds Group we help individuals in our industry achieve their goals and build prosperity, by creating homes where families come together, fostering inclusive communities and through delivery of high quality training programs.

That is why over the months and years ahead you will see us striving to create opportunities that will enable more Australians to build their own futures and further enrich their lives.

This means using our core competencies to work with partner programs to support less-fortunate people in our communities; providing scholarships for disadvantaged individuals to learn a trade; and for us to continue to invest in localised programs where our employees work and live.


For us to achieve our objectives we must engage a workforce that reflects diversity in all forms including gender (See page 54), skills, experience and ethnicity, because this is the makeup of our communities. We will include our employees in all of these endeavours so as to ensure they continue to be engaged, loyal and proud to work for us and feel they can express this in ways that are meaningful to them.

As we expand and deepen our corporate social responsibility programs, we will do so with a commitment to our Simonds Group values of integrity, respect, honesty, loyalty and trust.


**Sport**

Sport is a key ingredient in creating friendships, building local connections and creating communities. Engaging in localised sport builds inclusion and creates harmony. In our 65 years we have supported hundreds of local football, netball, boxing and other community-based clubs where citizens come together for health, engagement and fun.

This year we have not only continued our very public support for Geelong Football Club but we have maintained our commitment to supporting local clubs that are at the heart of their community.

**Health**

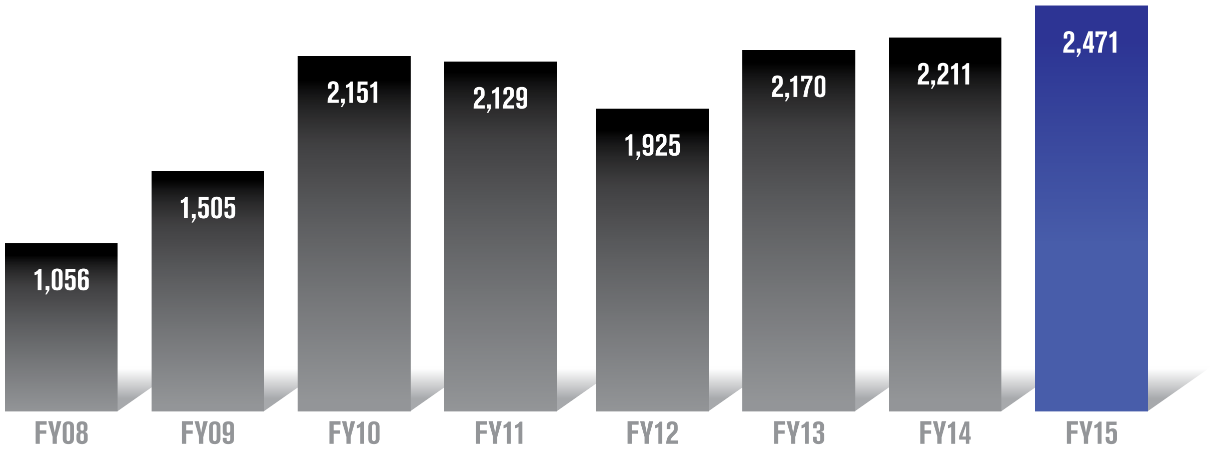
When their lives were touched by cancer, the Simonds family were moved by the care and support that they received personally from Cabrini Health.  Through this experience they learned the significant impact that Cabrini has on thousands of patients and their families every year. Simonds commitment of $300,000 over the past 3 years to the Cabrini Foundation has supported the development of an Acute Clinical Services facility to ensure that they can continue to provide leading edge healthcare and medical support to those in need.

SIMONDS
THE GREAT AUSTRALIAN BUILDER

Simonds Homes Australia is the Group's residential building business that predominantly specialises in the affordable housing market through the construction of detached homes. Established more than 65 years ago in Victoria, Simonds Homes Australia is one of Australia's iconic building brands with operations in Victoria, New South Wales, Queensland and South Australia.

# Exceeding forecasts

Simonds Homes Australia site starts




## Record site starts, EBITDA and revenue

FY15 was a very strong year for Simonds Homes Australia (SHA) with the full year results exceeding the prospectus forecast. During the year 2,471 site starts were commenced and the businesses grew revenue by 12.0% to $600.2m. Significant work has gone into establishing operations in Queensland, South Australia and New South Wales. It is pleasing that all of these states are now profitable in their own right and are very well-positioned for further growth.

The expansion of the businesses display home program is ahead of schedule and at the end of FY15 there were 108 display homes open across 59 geographical locations. The number of display homes will continue to increase over the next 12 months with a significant investment in expanding our footprint in New South Wales, Queensland and South Australia.

The display home expansion program is complimented by the long-term relationships SHA has with the major land vendors around the country; this continues to provide access to the best locations in new display villages and good volumes of sites on which to do house and land packages.

# Multi-brand strategy supporting diversified earnings

SIMONDS
THE GREAT AUSTRALIAN BUILDER

WHOLESALE — ROYCE PROPERTY GROUP

RETAIL — SIMONDS THE GREAT AUSTRALIAN BUILDER; METROPOLITAN

MEDIUM DENSITY & PROJECTS — MADISSON PROJECTS

## Retail

The retail market segment is where SHA generates most of its sales and this is underpinned by one of Australia's most iconic brands, Simonds Homes. This brand has a well-established and diverse product range that suits both first home buyers as well as those looking to upgrade from their existing home. The brand is over 65 years old and is the biggest building brand in Victoria, it is also growing in market presence across the other states that the business operates within.

During the past year a new brand has been established in the knock-down re-build segment of the retail market, that is branded as Metropolitan by Simonds. These homes are typically built within a 20 kilometre radius of the Melbourne CBD where there are older dwellings sitting on expensive land. These sites can either be one new home or dual occupancy sites and they have a higher specification than the Simonds Homes products and therefore have much higher contract values. Metropolitan by Simonds is only a presence in the Melbourne building market, however the intention is to replicate this model in other states in future years.

## Wholesale

The investor market within Australia still remains very strong when it comes to detached housing and the Group's Royce Property Group brand is continuing to perform very well in the investor segment. Royce Property Group typically build houses for local private investors looking to build their personal net wealth through rental properties. Sales are mainly generated through strong associations with professional service groups and the building contracts include landscaping, driveways and fences. This means that investors don't have to do anything to the property before a tenant moves in.

## Medium density and projects

SHA also operates in the medium density project segment through strong relationships with land developers. This brand is known as Madisson Projects Australia and all developments under this brand are business-to-business transactions. Madisson Project Australia typically build medium density townhouse developments and this market represents another opportunity for further growth for the Group.

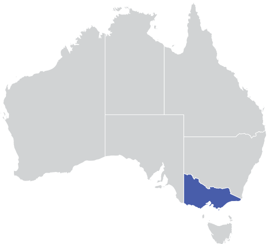
# Simonds Gallery


A key focus of Simonds Homes Australia is to ensure customers have the opportunity to add to their home as they desire and as their budget allows. This is beneficial to not only the company and our customers, but also our suppliers. In order to drive this, we continue to invest significantly in our gallery selection centres. During the past six months a market-leading Simonds Gallery was opened in Norwest Sydney, with a new gallery for the South East Queensland business under construction in Loganholme due to open in October 2015.

With everything needed to personalise a customers home all under the one roof, these inspirational galleries allow customers to browse through the full range of products, finishes and colours that Simonds Homes has to offer.

Customers are booked in for a minimum of one full day where they receive a complete one-on-one service by qualified and experienced Interior Designers. Customers are also taken through a full electrical appointment where they can discuss lighting concepts, locations of power and TV points. Other electrical options such as heating/cooling, alarms, ducted vacuum and Home Theatre are also presented during this appointment.

A visit to the Simonds Gallery is the highlight of the building journey for most customers and the quality of the setting is constantly kept up to date with the latest offering from suppliers. The galleries are also used as a selling point with public access on weekends allowing potential buyers to experience what Simonds Homes has to offer.



# Victoria

## Sustained success as Victoria's no.1 builder

The Victorian business remains the flagship of the Group and despite a competitive market, Simonds Homes remains the number one house builder in Victoria with significantly more site starts than any other competitor. In FY15 the Victorian business saw site start growth of 7.5% with 2,027 homes commencing construction during the period. In addition to this growth there was a 14.0% increase in Sales Accepts for the year which signifies that FY16 will be another strong year for the Victorian business.

Simonds Homes Victoria is a very mature business and as a result the display home program for Victoria is not in the same growth phase as some other states. The display home program for Victoria is predominantly focused on replacing older display homes that are no longer located in the best possible position to capitalise on sales in the growth corridors of Melbourne.

Display homes continue to be built in regional areas that are either seeing significant growth or are underserviced by other builders. This regional strategy has seen Simonds Homes become the most recognised brand in most regional centres.

The Metropolitan by Simonds brand is set to expand its market presence from one display home to three in the next 12 months, with display homes to be added in Balwyn and Caulfield. This will complement the existing display home on Burke Road Camberwell and they will be supported by a brand new Metropolitan by Simonds showroom in the heart of Malvern. The Malvern showroom will give existing and potential customers the opportunity to experience the specification level and quality that can be expected when they commence construction of their dream home.

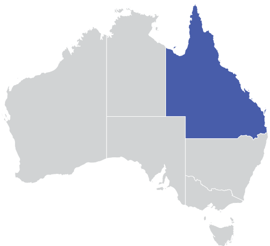
# South Australia

## Continued solid results in a steady market

The South Australian business continues to deliver solid results and is an excellent example of what can be achieved in a smaller market that has been impacted by challenging economic conditions. FY15 saw a 21.0% increase in site starts in South Australia with 161 homes commenced and strong market-share growth expected to continue.

Sales Accepts for FY15 increased by 43.9% when compared to FY14 , this has created a very healthy pipeline of work heading into FY16. This continued success has given the business confidence to invest into the South Australian market and that is reflected by the expanding display home program that is underway. Sites have been secured to increase the number of display homes in South Australia to 10 display homes across 5 locations by June 2016.

Display Centres   Coming Soon

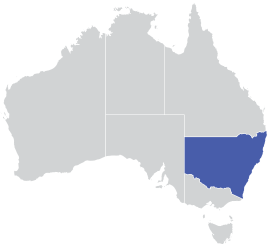
# Queensland

## Well positioned in a rising market

The Queensland business continues to grow with a 54.5% increase in site starts for FY15, with 173 homes commencing construction. The Queensland market has recovered from a lull over the past few years and is anticipated to remain quite strong for the medium term. The sales team in Queensland delivered a  very strong result in the past year and is continuing to achieve strong sales against more established competitors.

The display home program in South East Queensland continues to expand with the recent opening of the first display home on the Sunshine Coast. By June 2016 the business will have 22 display homes open across 13 locations and will be on its way to being a household name amongst consumers.

In addition to the display home program, a new head office with a market-leading gallery is due to open in October 2015. This gallery will enable customers to have a far greater choice than previously available and will enhance the building experience for customers that have either already decided to build with Simonds Homes, or that are considering which builder they would like to use.



# NSW

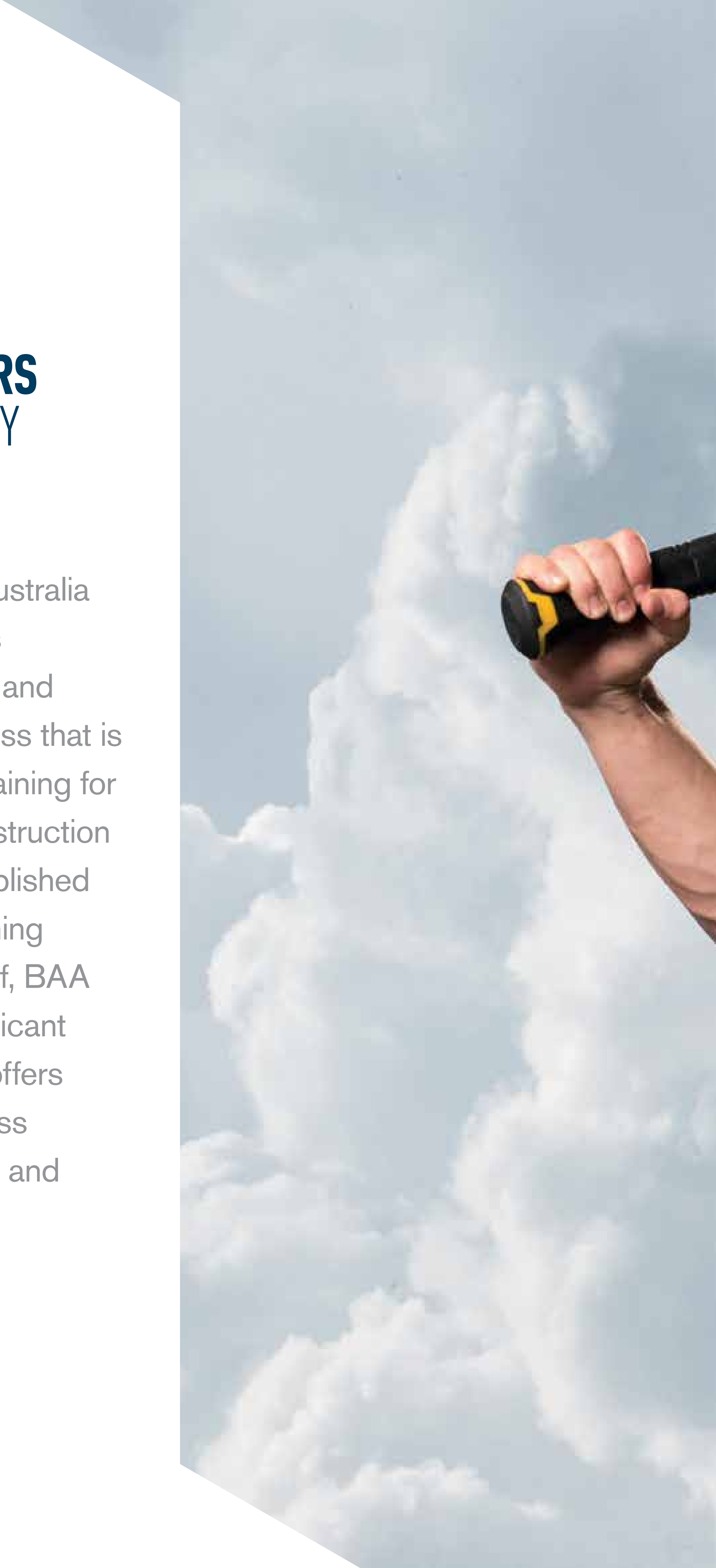
## Retail segment is the key to the second phase of growth

The NSW business had a busy FY15 while establishing its team and presence in the market. At the end of FY15, almost all of the 110 site starts were sourced through the Group's wholesale division, Royce Property Group. This has allowed the business to establish trades and suppliers without having the overheads that come with having a retail business. A large number of these homes were constructed in regional towns such as Leeton, Orange, Griffith and Maitland.

The fact that the booming retail market of Sydney has not yet been capitalised on, highlights the opportunity that lies ahead of the NSW business. The retail program is well under way with sites secured to enable the business to have 11 display homes open across 5 five locations by the end of FY16. These will be complimented by a market-leading Simonds Gallery that was opened in May 2015.



Builders Academy Australia (BAA) is the Group's vocational education and training (VET) business that is focused on quality training for the building and construction industry. Initially established 10 years ago for training the Group's own staff, BAA has undergone significant expansion and now offers external training across Victoria, Queensland and New South Wales.




B A
B A

# Quality training, compliance and growth

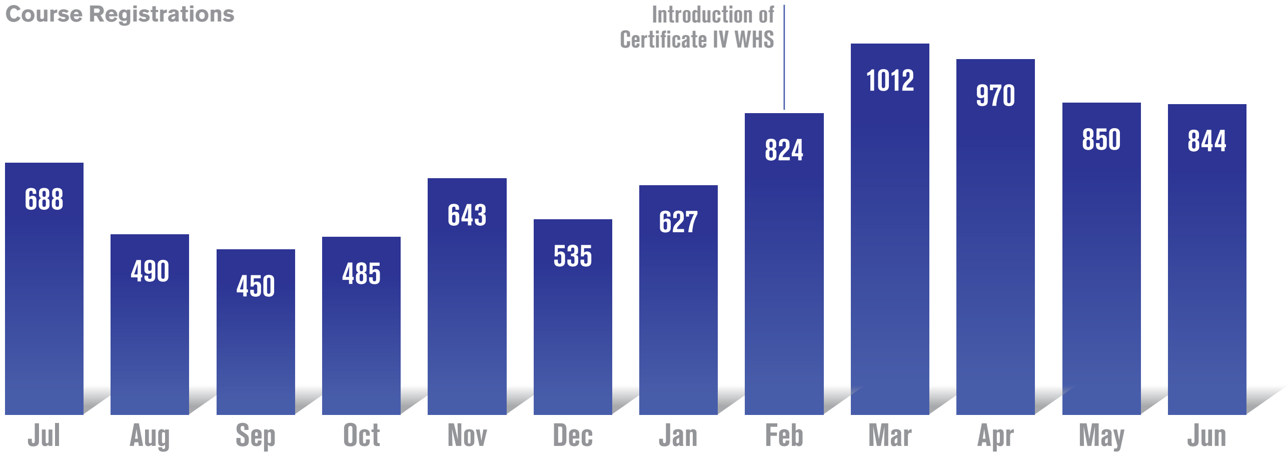
Builders Academy Australia (BAA) delivered an outstanding financial performance in FY15, set against a backdrop of restructuring for growth, an intense focus on compliance and establishing new businesses in New South Wales and Queensland. The BAA team has truly done a remarkable job of keeping the business forging ahead through such a significant period of growth.

BAA delivered on its prospectus forecast in FY15 by exceeding its EBITDA forecast by 6.1% and taking its revenues to new heights. These results have only been possible through the efforts of the Victorian business and this will be built upon through the acquisition of City-Wide Building & Training Services (CWBTS) which now gives BAA a launching pad into the Queensland and New South Wales markets.

The business has found success through identifying dormant needs within the building and construction industry and the business is confident that it can replicate this method of success in Queensland and New South Wales.

A major focus over the past 12 months has been to improve BAA's ability to source students from its own internal sales activities and the results have been very strong. BAA's targeted marketing strategy has resulted in more that 50% of its students being sourced through internal channels as opposed to third party referrers.

It was recently announced that BAA has established an Independent Advisory Committee to support the business through future growth and industry changes. BAA prides itself on being best-in-class when it comes to compliance and governance; by having very well credentialed, highly regarded individuals offering advice and guidance, BAA will continue to have the very best practices in the industry.




## Course expansion to drive future growth

The second half of FY15 saw a significant increase in the number of course registrations. This was in part due to the continued demand for the Certificate IV Building & Construction. It was also a result of the introduction of the Certificate IV Workplace Health & Safety which is being completed by a large percentage of those students doing the Cert IV Building & Construction. Course Registrations are the lead indicator of performance for BAA and it is anticipated that registration numbers will continue to increase with the implementation of BAA's strategic plans.

At the end of FY15 the total number of enrolled courses was 4,155 which represents a very promising pipeline for the business heading into FY16. Although course commencements are expected to increase, many of the new courses will vary in fees payable; meaning that the number of enrolments are forecast to increase at a faster rate than revenue in future years.

Student engagement and course quality are two of the foundation metrics that the business is built upon. BAA continues to qualify each student's commitment at registration and aims to deliver courses which are engaging so as to ensure the best experience for all students. It is not possible to have every student who enrols complete their course, however it is very pleasing that 90% of students that enrolled in courses in FY15 had either completed their course or were still being actively educated at the end of FY15.

BAA starts FY16 being positive about what the next 12 months will bring, with a number of new courses set to launch by December 2015 and further courses to follow in 2016.

# A proven strategy of 'builders training builders'

| Education Level | Learning Description | Status |
|---|---|---|
| Advanced Diploma | Selecting contractors, overseeing work and quality, and liaising with the client | › Expected to commence in 2H FY16 |
| Diploma | Specialised skills/project management skills.<br>Building and construction management<br>Business management | › Commenced training in 2 qualifications<br>› 2 more in late 2H FY16 |
| Certificate IV | Building and construction, sales, frontline management<br>Management qualifications | › 3 qualifications<br>› At least 6 more in FY16 |
| Certificate III | Trade qualifications.<br>Carpentry, joinery, paving, concreting, tiling etc. | › 3 qualifications<br>› At least 5 more in FY16 |
| Certificate II | Introductory building and construction courses and pre-apprenticeship | › 2 qualifications |
| Short Courses | 1-5 day short courses that provide experience to students in specialist areas | › To be introduced 2H FY16 |

Investors will often hear BAA referring to the building and construction 'vertical'. The vertical refers to BAA's primary focus on delivering courses related to skills-shortage areas, including building and construction and other related industries. Although not all courses are presently on BAA's scope, anything from an advanced diploma right down to short courses within this vein are considered part of this vertical. By having this highly focused approach, BAA can deliver better quality training, have a very clear marketing message, have expert trainers and an industry-leading curriculum by sticking with what the business knows best… building and construction.

A key part of a Registered Training Organisations (RTO) strategy has to be compliance and governance and BAA is very supportive of the high standard that RTO's are held to. The compliance requirements of RTO's are stringent and those operating with loose compliance will continue to be found out. BAA is pleased to say that the business has not yet had any substandard audits and BAA is confident that its systems and Independent Advisory Committee will continue to hold the business in good stead.

BAA continues to promote its catchcry of 'builders training builders'. BAA is very proud of the quality of its trainers and this can only be achieved by having trainers with both practical and current experience. It is a requirement of all trainers working for the business, to not only have the necessary technical qualification but to also have recent hands-on experience. Many of BAA's trainers are 'on the tools' during the day and then training in classrooms at night.

# Branding success driving new students

BAA's marketing campaigns over the past 12 months have exceeded all expectations and with every radio or television ad that goes to air, the brand recognition of BAA rises. BAA is represented by a fictitious character named Bob who is a carpenter by trade and many Victorian's have now heard Bob's call to action. The feedback that has been received, not only from students but also from enquiries, has been nothing short of exceptional.

The overall marketing strategy aims to drive potential students directly to internal phone lines. When BAA first ran a campaign during the AFL grand final in 2014, the business was inundated with phone calls for the  following weeks. There is no reason to suggest that similar campaigns won't be just as effective in New South Wales and Queensland in FY16 .

BAA's target demographic is very clear and this ensures that the marketing strategy and financial spend has a very high impact. By only operating in the building and construction vertical, the brand ambassador is able to cut through market segments, such as the recently launched plumbing courses. These campaigns also support BAA's internal sales strategy which allows the business to have greater visibility over sales pipelines, increased control and efficiency.


SIMONDS GROUP LIMITED

# FY15 Financial Report

Contents

# Director's Report

The directors of Simonds Group Limited (the 'Company') submit herewith the annual financial report of the consolidated entity consisting of the Company and the entities it controlled (the 'Group') for the financial year ended 30 June 2015. 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 | Position | Appointment Date |
|---|---|---|
| Vallence Gary Simonds | Chairman | 24 May 2010 |
| Paul McMahon | Managing Director & Chief Executive Officer | 25 September 2014 |
| Matthew Chun | Non-Executive Director | 25 September 2014 |
| Richard Colless | Non-Executive Director | 25 September 2014 |
| Leon Gorr | Non-Executive Director | 25 September 2014 |
| Susan Oliver | Non-Executive Director | 6 October 2014 |

The particulars of the directors are as follows:

| Name | Experience and Directorships |
|---|---|
| Vallence Gary Simonds | › Gary established Simonds in 1949 and has had a career spanning more than 65 years within the Australian homebuilding industry<br>› Gary has dedicated his career to Simonds and its growth into one of Australia's leading home builders<br>› Gary holds directorships for a number of private Australian companies. |
| Paul McMahon | › Paul has over 15 years of experience working in the Australian homebuilding industry having initially joined Simonds in 1999.<br>› Paul has led the executive team of Simonds Group for the last 7 years and has overseen the growth in Simonds Homes site starts, the establishment of Builders Academy Australia, and the Simonds Group's listing on the ASX. |
| Matthew Chun | › 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<br>› Matthew was previously an Executive Director and CEO of ASX listed Becton Property Group<br>› Prior to Becton Property Group Matthew held positions at Cbus Super Fund and Coles Myer<br>› 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. |
| Richard Colless | › Founded and served as Executive Director of Pacific Mutual Australia Limited, a major Australian and New Zealand real estate fund manager.<br>› Member of JPMorgan Australia Advisory Board from 2005 to 2010<br>› Formerly Consultant to the NSW Premier's Office (1998-1999) and Director of Events NSW (1998-2011)<br>› Non-Executive Director and Chairman of ING Real Estate Management Ltd, from 2004 until September 2010<br>› Served as Chairman of the Sydney Swans AFL from 1994 to 2014 (the longest serving chairman in the AFL). |
| Leon Gorr (B.Juris., LLB, MAdmin (Monash) | › Leon has over 40 years of experience as a client trusted adviser and has been involved within the house construction industry throughout this period<br>› 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<br>› Leon is currently a director of W.A.Blue Gum Ltd (19 years) and Balanced Securities Limited (16 years) and previously a director of Starpharma Ltd<br>› 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. |

# Director's Report

| Name | Experience and Directorships |
|---|---|
| Susan Oliver | › Susan is currently a director of ASX listed companies Coffey International and CNPR. Susan is also Founding Chair of Scale Investors and a member of the Victorian Council for the Australian Institute of Company Directors<br>› Susan's past directorships include Transurban Group, Programmed Group, The Just Group, MBF Australia and the restructure Board of Centro Properties Group. Susan was also chair of Fusion Retail Brands, a privately owned retail group comprising Colorado, Jag, Diana Ferarri, Williams and Mathers brands<br>› Susan has contributed significantly to the innovation, IT and arts policy agendas in Australia and has been widely published on issues such as alternative futures for business in Australia<br>› Susan has received multiple awards including the Prime Minister's Centenary Medal 2003 and was one of Australian Financial Review's top 100 women of influence in 2013<br>› Susan holds a Bachelor of Property and Construction from the University of Melbourne and a Certificate in Financial Management AIM. |

### Directors' shareholding

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

| Directors | Fully Paid Ordinary Shares Number of Units | Share Options Number of Units | Convertible Notes Number of Units |
|---|---|---|---|
| Vallence Gary Simonds | 56,138,895 | - | - |
| Paul McMahon | 4,040,561 | - | - |
| Leon Gorr | 56,180 | - | - |
| Susan Oliver | 17,000 | - | - |

### Remuneration of key management personnel

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

### Company Secretary

Mr. Robert G Stubbs held the position of Company Secretary of Simonds Group Limited from 25 September 2014. Robert holds a Bachelor of Commerce from the University of Queensland, Graduate Diploma in Banking and Finance from Monash University and MBA from Victoria University.

### 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.

# Director's Report

## Operating and financial review

### *Earnings per share*

The directors have elected to present Earnings per Share (EPS) on both a statutory and pro forma basis. The calculation of 'Statutory EPS' is presented in Note 12. The calculation of 'Pro forma EPS' is presented below.

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

- profit after tax attributable to shareholders (Statutory Profit); and
- the weighted average number of ordinary shares outstanding during the year ended 30 June 2015, which have been applied retrospectively in calculating EPS for the comparative period.

Pro forma EPS is a non-IFRS measure which has been calculated based on:

- statutory profit after tax adjusted on a pro forma basis for:
    - the impacts arising from the IPO related costs; and
    - related income tax effect
- the weighted average number of ordinary shares outstanding during the year ended 30 June 2015:
    - Basic: 147,625,959
    - Diluted: 148,604,182

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

| Pro Forma EPS | Note | 30 June 2015 Cents per Share | 30 June 2014 Cents per Share |
|---|---|---|---|
| Basic | 12 | (6.02) | 5.36 |
| Diluted | 12 | (5.98) | 5.36 |

| Statutory EPS | Note | 30 June 2015 Cents per Share | 30 June 2014 Cents per Share |
|---|---|---|---|
| Basic | | 14.31 | 8.36 |
| Diluted | | 14.22 | 8.36 |

### *Balance sheet*

The Company's healthy balance sheet with strong cash reserves and unused borrowing facilities of $30.827 million as at 30 June 2015, places the company in a strong position for future growth.

### *Operating cash flows*

Cash generated from operations included in the cashflow statement on page 66 of the financial statements are negative for the period. Increased investment in display homes to support the national footprint strategy, an increase in trade receivables as a result of increased revenue and a temporary change in invoicing cycles resulted in this net cash outflow.

### *Business overview*

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

Simonds Homes is the number one homebuilder in Victoria and currently operates 108 display homes in over 59 locations across Victoria, Queensland, South Australia and New South Wales.

Builders Academy Australia is a Registered Training Organisation with a focus on offering nationally accredited qualifications in building and construction. The origins of Builders Academy Australia date back more than ten years, when the Simonds Group established its training division. Embedded within one of Australia's leading home builders, Builders Academy Australia is 'builders training builders', offering a clear career employment pathway for course participants as well as a well-trained network of employees, suppliers and contractors of Simonds Homes.

# Director's Report

### ***Outlook***

Simonds Homes Australia's sales pipeline at an all-time high with the Growth States of News South Wales, Queensland and South Australia the key to expanded future earnings for Simonds Homes Australia.

BAA course pipeline continues to grow with new course offerings as the Company continues to diversify future earnings. Facilitating job opportunities for graduates of BAA courses continues to be a key focus for BAA.

Across the Group, future acquisition opportunities will continue to be explored for both Simonds Homes and BAA.

### ***Risk management***

The risk management process at Simonds Group Limited has been established to analyse and manage business risks, as well as identify business process improvement opportunities. The risk assessment process includes an estimation of the likelihood of risk occurrence and potential impact on the financial results. All business units perform risk assessments on a regular basis and this is reported to the Audit & Risk Committee where relevant

*Downturn in the industries in which we work*

The Company's revenue and growth is susceptible to any downturn in the industries and geographies we service. The Company has developed a diversified portfolio of businesses with exposures across industries and geographies and across a broad range of service offerings. While general economic conditions are outside the Group's control, this diversification mitigates the risk of a downturn in any one area.

*Competition*

Simonds Group Limited's business is susceptible to competition for the provision of homes and course offerings in the markets in which we operate. This risk is mitigated by a large diversified client base reducing the impact of pricing strategies and demands from any one customer.

*Reliance on key personnel*

There can be no assurance that the Company will be able to retain key personnel and the departure of such personnel may affect adversely the business until suitable replacements are recruited. The Company endeavours to ensure that it remains competitive in terms of remuneration and other incentives, and reviews employee incentive arrangements from time to time with a view to aligning management's and employees' interests with those of the Company and its shareholders.

*Other risks*

- Operational risk;
- Risks associated with integration of acquired businesses;
- Financial risks arising from fraud, regulatory breaches and bad debts.

# Director's Report

### Non-IFRS financial information

The financial measures included in the Directors' Report have been calculated to exclude the impact of various costs and adjustments associated with the Company's listing on the stock exchange. The directors believe the presentation of non-IFRS financial measures is useful for the users of this financial report as they reflect the underlying financial performance of the business and can be directly compared to the forecasts given in the Prospectus issued on 22 October 2014.

### Reconciliation of statutory financial statements to pro forma results

A reconciliation of the 2015 statutory to pro forma results is summarised below as follows:

| Year Ended 30 June 2015 | Sales | EBITDA [1] (Unaudited) | EBIT [2] (Unaudited) | NPAT |
|---|---|---|---|---|
| FY2015 statutory results | 628.8 | 2.4 | (1.6) | (8.9) |
| Impact of statutory reclassifications | 5.6 | - | - | - |
| Offer costs | - | 4.9 | 4.9 | 4.9 |
| Equity settled executive payments | - | 26.8 | 26.8 | 26.8 |
| IPO restructure costs | - | 0.6 | 0.6 | 0.6 |
| Non-recurring items | - | 0.1 | 0.1 | 0.1 |
| Impact of applying effective tax rate | - | - | - | (2.4) |
| FY2015 pro forma results | 634.4 | 34.8 | 30.8 | 21.1 |

[1] *EBITDA is NPAT (-$ 8.883 million) before interest ($0.530 million), tax ($6.751 million) and depreciation & amortisation ($4.022 million).*
[2] *EBIT is NPAT (-$8.883 million) before interest ($0.530 million) and tax ($6.751 million).*

### Changes in the state of affairs

The Company changed its constitution during the year ended 30 June 2015 and converted from an Australian proprietary company to an Australian public company. During the year ended 30 June 2015, the Company undertook an Initial Public Offering (IPO) on the Australian Stock Exchange (ASX) in order to facilitate the sale of 59.72% interest in Simonds Group Limited. Following the completion of the offer, entities associated with Vallence Gary Simonds, Paul McMahon and other management owned 60,987,716 shares or 40.28% and other investors owned 90,424,552 shares or 59.72% of the Company.

### Subsequent events

The following subsequent events have arisen since 30 June 2015:

*City-wide building and training services acquisition of 1 July 2015*

On 1 July 2015, the acquisition of City-Wide Building and Training Services was completed. Cash consideration of $3.0 million was paid at the date of completion, and a further contingent consideration of up to a maximum of $1.0 million may be payable subject to specific performance related key performance indicators. Management is currently assessing the goodwill on acquisition and this will be disclosed in the subsequent financial period.

*Share buy-back*

The Company intends to undertake an on-market share buy-back ('buy-back') to enable the Company to buy-back up to a maximum 7.5 million shares within a 12 month period. The buy-back is part of the Company's ongoing capital management strategy. The share buy-back is expected to commence on 7 September 2015 for a period of no more than 12 months. The Company will only buy-back shares at such time and in such circumstances as it considers beneficial to the efficient capital management of the Company.

# Director's Report

### Dividends

The directors declared a fully franked special dividend on 24 September 2014 of 13.96 cents per share ($19.501 million) to the holders of the pre IPO fully paid ordinary shares in respect of the financial year ended 30 June 2015. This dividend was paid to facilitate the assignment and repayment of the majority of related party loans outstanding. As at 30 June 2015, loans to related parties amounted to nil (30 June 2014: $17,988 million).

In respect to the financial year ended 30 June 2015, the directors declared a final dividend of 5.30 cents per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares to be paid on 25 September 2015. Dividends will be paid to holders of shares under the Simonds Group Limited Employee Share Plan on 29 September 2015.

### Indemnification of officers and auditors

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

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

### Directors meetings

The following table sets out the number of directors meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 15 board meetings, 6 Nomination and Remuneration Committee meetings and 4 Audit and Risk Management Committee meetings were held.

| Directors | Board Meetings | | Nomination and Remuneration Committee | | Audit and Risk Management Committee | |
|---|---|---|---|---|---|---|
| | Held* | Attended | Held* | Attended | Held* | Attended |
| Vallence Gary Simonds | 15 | 15 | - | - | - | - |
| Paul McMahon | 13 | 13 | - | - | - | - |
| Matthew Chun | 13 | 13 | 6 | 6 | 4 | 4 |
| Richard Colless | 13 | 11 | - | - | - | - |
| Leon Gorr | 13 | 12 | 6 | 6 | 4 | 4 |
| Susan Oliver | 12 | 12 | 6 | 6 | 4 | 4 |

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

### Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 32 to the financial statements.

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

The directors are of the opinion that the services as disclosed on note 32 to the financial statements do not compromise the external auditors independence, based on advice received from the Audit and Risk Committee, for the following reasons:

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

# Director's Report - Remuneration Report

## Remuneration report

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of key management personnel (KMP) for the year ended 30 June 2015.

The KMP disclosed [(1)] in this report are listed in the table below:

| Name | Position | Appointment Date [(4)] |
|---|---|---|
| Vallence Gary Simonds | Chairman | 25 September 2014 |
| Susan Oliver | Independent Non-executive Director | 6 October 2014 |
| Matthew Chun | Independent Non-executive Director | 25 September 2014 |
| Richard Colless | Independent Non-executive Director | 25 September 2014 |
| Leon Gorr [(5)] | Independent Non-executive Director | 25 September 2014 |
| Paul McMahon | Managing Director and Chief Executive Officer (CEO) | 25 September 2014 |
| Robert Stubbs | Chief Financial Officer (CFO) & Company Secretary | 25 September 2014 |
| Michael Gerolemou | Chief Human Resources Officer (CHRO) | 1 November 2014 |
| Chris Troman [(2)] | Chief Operating Officer (COO) | 15 December 2014 |
| Gerard Healy [(3)] | General Manager, Builders Academy Australia (GMBAA) | 1 November 2014 |

[(1)] *No disclosed KMP were KMPs at 1 July 2014 and have since resigned*
[(2)] *Chris Troman has moved into role of CEO – Simonds Homes as at 1 July 2015*
[(3)] *Gerard Healey has moved into role of CEO – BAA as at 1 July 2015*
[(4)] *Appointment date is the date appointed to position as at 30 June 2015.*
[(5)] *Leon Gorr is a Partner of HWL Ebsworth Lawyers, a supplier to the Company. Following the successful IPO and a review of HWL Ebsworth's involvement post IPO, the Board determined that Mr Gorr is deemed Independent in line with relevant ASX Guidelines.*

## Remuneration policy summary

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

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

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

## Executive remuneration principles and strategy

A key principle of the Group's approach to executive remuneration is that it should demonstrate strong links with Group performance and shareholder returns. Remuneration is aligned with Group performance by:

- requiring a significant portion of remuneration to vary with short-term and long-term performance; and
- applying challenging financial measures of performance.

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

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

# Director's Report - Remuneration Report

**Remuneration governance in year ended 30 June 2015**

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

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

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

**The board's role in remuneration**

The Board approved the Nomination and Remuneration Committee Charter on 17 November 2014.

The decisions of the Committee are subject to approval by the Board.

The Board also has the authority to directly seek independent, professional and other advisers as required for the Board to carry out its responsibilities.

The Board appoints, removes and/or replaces members of the Committee at its discretion.

**The nomination and remuneration committee (the committee)**

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

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

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

During the 2015 financial year, the Board approved the engagement of remuneration consultants Crichton & Associates to undertake a review of various Simonds Group Limited Board and executive remuneration practices, including Short Term Incentive (STI) and Long Term Incentive (LTI) in the lead up to the listing of Simonds Group Limited on the ASX. The fees paid to Crichton & Associates for the remuneration recommendations and other advisory services, primarily relating to the listing, were $11,250.

Further, during June 2015, the Committee approved the engagement of Pricewaterhouse Coopers (PwC) to provide guidance to the Board on the remuneration of the KMP, including non-executive directors for the year ending 2015. The fees paid to PwC for the remuneration review, were $26,720.

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

The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

- PwC was engaged by, and reported directly to, the chairman of the Committee. The agreement for the provision of remuneration consulting services was executed by the chairman of the Committee under delegated authority from the Board.
- The report containing the remuneration recommendations was provided by PwC directly to the chairman of the Committee; and
- PwC was permitted to speak to management throughout the engagement to understand company processes, practices and other business issues and obtain management perspectives. However, PwC was not permitted to provide any member of the management with a copy of their draft or final report that contained the remuneration recommendations.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the KMP.

The Committee meets at least twice throughout the year. The CEO, CFO, external auditors and any remaining directors are also regularly invited to attend meetings. No individuals are present during any discussions related to their own remuneration arrangements.

During the year ended 30 June 2015, the Committee was at all times comprised of three non-executive directors being Susan Oliver (Chairman), Matthew Chun and Leon Gorr.

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

# Director's Report - Remuneration Report

**Non-executive Director remuneration**

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

During the year ended 30 June 2015, fees paid to non-executive directors totalled $416,716 (exclusive of superannuation).

Shareholdings of non-executive directors are set out on page 35 of this directors' report.

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

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

Remuneration tables for non-executive directors for the year ended 30 June 2015 are set out on page 45 of this remuneration report.

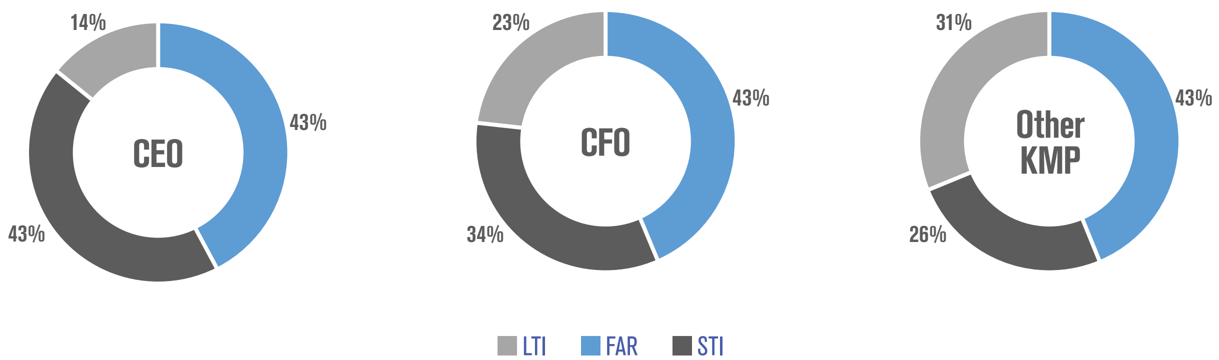
The Board will review director fees for year ending 30 June 2016 subsequent to any and all recommendations made by the Committee at the next meeting scheduled.

**KMP remuneration framework**

The KMP remuneration framework comprises three principal elements:

- a fixed component, consisting of a base salary, superannuation contributions and other related allowances (FAR);
- a performance based, variable 'at risk' component, comprising cash and equity settled short-term incentives (STI); and
- a performance and service based, variable 'at risk' component, comprising of long term options – long term incentive (LTI)

The Group's mix of fixed and at risk components for each of the KMP disclosed in this report, as a percentage of total target annual remuneration for financial year 2015, is as follows:




**KMP remuneration components**

***FAR overview***

FAR is the sum of base salary and fixed employee benefits such as superannuation. FAR is benchmarked against a peer group of direct competitors and a general industry peer group. Selection of the comparator group is based on the similarity of the roles in question (including but not limited to nature/comparability of the role itself, industry, revenue, headcount and complexity of operations).

FAR is benchmarked against the market median, also known as the 50th percentile, which is inclusive of all fixed benefits (generally base salary, superannuation, benefits such as motor vehicles, car parking, insurances and related FBT costs). While comparative levels of remuneration are monitored on a periodic basis, there is no contractual requirement or expectation that any adjustments will be made.

# Director's Report - Remuneration Report

### *STI overview*

The Group STI Plan ensures that a proportion of remuneration is tied to Group performance measured annually in line with the financial year. Executives can only realise their STI at-risk component if challenging pre-determined objectives are achieved.
This aligns executive interests with shareholder interests and focuses executive performance.
The STI payment is made in cash or in shares at the Board's discretion (inclusive of any superannuation components) as part of the annual remuneration review after finalisation of the Group's audited results.

### *LTI overview*

The Group LTI Plan ensures that a proportion of remuneration is tied to Group performance measured annually in line with the financial year. Executives can only realise their LTI at-risk component if challenging pre-determined objectives are achieved.
This aligns executive interests with shareholder interests and focuses executive performance on sound business decisions resulting in sustainable shareholder wealth. LTI consists of the granting of Performance Rights that vest after a three year period, subject to individual and Group financial and non-financial performance hurdles.

The key features of the 2015 LTIs are:

| Award Structure | Performance Rights | |
|---|---|---|
| Consideration for the Performance Rights | The Performance Rights will be granted for nil consideration | |
| Vesting Period | Each tranche has a vesting period of three years | |
| Performance Measure (Tranche 1) | Vesting of Performance Rights is dependent on three discrete performance measures (hurdles): | |
| | Grant Date | 17 November 2014 |
| | **Tranche 1**<br>Total Share Holder Return (TSR) representing 1/3 of the Performance Rights Granted. | Up to 1/3-of the Performance Rights granted will vest if the Group's (TSR) achieves the following percentile ranking against the constituent companies within the S&P/ASX Small Ordinaries Index (ASX Code XSI), excluding resources, over the Measurement Period |
| | **Tranche 2**<br>(CAGR EPS) representing 1/3 of the Performance Rights Granted. | › The Measurement Period for the CAGR EPS Hurdle shall be the three financial years 2015, 2016 and 2017.<br>› EPS CAGR will be calculated based on the pro-forma NPAT for the year ended 2015 and not the statutory profit or reported EPS for that year.<br>The specific EPS methodology will be determined by the Board. |
| | **Tranche 3**<br>Prospectus Forecast Earnings representing 1/3 of Performance Rights Granted. | › 1/3 of the Performance Rights granted will vest if the Group achieves the Prospectus forecast in earnings for the year ended 30 June 2015.<br>Any Performance Rights which fail to meet the Vesting Conditions on or before the Vesting Date shall immediately lapse: there will be no retesting. |
| TSR Vesting Schedule (Tranche 2) | **Simonds Group Limited Percentile Ranking** | **Percentage of performance rights to vest:** |
| | Less than the 50th percentile | None |
| | At or above the 50th percentile | 50% (straight-line interpolation between the 50th and 75th percentile) |
| | At or above the 75th percentile | 100% |
| CAGR EPS Vesting Schedule (Tranche 3) | **CAGR in EPS** | **Percentage of performance rights to vest:** |
| | Less than 26.3% per annum | None |
| | At or above 26.3% per annum | 50% (straight-line interpolation between 26.3% and 29% per annum) |
| | At or above 29.0% per annum | 100% |
| Prospectus Forecast Earnings Vesting Condition | 1/3 of the Performance Rights granted will vest in three years if Simonds Group Limited achieves the Prospectus forecast earnings for the year ended 30 June 2015 | |

# Director's Report - Remuneration Report

**Remuneration structure and performance/shareholder wealth creation**

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

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

| | FY2015 | | FY2014 |
|---|---|---|---|
| Financial Performance | Prospectus Pro Forma Forecast $m | Pro Forma Actual $m | Statutory Actual $m |
| Sales | 638.2 | 634.4 | 543.8 |
| EBITDA | 34.0 | 34.8 | 15.7 |
| EBIT | 29.9 | 30.8 | 11.8 |
| NPAT | 20.4 | 21.8 | 7.5 |

**Remuneration tables – details of KMP remuneration**

Details of the remuneration of the KMP, including Directors (as defined in AASB 124 Related Party Disclosures) of the Group are set out in the following tables. As this represents the Group's first year in which section 300A of the Corporations Act 2001 applied to its KMP, comparative information has not been provided.

# Director's Report - Remuneration Report

| 2015 | Short Term Employee Benefits | | | | Post-Employment Benefits | Long-Term Benefits | | Share-Based Payments (SBP) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Directors Fees $ | Cash Salary and Fees $ | Short Term Incentive $ | Non-Monetary Benefits $ | Super $ | Annual Leave $ | Long Service Leave $ | Executive IPO SBP [1] $ | Performance Rights $ | Total $ |
| Non-Executive Directors (NED) | | | | | | | | | | |
| Vallence Gary Simonds | 111,462 | 298,874 [2] | - | 16,266 [2] | 18,615 [2] | 13,322 [2] | 2,900 [2] | - | - | **461,439** |
| Richard Colless | 68,548 | - | - | 22,849 | - | - | - | - | - | **91,397** |
| Leon Gorr | 62,907 | - | - | - | 5,976 | - | - | - | - | **68,883** |
| Matthew Chun | 83,799 | 20,595 [3] | - | - | 6,481 | - | - | - | - | **110,875** |
| Susan Oliver | 90,000 | - | - | - | - | - | - | - | - | **90,000** |
| **Total NED** | **416,716** | **319,469** | **-** | **39,115** | **31,072** | **13,322** | **2,900** | **-** | **-** | **822,594** |
| Other KMP | | | | | | | | | | |
| Paul McMahon | - | 540,667 | 600,000 | 34,000 | 18,783 | 72,638 | 10,491 | 11,865,047 | 86,002 | **13,227,627** |
| Robert Stubbs | - | 343,739 | 300,000 | 20,000 | 18,783 | 33,621 | 7,285 | 268,815 | 51,601 | **1,043,844** |
| Michael Gerolemou | - | 247,687 | 100,000 | 20,000 | 18,783 | 21,868 | 4,738 | - | 34,401 | **447,477** |
| Chris Troman | - | 275,256 | 300,000 | 14,487 | 14,088 | 24,354 | 5,277 | - | 51,601 | **685,063** |
| Gerard Healy | - | 213,333 | 100,000 | 20,833 | 17,515 | 22,119 | 4,793 | - | 34,401 | **412,994** |
| **Total Other KMP** | **-** | **1,620,682** | **1,400,000** | **109,320** | **87,952** | **174,600** | **32,584** | **12,133,862** | **258,006** | **15,817,005** |
| **TOTAL KMP** | **416,716** | **1,940,151** | **1,400,000** | **148,435** | **119,024** | **187,922** | **35,484** | **12,133,862** | **258,006** | **16,639,599** |

[1] *Prior to the Initial Public Offering, certain executives of Simonds Group agreed to vary their pre-existing contractual entitlements, which included various cash payments from the Group in the event of a sale of the business, including an Initial Public Offering (IPO), and depending on certain key performance indicators being met. The variation of contractual entitlements included the right to subscribe for 6,150,000 shares in Simonds Group Limited from a Vallence Gary Simonds associated entity prior to the IPO and cash payments by a Vallence Gary Simonds associated entity (outside of the Group) upon Completion of the IPO over a period of up to three years from the date of Listing, subject to certain service and other conditions. The aggregate value of these entitlements was determined with reference to the share price of the Company at IPO date. Refer note 29.1 of the financial statements.*

[2] *Amounts paid to Vallence Gary Simonds, excluding director's fees, relate to the pre IPO period where Vallence Gary Simonds was an employee of the Company.*

[3] *Amounts paid to Matthew Chun, excluding director's fees, relate to the pre IPO period where Matthew Chun provided consulting services to the Company.*

**STI Payments to KMP for year ended 30 June 2015**

Details of KMP STI for year ended 30 June 2015 are set out in the table below KMP STI may vary based on individual performance and results achieved.

| Name | Maximum Potential STI $ | Achieved Year Ended 30 June 2015 $ | % of the Maximum Potential | % Forfeited |
|---|---|---|---|---|
| Paul McMahon | 600,000 | 600,000 | 100% | 0% |
| Robert Stubbs | 300,000 | 300,000 | 100% | 0% |
| Michael Gerolemou | 100,000 | 100,000 | 100% | 0% |
| Chris Troman | 300,000 | 300,000 | 100% | 0% |
| Gerard Healy | 100,000 | 100,000 | 100% | 0% |

# Director’s Report - Remuneration Report

### KMP LTI

The following tables provide the details of performance rights allocated to the KMP pursuant to the LTI Plan. The grant of performance rights to the CEO was approved by the Nomination and Remuneration Committee on 10 November 2014 and ratified by the Board on 17 December 2014 in accordance with Listing Rule (10.14). Details of grants made to the CEO and other KMP are provided in the following tables:

***Number of equity instruments granted and vested in year ended 2015 – performance rights***

| Name | Performance Rights 1 July 2014 | Performance Rights Granted | Performance Rights Vested | Performance Rights Expired / Forfeited | Balance 30 June 2015 |
|---|---|---|---|---|---|
| Paul McMahon | - | 280,898 | - | - | 280,898 |
| Robert Stubbs | - | 168,539 | - | - | 168,539 |
| Michael Gerolemou | - | 112,360 | - | - | 112,360 |
| Chris Troman | - | 168,539 | - | - | 168,539 |
| Gerard Healy | - | 112,360 | - | - | 112,360 |

**Value of performance rights granted, exercised and expired/forfeited in year ended 30 june 2015 which will vest after a three year period in 2017.**

| Name | Tranche | Fair Value at Grant Date per Share $ | No. of Performance Rights | Total Accounting Fair Value Year Ended $ | Exercised $ | Accounting Value Expired / Forfeited $ |
|---|---|---|---|---|---|---|
| Paul McMahon | TSR | 1.0349 | 93,633 | 96,901 | - | - |
| | EPS | 1.5512 | 93,633 | 145,244 | - | - |
| | Prospectus | 1.5512 | 93,633 | 145,244 | - | - |
| Robert Stubbs | TSR | 1.0349 | 56,180 | 58,141 | - | - |
| | EPS | 1.5512 | 56,180 | 87,146 | - | - |
| | Prospectus | 1.5512 | 56,179 | 87,145 | - | - |
| Michael Gerolemou | TSR | 1.0349 | 37,453 | 38,760 | - | - |
| | EPS | 1.5512 | 37,453 | 58,097 | - | - |
| | Prospectus | 1.5512 | 37,454 | 58,099 | - | - |
| Chris Troman | TSR | 1.0349 | 56,180 | 58,141 | - | - |
| | EPS | 1.5512 | 56,180 | 87,146 | - | - |
| | Prospectus | 1.5512 | 56,179 | 87,145 | - | - |
| Gerard Healy | TSR | 1.0349 | 37,453 | 38,760 | - | - |
| | EPS | 1.5512 | 37,453 | 58,097 | - | - |
| | Prospectus | 1.5512 | 37,454 | 58,099 | - | - |

# Director's Report - Remuneration Report

### Executive service agreements

| | | | | Minimum Notice Period | |
|---|---|---|---|---|---|
| Name | Position | Appointment Date | Contract Length | Termination by Executive | Termination by Company |
| Paul McMahon | CEO | 25 September 2014 | No fixed term | 3 months | 3 months |
| Robert Stubbs | CFO | 25 September 2014 | No fixed term | 3 months | 3 months |
| Michael Gerolemou | CHRO | 1 November 2014 | No fixed term | 3 months | 3 months |
| Chris Troman | COO | 15 December 2014 | No fixed term | 3 months | 3 months |
| Gerard Healy | GMBAA | 1 November 2014 | No fixed term | 3 months | 3 months |

### Loans to Director

The Group has provided Vallence Gary Simonds, and his related parties, with an unsecured, short-term loan during the financial year ended 30 June 2015. The loan has exceeded $100,000 during the reporting period. The assignment and repayment of these related party loans occurred during the year ended 30 June 2015 as part of the company's listing on the Australian Stock Exchange (ASX).

The following table outlines amounts in relation to the loan made to Vallence Gary Simonds and his related parties.

| | Balance as at 01 July 2015 $ | Interest Charged $ | Arm's Length Interest Differential [(1)] $ | Allowance for Doubtful Receivables $ | Balance as at 30 June 2015 $ | Highest Loan Balance During the Period $ |
|---|---|---|---|---|---|---|
| 2015 | 17,988,353 | - | 265,605 | - | - | 17,988,353 |

*[(1)] The amount above refers to the difference between the amount of interest paid and payable in the reporting period and the amount of interest that would have been charged on an arms-length basis.*

# Director's Report - Remuneration Report

### Other KMP transactions

During the financial year, the Group entered into a number of transactions with related parties of KMP. This part of the Remuneration Report is to be read in conjunction with note 28 Related Parties included on page 91 of the financial statements for the year ended 30 June 2015.

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

| | 2015 |
|---|---|
| Consolidated revenue includes the following amounts arising from transactions with KMP of the Group or their related parties: | |
| Revenue - Sales | $1,033,202 |
| | **$1,033,202** |
| Consolidated profit includes the following expenses arising from transactions with KMP of the Group or their related parties: | |
| Leasing and rental costs | 494,287 |
| Purchase of goods | 1,763,525 |
| | **2,257,812** |
| Total assets arising from transactions with KMP of the Group or their related parties: | |
| Current | $297,556 |
| Allowance for doubtful receivables | - |
| Non-Current | - |
| | **$297,556** |
| Total liabilities arising from transactions with KMP of the Group or their related parties: | |
| Current | 50,065 |
| Non-Current | - |
| | **50,065** |

### Auditor's independence declaration

The auditor's independence declaration is included after this report on page 59.

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

On behalf of the directors

**Vallence Gary Simonds**
Director

Melbourne, 19 August 2015

# Corporate Governance

| RECOMMENDATIONS | | | |
|---|---|---|---|
| PRINCIPLE 1 – Lay solid foundations for management and oversight | | | |
| A listed entity should establish and disclose the respective roles and responsibilities of its board and management how their performance is monitored and evaluated. | | | |
| **1.1** | A listed entity should disclose:<br>a) the respective roles and responsibilities of its board and management; and<br>b) those matters expressly reserved to the board and those delegated to management. | Yes | See page 54<br>See Board Charter at simondsgroup.com.au |
| **1.2** | A listed entity should:<br>a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and<br>b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director. | Yes | See page 54 |
| **1.3** | A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment. | Yes | See page 54 |
| **1.4** | The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board. | Yes | See page 54 |
| **1.5** | A listed entity should:<br>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;<br>(b) disclose that policy or a summary of it; and<br>(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:<br>1. the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or<br>2. if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act. | Yes | See page 54<br>See Diversity Policy and Workplace Gender Equality Agency Report at simondsgroup.com.au |
| **1.6** | A listed entity should:<br>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and<br>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. | Yes | See page 54 |
| **1.7** | A listed entity should:<br>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and<br>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. | Yes | See page 54 |

# Corporate Governance

| RECOMMENDATIONS | | | |
|---|---|---|---|
| PRINCIPLE 2 – Structure the board to add value | | | |
| A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively. | | | |
| **2.1** | The board of a listed entity should:<br>(a) have a nomination committee which:<br>1. has at least three members, a majority of whom are independent directors; and<br>2. is chaired by an independent director, and disclose:<br>3. the charter of the committee;<br>4. the members of the committee; and<br>5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively. | Yes | See page 55<br>See Nomination and Remuneration Committee Charter at simondsgroup.com.au |
| **2.2** | A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership. | Yes | See page 55 |
| **2.3** | A listed entity should disclose:<br>(a) the names of the directors considered by the board to be independent directors;<br>(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 (generally relating to non-independent activity within the prior three years, a material contract or a substantial security holding) but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and<br>(c) the length of service of each director. | Yes | See page 55 |
| **2.4** | A majority of the board of a listed entity should be independent directors. | Yes | See page 55 |
| **2.5** | The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity. | No | See page 55 |
| **2.6** | A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively. | Yes | See page 55 |

| RECOMMENDATIONS | | | |
|---|---|---|---|
| PRINCIPLE 3 – Act ethically and responsibly | | | |
| A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively. | | | |
| **3.1** | A listed entity should:<br>(a) have a code of conduct for its directors, senior executives and employees; and<br>(b) disclose that code or summary of it. | Yes | See page 55<br>See Code of Conduct at simondsgroup.com.au |

| RECOMMENDATIONS | | | |
|---|---|---|---|
| PRINCIPLE 4 – Safeguard integrity in corporate reporting | | | |
| A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting. | | | |
| **4.1** | The board of a listed entity should:<br>(a) have an audit committee which:<br>1. has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and<br>2. is chaired by an independent director, who is not the chair of the board, and disclose:<br>3. the charter of the committee;<br>4. the relevant qualifications and experience of the members of the committee; and<br>5. in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner. | Yes | See page 56<br>See Audit & Risk Management Committee Charter at simondsgroup.com.au |
| **4.2** | The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. | Yes | See page 56 |
| **4.3** | A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit. | Yes | See page 56 |

| RECOMMENDATIONS | | | |
|---|---|---|---|
| PRINCIPLE 5 – Make timely and balanced disclosure | | | |
| A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities. | | | |
| **5.1** | A listed entity should:<br>(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and<br>(b) disclose that policy or a summary of it. | Yes | See page 56<br>See Continuous Disclosure Policy & Communications Strategy at simondsgroup.com.au |

# Corporate Governance

| RECOMMENDATIONS | | | |
|---|---|---|---|
| PRINCIPLE 6 – Respect the rights of security holders | | | |
| A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively | | | |
| **6.1** | A listed entity should provide information about itself and its governance to investors via its website. | Yes | See page 56 |
| **6.2** | A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors. | Yes | See page 56<br>See Continuous Disclosure & Communications Strategy Policy at simondsgroup.com.au |
| **6.3** | A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders. | Yes | See page 57<br>See Continuous Disclosure & Communications Strategy Policy at simondsgroup.com.au |
| **6.4** | A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically | Yes | See page 57 |

| RECOMMENDATIONS | | | |
|---|---|---|---|
| PRINCIPLE 7 – Recognise and manage risk | | | |
| A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework. | | | |
| **7.1** | The board of a listed entity should:<br>(a) have a committee or committees to oversee risk, each of which:<br>1. has at least three members, a majority of whom are independent directors; and<br>2. is chaired by an independent director, and disclose:<br>3. the charter of the committee;<br>4. the members of the committee; and<br>5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework. | Yes | See page 57<br>See Audit & Risk Management Committee Charter at simondsgroup.com.au |
| **7.2** | The board or a committee of the board should:<br>(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and<br>(b) disclose, in relation to each reporting period, whether such a review has taken place. | Yes | See page 57 |
| **7.3** | A listed entity should disclose:<br>(a) if it has an internal audit function, how the function is structured and what role it performs; or<br>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes. | Yes | See page 57 |
| **7.4** | A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks. | Yes | See page 57 |

## Corporate Governance

| RECOMMENDATIONS | | | |
|---|---|---|---|
| PRINCIPLE 8 – Remunerate fairly and responsibly | | | |
| A listed entity should pay director remuneration sufficient to attract and retain high quality directors and design its executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for security holders. | | | |
| **8.1** | The board of a listed entity should:<br>(a) have a remuneration committee which:<br>1. has at least three members, a majority of whom are independent directors; and<br>2. is chaired by an independent director, and disclose:<br>3. the charter of the committee;<br>4. the members of the committee; and<br>5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive. | Yes | See page 58<br>See Nomination and Remuneration Committee Charter at simondsgroup.com.au |
| **8.2** | A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives. | Yes | See page 58<br>See Nomination and Remuneration Committee Charter |
| **8.3** | A listed entity which has an equity-based remuneration scheme should:<br>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and<br>(b) disclose the policy or a summary of it | Yes | See page 58<br>See Share Trading Policy at simondsgroup.com.au |

# Corporate Governance

## Principle 1 – Lay solid foundations for management and oversight

### Principle 1.1 – Roles and Responsibilities of the Board

The Board has adopted a written Charter to provide a framework for the effective operation of the Board. The Charter outlines the Board composition, its role and responsibilities, relationship with management and delegation of authority to Board committees and management. The Charter may be viewed in full at simondsgroup.com.au under the heading 'About us'.

The Board Charter outlines:

- The roles of the Board, the Chairperson, the Chief Executive Officer (CEO) and the Company Secretary.
- The guidelines for Board composition, including the processes around Director appointments and Board nominations.
- The general and specific responsibilities of the Board.
- Responsibility for the day to day management and administration of the company is delegated by the Board to the CEO. The CEO is responsible for the management team and employees of the company.

### Principle 1.2 – Perform appropriate checks on Directors before appointment and provide all relevant information for election of Directors

The Board Charter outlines the guidance for appointment of directors. Prior to appointing a director or putting forward a candidate for election as a director, the Board must:

- Undertake appropriate checks; and
- Provide shareholders with all material information in the Board's possession relevant to a decision on whether or not to elect or re-elect a director.

### Principle 1.3 – Written contracts of appointment

As outlined in the Board Charter, the company must have a written agreement with each director and senior executive which outlines the terms of appointment. Each director and senior executive has been appointed by way of formal written agreement setting out the terms of their appointment, including role, responsibilities and remuneration.

### Principle 1.4 – Company Secretary

As stated in the Board Charter, each director is able to communicate directly with the Company Secretary and vice versa. The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

### Principle 1.5 - Diversity

The Company recognises that a diverse and talented workforce is a competitive advantage and that the Company's success is the result of the quality and skills of its people. The Company has established and implemented a Diversity Policy which is overseen by the Board and may be viewed in full at simondsgroup.com.au. The Board is responsible for developing measurable objectives for achieving gender diversity.

Formal measureable objectives for diversity were approved by the Board in September 2015. A summary of these objectives can be found at simondsgroup.com.au. As at the balance sheet date the percentage of women at each of the following levels within Simonds Group Limited was:

| Level | As at 30 June 2015 |
|---|---|
| Board (including Managing Director and CEO) | 17% |
| Key Management Personnel (1) | 10% |
| All employees | 49% |

(1) *Key Management Personnel includes Board of Directors.*

### Principle 1.6 – Board performance evaluation

Due to the current size of the Company and its level of activity, the Board is responsible for the evaluation of its performance and the performance of individual directors. This review is conducted on an annual basis and if deemed necessary this internal review will be facilitated by an independent third party. An internal review was conducted during September and October 2015. The Board has concluded that a skills deficiency exists at Board level with reference to registered training organisation experience. The Board will endeavour to address this skills gap by appointing an independent Non-Executive Director with the required skills, whilst also addressing complementary diversity targets.

### Principle 1.7 – Management reviews

As outlined in the Board Charter, the CEO is responsible for the performance evaluation of senior executives. The Nomination and Remuneration Committee is responsible for reviewing the performance targets for senior management. A copy of the Nomination and Remuneration Committee is available at simondsgroup.com.au.

## Principle 2 – Structure the Board to add value

### Principle 2.1 – Nomination committee

The Board has adopted a written Charter to assist it in fulfilling its duties that would usually be the responsibility of a nomination and remuneration committee. The Charter outlines the role and objectives, the membership and structure and responsibilities and functions of the committee. The Charter may be viewed in full at simondsgroup.com.au under the heading 'About us'.

Membership of the Nomination and Remuneration Committee currently comprises:

| Name | Independence |
|---|---|
| **Susan Oliver**<br>Chairman and Non-Executive Director | Independent |
| **Matthew Chun**<br>Non-Executive Director | Independent |
| **Leon Gorr**<br>Non-Executive Director | Independent |

The Nomination and Remuneration Committee met four times during the year ended 30 June 2015.

### Principle 2.2 – Board skills

The experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report is included in the Directors' Report. See also Principle 1.6.

### Principle 2.3 – Board structure and term in office

The term in office held by each director as at 30 June 2015 and independence status is as follows:

| Name | Independence | Term |
|---|---|---|
| **Vallence Gary Simonds**<br>Chairman,<br>Non-Executive Director | Non-Independent | 5 years,<br>1 month |
| **Paul McMahon**<br>Managing Director<br>and CEO | Non-Independent | 7 months |
| **Matthew Chun**<br>Non-Executive Director | Independent | 7 months |
| **Richard Colless**<br>Non-Executive Director | Independent | 7 months |
| **Leon Gorr**<br>Non-Executive Director | Independent | 7 months |
| **Susan Oliver**<br>Non-Executive Director | Independent | 7 months |

### Principle 2.4 and 2.5 – Director independence

Principle 2.4 and 2.5 of the ASX Corporate Governance Principles and Recommendations recommends that the Board comprise a majority of directors who are independent, and an independent Chairperson. The Board, as currently composed, complies with Principle 2.4.

With regards to Principle 2.5, it should be noted that Vallence Gary Simonds established the Company in 1949 and remains a substantial shareholder of the Simonds Group. Vallence Gary Simonds' in-depth industry experience, gained over a career spanning more than 65 years in the Australian building industry is considered to be complimentary to the skillset of the current Board. He is currently the Chairman of the Board and has been a Director of Simonds Group Limited (previously Simonds Homes Holdings Pty Ltd) since May 2010.

Paul McMahon is a substantial shareholder of the Company. He is currently Managing Director and Chief Operating Officer of the company. Paul McMahon has been employed by Simonds Group Limited for over 7 years (3 years as Group General Manager and 4 years as CEO).

### Principle 2.6 – Director development

The Nominations and Remuneration Committee are responsible for designing induction and ongoing training and education programs for the Board to ensure the Directors develop and maintain the skills and knowledge needed to perform their role as directors effectively.

## Principle 3 – Act ethically and responsibly

### Principle 3.1 – Code of conduct

The Company has adopted a written Code of Conduct which applies to all staff members of the Company, including directors, executives and employees. The objective of this Code is to ensure that all staff at the Company observe the highest standards of ethics, integrity and behaviour. The Code may be viewed in full at simondsgroup.com.au under the heading 'About us'.

The Code also encourages staff to report in good faith suspected unlawful / unethical behaviour.

Simonds Group Limited has in place a policy concerning trading in company securities. The Share Trading Policy includes detailed requirements for directors, officers and key management personnel regarding when they can trade Simonds Group Limited securities.

# Corporate Governance

## Principle 4 – Safeguard integrity in corporate reporting

### Principle 4.1 – Audit and Risk Management Committee

The Board has adopted a written Charter to assist it in fulfilling its duties that would usually be the responsibility of an Audit and Risk Management Committee. The Charter outlines the role and objectives, membership and structure and responsibilities and functions of the committee. The Charter may be viewed in full at simondsgroup.com.au under the heading 'About us'.

Membership of the Audit and Risk Management Committee currently comprises:

| Name | Independence |
|---|---|
| **Matthew Chun**<br>Chairman and<br>Non-Executive Director | Independent |
| **Leon Gorr**<br>Non-Executive Director | Independent |
| **Susan Oliver**<br>Non-Executive Director | Independent |

The Audit and Risk Management Committee met four times during the year ended 30 June 2015.

### Principle 4.2 – CEO and CFO assurance

In accordance with Principle 4.2, the Board received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects.

### Principle 4.3 – External auditor available at annual general meeting (AGM)

The Company's external auditor attends each AGM and is available to attend to answer shareholder questions about the audit.

## Principle 5 – Make Timely and Balanced Disclosure

### Principle 5.1 – Disclosure policy

The Company has established a Continuous Disclosure & Communications Strategy Policy which establishes policies and procedures designed to ensure compliance with its continuous disclosure requirements under the Listing Rules and the Corporations Act 2001 (Cth).

The Policy sets out the standards, protocols and the detailed requirements expected of all directors, offices, senior management and employees of the Company for ensuring the Company immediately discloses all price-sensitive information in compliance with the Listing rules and Corporations Act relating to continuous disclosure.

The Policy may be viewed in full at simondsgroup.com.au under the heading 'About us'.

## Principle 6 – Respect the rights of security holders

### Principle 6.1 – Information on website

The Company has a website, simondsgroup.com.au, within which there is a 'Corporate Governance' section where all relevant corporate governance information can be accessed.

### Principle 6.2 – Investor relations program

The Company has adopted a Continuous Disclosure & Communications Strategy Policy governing its approach to communicating with its shareholders, market participants and other stakeholders.

This policy specifically includes:

- The approach to briefing media, investors and analysts.
- The approach to communicating with shareholders about the Company's financial performance and business strategy via shareholder meetings.

Simonds Group Limited provides its annual report to all requesting shareholders. The annual report contains relevant information about the Company's operations during the year, changes in the state of affairs and other disclosures required by the Corporations Act. The half year report contains summarised financial information and a review of Simonds Group operations during the period. The Simonds Group Limited corporate website provides all shareholders and the public access to our announcements to the ASX, and general information about Simonds Group Limited and our business.

**Principle 6.3 – Facilitating participation at meetings of security holders**

The Company views the AGM as an important forum for two-way communication between the Company and its shareholders. The AGM is an opportunity for shareholders to hear from and put questions to the Board, management and the external auditor. Shareholders who are unable to attend the AGM to exercise their right to ask questions about, or make comments on, the management of the Company, are encouraged to provide questions or comments ahead of the AGM. Such questions or comments can be received at company.secretary@simonds.com.au prior to 5pm 15 October 2015, and will where appropriate, be answered or responded to at the AGM, either verbally or in writing.

**Principle 6.4 – Facilitating electronic communications**

The Company provides (and encourages) shareholders with the option to receive communications from, and send communications to, the Company and the Share Registry electronically, for reasons of speed, convenience, cost and environmental considerations.

Annual reports are provided electronically via the Company's website, under the 'ASX Announcements' section, unless a Shareholder elects to receive a printed copy. (simondsgroup.com.au/announcements)

Announcements made by the Company to the ASX are made available on the Company's website, under the ASX Announcements section and on the ASX website.

Shareholders are able to access information relevant to their holding via the Share Registry website boardroomlimited.com.au.

## Principle 7 – Recognise and manage risk

**Principle 7.1 – Risk management framework**

The Company views effective risk management as a key component to achieving and maintaining its operational and strategic objectives. The identification and management of Simonds Group's risks are an important priority of the Board.

The Company's risk management is assessed and managed by the Risk Management and Audit Committee and governed by the Risk Management and Audit Committee Charter, which may be viewed at the simondsgroup.com.au.

Simonds Group Limited has in place a Risk Management Framework whereby management is responsible for active identification of risks and implementation of mitigation measures, and may be required to report as to its adherence to policies and guidelines approved by the Board for the management of risks.

Management reports regularly on risk management to the Board and the Risk Management and Audit Committee, identifying the Group's material risks and the extent to which the Company's ongoing risk management program effectively identifies, manages, tests and addresses risk management issues.

The Company's Risk Management Framework encompasses all facets of the business, including the following key risk categories: Governance, Financial, Operational, Compliance and Strategic.

**Principle 7.2 – Annual risk review**

Simonds Group Limited regularly reviews its Risk Management Framework to ensure it complies with all obligations. A formal review of the Risk Management Framework and Policy is completed annually.

**Principle 7.3 – Internal audit**

The Company does not have a separate internal audit function. One of the responsibilities of the Audit and Risk Management Committee is to evaluate compliance with the Company's risk management and internal control processes.

The Board has received written assurances from management as to the effectiveness of the Company's management of its material business risks and internal controls. The Chief Executive Officer and Chief Financial Officer have provided written assurance that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to the financial reporting risks.

**Principle 7.4 – Sustainability risks**

As part of the Risk Management Framework, the Company has identified the key risk categories which include Governance, Financial, Operational, Compliance and Strategic. Material business risks are then identified within each category. A number of economic, environmental and social sustainability risks have been identified as part of the risk assessment process and are managed in line with the Risk Management Policy.

# Corporate Governance

## Principle 8 – Remunerate fairly and responsibly

### Principle 8.1 – Remuneration committee

Please refer to Principle 2.1 for details of the Nomination and Remuneration Committee.

### Principle 8.2 – Remuneration policy

Details of the Company's remuneration policies and practices are included in the 'Remuneration Report' within this Annual Report.

Details of compensation for Non-Executive Directors, Executive Directors and other senior executives are also separately disclosed within the 'Remuneration Report'.

### Principle 8.3 – Policy on hedging equity incentive schemes

The Board has also adopted a Share Trading Policy. This Policy sets out the clearance requirements for Directors and Employees when dealing in the Company's securities.

The Policy also states that the insider trading prohibition does not apply to acquisitions of shares or options by employees made under employee share or option schemes, nor does it apply to the acquisition of shares as a result of the exercise of options under an employee option scheme. However, the prohibition does apply to the sale of shares acquired under an employee share scheme and also to the sale of shares acquired following the exercise of an option granted under an employee option scheme.

A copy of the Share Trading Policy is available on the Company's website at simondsgroup.com.au

# Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

19 August 2015

**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 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Reid
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

# Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu
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## Independent Auditor's Report
## to the members of Simonds Group Limited

### Report on the Financial Report

We have audited the accompanying financial report, of Simonds Group Limited, which comprises the consolidated statement of financial position as at 30 June 2015, 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.

*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.

*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.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

# Independent Auditor's Report

Deloitte.

*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 2015 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.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Opinion*

In our opinion the Remuneration Report of Simonds Group Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Reid
Partner
Chartered Accountants
Melbourne, 19 August 2015

# Director's Declaration

The directors declare that:

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

(b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 3.1 to the financial statements; and

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

(d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 15 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

On behalf of the Directors

**Vallence Gary Simonds**
Director
Melbourne, 19 August 2015

# Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2015

| | Notes | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|---|
| Revenue | 5 | 628,820 | 543,803 |
| Cost of sales | | (486,359) | (424,487) |
| **Gross profit** | | **142,461** | **119,316** |
| | | | |
| Interest income | 7 | 213 | 361 |
| Other gains and losses | 8 | (86) | (217) |
| Administration expenses | | (92,798) | (86,699) |
| Inventory write-back / (write-down) | 14 | (348) | (6,466) |
| Marketing and selling expenses | | (17,676) | (14,105) |
| Share based payments expenses | 29 | (27,375) | - |
| Costs associated with initial public offering | | (4,913) | - |
| Initial public offering restructure costs | | (605) | - |
| Finance costs | 9 | (1,005) | (1,220) |
| **Profit / (Loss) before tax** | | **(2,132)** | **10,970** |
| Income tax expense | 10 | (6,751) | (3,479) |
| | | | |
| **PROFIT / (LOSS) FOR THE YEAR** | | **(8,883)** | **7,491** |
| | | | |
| **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** | | **(8,883)** | **7,491** |
| | | | |
| Profit / (Loss) for the year attributable to: | | | |
| Owners of the Company | | (8,883) | 7,491 |
| | | | |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | (8,883) | 7,491 |
| | | | |
| **Earnings per share** | | | |
| Basic (cents per share) | 12 | (6.02) | 5.36 |
| Diluted (cents per share) | 12 | (5.98) | 5.36 |

The accompanying notes form part of these financial statements

# Consolidated statement of financial position as at 30 June 2015

| | Notes | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|---|
| **Assets** | | | |
| *Current Assets* | | | |
| Cash and bank balances | 30 | 5,477 | 15,895 |
| Trade and other receivables | 13 | 44,956 | 42,946 |
| Inventories | 14 | 71,686 | 63,947 |
| Other assets | 18 | 6,809 | 1,705 |
| **Total current assets** | | **128,928** | **124,493** |
| *Non-Current Assets* | | | |
| Trade and other receivables | 13 | - | 160 |
| Property, plant and equipment | 16 | 7,433 | 6,839 |
| Intangible assets | 17 | 4,080 | 1,889 |
| Deferred tax assets | 10 | 3,675 | 2,284 |
| **Total non-current assets** | | **15,188** | **11,172** |
| **Total assets** | | **144,116** | **135,665** |
| | | | |
| **Liabilities** | | | |
| Current Liabilities | | | |
| Trade and other payables | 19 | 75,685 | 82,789 |
| Borrowings | 20 | 908 | 1,170 |
| Provisions | 21 | 11,786 | 10,126 |
| Income in advance | 22 | 9,704 | 7,184 |
| **Total current liabilities** | | **98,083** | **101,269** |
| *Non-Current Liabilities* | | | |
| Borrowings | 20 | 1,877 | 1,700 |
| Provisions | 21 | 6,384 | 7,265 |
| Deferred tax liabilities | 10 | 11,117 | 10,535 |
| **Total Non-Current Liabilities** | | **19,378** | **19,500** |
| | | | |
| **Total liabilities** | | **117,461** | **120,769** |
| **Net assets** | | **26,655** | **14,896** |
| | | | |
| **Equity** | | | |
| Issued capital | 23 | 13,590 | 822 |
| Share based payments reserve | 29 | 27,375 | - |
| Retained earnings | 24 | (14,310) | 14,074 |
| **Total equity** | | **26,655** | **14,896** |

The accompanying notes form part of these financial statements

# Consolidated statement of changes in equity for the year ended 30 June 2015

| | Notes | Issued Capital $'000 | Share Based Payments Reserve $'000 | Retained Earnings $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2013** | | **822** | **-** | **8,189** | **9,011** |
| Dividends paid | | - | - | (1,606) | (1,606) |
| Profit for the period | | - | - | 7,491 | 7,491 |
| Other comprehensive income for the year, net of income tax | | - | - | - | - |
| **Total comprehensive income for the year** | | **-** | **-** | **7,491** | **7,491** |
| **Balance at 30 June 2014** | | **822** | **-** | **7,491** | **7,491** |
| | | | | | |
| **Balance at 1 July 2014** | | **822** | **-** | **14,074** | **14,896** |
| Issue of shares – executive subscription | 23,29 | 3,523 | - | - | 3,523 |
| Issue of shares – capital raising (net of transaction costs) | 23 | 9,245 | - | - | 9,245 |
| Share based payments (Executive share based payment) | 29 | - | 26,799 | - | 26,799 |
| Share based payments (Employee share plan) | 29 | - | 576 | - | 576 |
| Dividends paid | 25 | - | - | (19,501) | (19,501) |
| Profit / (Loss) for the year | | - | - | (8,883) | (8,883) |
| Other comprehensive income for the year, net of income tax | | - | - | - | - |
| **Total comprehensive income for the year** | | **13,590** | **27,375** | **(14,310)** | **26,655** |
| **Balance at 30 June 2015** | | **13,590** | **27,375** | **(14,310)** | **26,655** |

The accompanying notes form part of these financial statements

# Consolidated statement of cash flows for the year ended 30 June 2015

| | Notes | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|---|
| **Cashflows from operating activities** | | | |
| Receipts from customers | | 608,981 | 538,292 |
| Payments to suppliers and employees | | (603,894) | (509,760) |
| **Cash generated from operations** | | **5,087** | **28,532** |
| Interest paid | | (1,005) | (1,220) |
| Income taxes paid | | (10,326) | (250) |
| ***Net cash generated from operating activities*** | **30** | **(6,244)** | **27,062** |
| | | | |
| **Cashflows from investing activities** | | | |
| Interest Received | | 213 | 361 |
| Prepayment for acquisitions (refer note 34) | | (3,000) | - |
| Proceeds from disposal of plant, property and equipment | | 183 | 427 |
| Payments for plant, property and equipment and intangible assets | | (5,770) | (3,387) |
| ***Net cash used in investing activities*** | | **(8,374)** | **(2,599)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings (external) | | (716) | (15,114) |
| Proceeds from borrowing (external) | | - | - |
| Costs associated with initial public offering | | (5,668) | - |
| Payment for leases | | (672) | (975) |
| Amounts advanced from and (repaid) to related parties | | 17,989 | (4,433) |
| Proceeds from the issue of share capital | | 12,768 | - |
| Dividends paid to shareholder | | (19,501) | (1,606) |
| ***Net cash used in financing activities*** | | **4,200** | **(22,128)** |
| | | | |
| ***Net increase in cash and cash equivalents*** | | **(10,418)** | **2,335** |
| | | | |
| Cash and cash equivalents at the beginning of the year | | 15,895 | 13,560 |
| ***Cash and cash equivalents at the end of the year*** | **30** | **5,477** | **15,895** |

The accompanying notes form part of these financial statements

# Notes to financial statements

## 1. General information

The Company is incorporated in Australia and is a for-profit entity. 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 and listed on the Australian Stock Exchange (ASX) on a conditional and deferred settlement basis on 17 November 2014.

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

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

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

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 1031 'Materiality' (2013)
- AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'
- AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non - Financial Assets'
- AASB 2013-9 'Amendments to Australian Accounting Standards' – Part B: 'Materiality'
- AASB 2014-1 'Amendments to Australian Accounting Standards'
  - Part A: 'Annual Improvements 2010-2012 and 2011-2013 Cycles'
  - Part B: 'Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)'
  - Part C: 'Materiality'

### 2.2 Standards and interpretations in issue not yet adopted

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

| 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 2018 | 30 June 2019 |
| AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15' | 1 January 2017 | 30 June 2018 |
| AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation' | 1 January 2016 | 30 June 2017 |
| AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle' | 1 January 2016 | 30 June 2017 |
| AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101' | 1 January 2016 | 30 June 2017 |
| AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality' | 1 July 2015 | 30 June 2016 |

At the date of authorisation of the financial statements, there have been no IASB Standards or IFRIC Interpretations in issue but not yet effective.

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 and Interpretations before their effective date.

## 3. Significant accounting policies

### 3.1 Statement of compliance

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

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS'). The financial statements were authorised for issue by the directors on 19 August 2015.

### 3.2 Basis of preparation

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

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

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

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.

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 policies are set out below.

### 3.3 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 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.

### 3.4 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 acquire 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 acquire 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.

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 acquire 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.

### 3.5 Goodwill

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

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

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

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

### 3.6 Revenue recognition

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

*3.6.1 Construction contracts*

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

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred 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.

*3.6.2 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.

*3.6.3 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.

*3.6.4 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.

### 3.7 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.

*3.7.1 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 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.

**3.8 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.

**3.9 Employee benefits**

*3.9.1 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.

*3.9.2 Superannuation contributions*

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

*3.9.3 Termination benefit*

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

*3.9.4 Bonus entitlements*

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

**3.10 Taxation**

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

*3.10.1 Current tax*

The tax currently 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.

*3.10.2 Deferred tax*

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

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

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.

*3.10.3 Current and deferred tax for the year*

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

*3.10.4 Tax consolidation*

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

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 is 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.

### 3.11 Property, plant and equipment

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

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

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

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

### 3.12 Intangible assets

*3.12.1 Intangible assets acquired separately*

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

*3.12.2 Internally-generated intangible assets – research and development expenditure*

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

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

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

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

### 3.13 Impairment of tangible and intangible assets other than goodwill

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

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.

### 3.14 Inventories

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

**Construction contracts**

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

**Land at cost**

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

**Speculative homes and displays**

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

### 3.15 Provisions

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

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

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

*3.15.1 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.

*3.15.2 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'.

### 3.16 Financial instruments

*3.16.1 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.

*3.16.2 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.

### 3.17 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.

### 3.18 Share-based payment transactions

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

## 4. Critical accounting judgements and key sources of estimation uncertainty

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

### 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.

### 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. Intangible assets are amortised over a three year period. 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.

### Provision for impairment losses on 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 is based on the directors' best estimate on the proceeds from sales of these assets less the selling costs.

### Provision for Impairment Losses on Land Development

The Group holds land stock for development, which is recorded as inventory in the financial statements. At 30 June 2014, the directors assessed the value of the land stock inventory, using an external valuer to determine the fair value of certain land titles.

### 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.

### Change of discount rate used in employee entitlements provision

There was a change in the discount rates used for calculating provision annual leave and long service leave from the government bond rate to the corporate bond rate. This resulted in a net impact of $0.025 million.

## 5. Revenue

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

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Revenue from construction contracts | 594,613 | 536,050 |
| Revenue from rendering of registered training services | 23,172 | 3,829 |
| Revenue from sale of development land | 11,035 | 3,924 |
| **Total** | **628,820** | **543,803** |

## 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 June 2015 $'000 | Year Ended 30 June 2014 $'000 | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
| Residential construction | 594,613 | 536,050 | 20,552 | 14,802 |
| Registered training | 23,172 | 3,829 | 10,296 | 1,365 |
| Land development | 11,035 | 3,924 | (663) | (5,197) |
| | **628,820** | **543,803** | **30,185** | **10,970** |
| Unallocated costs | - | - | (39,068) | (3,479) |
| **Total** | **628,820** | **543,803** | **(8,883)** | **7,491** |

Segment revenue reported represents revenue generated from external customers. There was no inter-segment sales in the current year. (2014: $0.592m).

Segment profit represents the profit after 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.

Unallocated costs include offer costs incurred as part of the Company's official listing on the Australian Stock Exchange (ASX) of $4.913 million, management incentive and share based payments of $26.799 million as disclosed in note 29, business restructuring costs $0.605 million and tax of $6.751 million (2014: $3.479 million).

### 6.3 Segment assets and liabilities

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| **Segment assets** | | |
| Residential construction | 131,780 | 116,597 |
| Registered training | 6,388 | 4,003 |
| Land development | 6,774 | 15,065 |
| **Total Segment assets** | **144,942** | **135,665** |
| **Segment liabilities** | | |
| Residential construction | 117,167 | 119,731 |
| Registered training | 770 | 542 |
| Land development | 350 | 496 |
| **Total Segment liabilities** | **118,287** | **120,769** |

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 June 2015 $'000 | Year Ended 30 June 2014 $'000 | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
| Residential construction | 492 | 512 | 4,022 | 3,827 |
| Registered training | - | - | - | - |
| Land development | 513 | 708 | - | - |
| | **1,005** | **1,220** | **4,022** | **3,827** |

In addition to the interest expense and the depreciation and amortisation reported above, impairment losses of $0.348 million (2014: $6.466 million) were recognised in respect of the display homes and land stock held on hand as at 30 June 2015. These impairment losses were attributable to the following reporting segments:

| | Impairment Losses | |
|---|---|---|
| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
| Residential | 348 | 1,972 |
| Registered training | - | - |
| Land development | - | 4,494 |
| **Total impairment** | **348** | **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 2015 and the year ended 30 June 2014.

## 7. Interest income

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Bank deposits | 165 | 361 |
| Other | 48 | - |
| | **213** | **361** |

## 8. Other gains and losses

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Loss on disposal of property, plant and equipment | 86 | 217 |
| | **86** | **217** |

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

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Interest on bank overdrafts and loans | 743 | 739 |
| Other interest expense | 262 | 481 |
| | **1,005** | **1,220** |

## 10. Income taxes

### 10.1 Income tax recognised

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| **Current tax** | | |
| In respect of the current year | 8,726 | 5,666 |
| In respect of prior years | (47) | - |
| | **8,679** | **5,666** |
| | | |
| **Deferred tax** | | |
| In respect of the current year | (1,255) | (2,187) |
| In respect of prior years | (673) | - |
| | (1,928) | (2,187) |
| **Total income tax expense/(benefit) recognised in the current year** | **6,751** | **3,479** |
| | | |
| The income tax expense can be reconciled to the accounting profit as follows: | | |
| **Profit before tax from continuing operations** | **(2,132)** | **10,970** |
| Income tax expense calculated at 30% (2014: 30%) | (653) | 3,291 |
| Effect of Executive Share Based Payments non-deductible | 8,040 | - |
| Effect of concessions (research and development and other allowances) | (179) | - |
| Effect of expenses that are not deductible in determining taxable profit | 84 | 188 |
| | **7,291** | **3,479** |
| | | |
| Effect of deductible IPO costs being recognised in equity | (226) | - |
| Adjustments recognised in the current year in relation to the current tax of prior years | (314) | - |
| **Income tax expense recognised in profit or loss** | **6,751** | **3,479** |

The tax rate used for the 2015 and 2014 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

### 10.2 Current tax assets and liabilities

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| **Current tax liabilities** | | |
| Income tax payable | 6,215 | 8,979 |
| | **6,215** | **8,979** |

### 10.3 Deferred tax balances

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Deferred tax assets | 3,675 | 2,284 |
| Deferred tax liabilities | (11,117) | (10,535) |
| **Net deferred tax** | **7,442** | **8,251** |

| 2015 | Opening Balance $'000 | Under/Over $'000 | Recognised in Profit or Loss $'000 | Other $'000 | Closing Balance $'000 |
|---|---|---|---|---|---|
| Construction Contracts income | (10,331) | (468) | (147) | - | (10,946) |
| Capitalised Expenses | (221) | - | 83 | - | (138) |
| Property, Plant & Equipment | 512 | (495) | 554 | - | 571 |
| Blackhole Expenses | 126 | - | 842 | 226 | 1,195 |
| Maintenance Liability | 248 | 160 | 9 | - | 417 |
| Employee Entitlements | 1,229 | 55 | 208 | - | 1,492 |
| Other | 186 | 75 | (294) | - | (33) |
| | **(8,251)** | **(673)** | **1,255** | **226** | **(7,442)** |

| 2014 | Opening Balance $'000 | Under/Over $'000 | Recognised in Profit or Loss $'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)** |

## 11. Profit for the year

| Profit for the year has been arrived at after charging (crediting): | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Loss on sale or disposal of non-current assets | 86 | 217 |
| Office Leasing Expense | 6,393 | 6,059 |
| Depreciation and Amortisation Expense | 4,022 | 3,827 |
| Employee Benefits Expense | 57,316 | 51,390 |
| Post-employment benefits | 4,040 | 3,518 |
| Share based payments expense | 27,375 | - |
| Inventory write-down | 348 | 6,466 |
| Finance Costs | 1,005 | 1,220 |
| Bad debt | 320 | 93 |

## 12. Earnings per share

| | Year Ended 30 June 2015 | Year Ended 30 June 2014 |
|---|---|---|
| | Cents per Share | Cents per Share |
| Basic earnings per share | (6.02) | 5.36 |
| Diluted earnings per share | (5.98) | 5.36 |

### 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 June 2015 | Year Ended 30 June 2014 |
|---|---|---|
| | $'000 | $'000 |
| Profit for the year attributable to owners of the Company | (8,883) | 7,491 |
| Earnings used in the basic earnings per share | (8,883) | 7,491 |
| | Shares | Shares |
| Weighted average number of ordinary shares for the purposes of the basic earnings per share | 147,625,959 | 139,644,290 |

### 12.2 Diluted earnings per share

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

| | Year Ended 30 June 2015 | Year Ended 30 June 2014 |
|---|---|---|
| | $'000 | $'000 |
| Earnings used in the calculation of basic earnings per share | (8,883) | 7,491 |
| Relevant adjustments | - | - |
| **Earnings used in the calculation of diluted earnings per share from continuing operations** | **(8,883)** | **7,491** |

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares issued in the calculation of basic earnings per share as follows:

| | Shares | Shares |
|---|---|---|
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | 147,625,959 | 139,644,290 |
| Shares deemed to be issued for no consideration in respect of: | | |
| - Performance rights | 823,766 | - |
| - Service rights | 154,457 | - |
| **Weighted average number of ordinary shares used in the calculation of diluted earnings per share** | **148,604,182** | **139,644,290** |

## 13. Trade and other receivables

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| **Current** | | |
| Trade receivables | 44,324 | 24,853 |
| Allowance for doubtful debts | - | (320) |
| | **44,324** | **24,533** |
| Goods and Services Tax receivable | - | - |
| Other | 632 | 425 |
| Loans to related parties (refer to note 13.2) | - | 17,988 |
| | **44,956** | **42,946** |
| **Non-current** | | |
| Loans to related parties (refer to note 13.2) | - | - |
| Other | - | 160 |
| | **-** | **160** |

Trade receivables include an amount owing from Vallence Gary Simonds and related entities of $0.298 million (2014: $0.372 million). Please refer to note 28 for details of amounts owed from related parties.

### 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.

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.

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| *13.1.1 Age of receivables that are past due but not impaired* | | |
| 46-60 days | 2,304 | 930 |
| 61-90 days | 1,230 | 714 |
| 91-120 days | 626 | 1,065 |
| Over 120 days | 1,551 | 1,543 |
| | **5,711** | **4,252** |
| Average age (days) | 97 | 104 |

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 | 320 | 227 |
| Impairment losses recognised on receivables | - | 145 |
| Amounts written off during the year as uncollectible | (320) | (52) |
| Amounts recovered during the year | - | - |
| **Balance at the end of the year** | **-** | **320** |

### 13.2 Loans to related parties

During the year, loans to related parties of $17.988 million were repaid. Loans to related parties were under the control of Vallence Gary Simonds, a director of the Company. As at 30 June 2015, loans to related parties amounted to nil (30 June 2014: $17.988 million).

### 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 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Work in progress on construction contracts | 36,886 | 35,955 |
| Speculative & display homes, land stock | 34,800 | 27,992 |
| | **71,686** | **63,947** |

Write downs of display homes to net realisable value recognised as an expense during the year ended 30 June 2015 amounted to $0.348 million (2014: $1.972 million). 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 | |
|---|---|---|---|---|
| | | | 2015 | 2014 |
| Simonds Homes Victoria Pty Ltd | Residential – Victoria | Australia | 100% | 100% |
| Simonds Homes NSW Pty Ltd | Residential – NSW | Australia | 100% | 100% |
| Simonds Queensland Constructions Pty Ltd | Residential – Queensland | Australia | 100% | 100% |
| Simonds SA Pty Ltd | Residential – South Australia | Australia | 100% | 100% |
| Simonds WA Pty Ltd | Residential – Western Australia | Australia | 100% | 100% |
| Madisson Homes Australia Pty Ltd | Residential – Victoria | Australia | 100% | 100% |
| Simonds Personnel Pty Ltd | Payroll service entity | Australia | 100% | 100% |
| Simonds Assets Pty Ltd | Asset service entity | Australia | 100% | 100% |
| Simonds IP Pty Ltd | Intellectual property service entity | Australia | 100% | 100% |
| Simonds Corporate Pty Ltd | Asset service entity | Australia | 100% | 100% |
| Jackass Flat Developments Pty Ltd | Land development and sales | Australia | 100% | 100% |
| Simonds Land Development Pty Ltd | Land development and sales | Australia | 100% | 100% |
| House of Learning Pty Ltd | Registered training organisation | Australia | 100% | 100% |

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

### 16. Property, plant and equipment

| | Leasehold Improvements $'000 | Computer Equipment $'000 | Office Furniture and Fittings $'000 | Display Home Furniture, Fixtures & Fittings $'000 | Motor Vehicles $'000 | Plant and Equipment $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at 1 July 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** |
| **Cost** | | | | | | | |
| Balance at 1 July 2014 | 2,200 | 1,983 | 2,162 | 195 | 6,314 | 1,269 | 14,123 |
| Additions | 1,245 | 304 | 385 | 274 | 1,677 | 24 | 3,909 |
| Disposals | (7) | - | - | - | (1,623) | - | (1,630) |
| **Balance at 30 June 2015** | **3,438** | **2,287** | **2,547** | **469** | **6,368** | **1,293** | **16,402** |
| **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)** |
| **Accumulated depreciation** | | | | | | | |
| Balance at 1 July 2014 | (895) | (1,634) | (773) | (172) | (2,747) | (1,063) | (7,284) |
| Depreciation expense | (646) | (207) | (365) | (103) | (1,205) | (178) | (2,704) |
| Disposals / transfers | 2 | - | - | - | 1,017 | - | 1,019 |
| **Balance at 30 June 2015** | **(1,539)** | **(1,841)** | **(1,138)** | **(275)** | **(2,935)** | **(1,241)** | **(8,969)** |
| **Net book value** | | | | | | | |
| **As at 30 June 2014** | **1,305** | **349** | **1,389** | **23** | **3,567** | **206** | **6,839** |
| **As at 30 June 2015** | **1,899** | **446** | **1,409** | **194** | **3,433** | **52** | **7,433** |

(1) The Groups' obligations under finance leases (note 20) are secured by motor vehicles with a carrying value of $2.869 million (2014: $2.154 million)

## 17. Intangible assets

| | Computer Software $'000 | Capitalised Courses $'000 | Total $'000 |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 July 2013 | 3,804 | - | 3,804 |
| Additions | 1,417 | - | 1,417 |
| Disposals | - | - | - |
| **Balance at 30 June 2014** | **5,221** | **-** | **5,221** |
| **Cost** | | | |
| Balance at 1 July 2014 | 5,221 | - | 5,221 |
| Additions | 3,111 | 399 | 3,510 |
| Disposals | - | - | - |
| **Balance at 30 June 2015** | **8,332** | **399** | **8,731** |
| **Accumulated amortisation** | | | |
| Balance at 1 July 2013 | (2,187) | - | (2,187) |
| Depreciation Expense | (1,145) | - | (1,145) |
| Disposal/Transfers | - | - | - |
| **Balance 30 June 2014** | **(3,332)** | **-** | **(3,332)** |
| **Accumulated amortisation** | | | |
| Balance at 1 July 2014 | (3,332) | - | (3,332) |
| Depreciation Expense | (1,265) | (54) | (1,319) |
| Disposal/Transfers | - | - | - |
| **Balance 30 June 2015** | **(4,597)** | **(54)** | **(4,651)** |
| **Net Book Value** | | | |
| **As at 30 June 2014** | **1,889** | **-** | **1,889** |
| **As at 30 June 2015** | **3,735** | **345** | **4,080** |

## 18. Other assets

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Prepayments | 3,008 | 1,273 |
| Land deposits | 663 | 275 |
| Prepayment for acquisition | 3,000 | - |
| Other assets | 138 | 157 |
| **Total** | **6,809** | **1,705** |
| | | |
| Current | 6,809 | 1,705 |
| Non-current | - | - |
| **Total** | **6,809** | **1,705** |

## 19. Trade and other payables

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Trade payables | 32,929 | 33,284 |
| Construction accruals | 28,238 | 31,959 |
| Income tax payable | 6,215 | 8,979 |
| Goods and service tax payable | 787 | 930 |
| Other payables and accruals | 7,516 | 7,637 |
| | **75,685** | **82,789** |

## 20. Borrowings

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| **Current** | | |
| **Secured – at amortised cost** | | |
| Commercial bills (i) | - | - |
| Equipment finance facility (ii) | - | 716 |
| Finance lease liability (iii) | 908 | 454 |
| | **908** | **1,170** |
| **Non-current** | | |
| **Secured – at amortised cost** | | |
| Commercial bills (i) | - | - |
| Finance lease liability (iii) | 1,877 | 1,700 |
| | **1,877** | **1,700** |

### 20.1 Summary of borrowing arrangements

During the year, the Group executed an amended debt facility with the Commonwealth Bank of Australia (CBA), taking effect 19 March 2015. Details of the facility are as follows:

(1) The Group's Commercial bills consist of a $10 million market rate loan, a $25 million Multi Option Facility incorporating a market rate loan, overdraft facility, business corporate credit card facility and bank guarantee facility The Group's facilities are secured by:

- Joint and several liability guarantee.
- First ranking charge over all present and after-acquired property for all Simonds Group Ltd corporate entities and Jackass Flat Developments Pty Ltd ATF Jackass Flat Developments Unit Trust.
- The Group has unused commercial bills facilities of $29.612 million as at 30 June 2015.

(2) Assets under finance lease are secured by the assets leased. The borrowings are at an average fixed rate of 5.89% with repayments periods not exceeding 5 years.

(3) As at 30 June 2015, The Group has no external borrowings, except the finance lease liabilities. Unused facilities as at 30 June 2015 are $1.215 million.

## 21. Provisions

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Employee benefits [1] | 6,462 | 5,837 |
| Warranty and contract maintenance provision [2] | 11,006 | 11,021 |
| Provision for make good | 702 | 533 |
| | **18,170** | **17,391** |
| Current | 11,786 | 10,126 |
| Non-current | 6,384 | 7,265 |
| | **18,170** | **17,391** |

[1] The provision for employee benefits represents annual leave and long service leave entitlements accrued and compensation claims made by employees. During the year the Group elected to apply a corporate bond rate to non-current employee liabilities and this resulted in a net impact of $0.026m.

[2] 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

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Arising from construction contracts | 9,704 | 7,184 |
| | **9,704** | **7,184** |
| Current | 9,704 | 7,184 |
| Non-current | - | - |
| | **9,704** | **7,184** |

## 23. Issued capital

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| 151,412,268 fully paid ordinary shares (30 June 2014: 27,928,858 shares) | 13,590,304 | 822,059 |
| | **13,590,304** | **822,059** |

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

| | Number of Shares | | Share Capital ($) | |
|---|---|---|---|---|
| | Year Ended 30 June 2015 | Year Ended 30 June 2014 | Year Ended 30 June 2015 | Year Ended 30 June 2014 |
| Balance at beginning of the period | 27,928,858 | 27,928,858 | 822,059 | 822,059 |
| Share split (1) | 111,715,432 | - | - | - |
| Issue of shares (2) | 6,150,000 | - | 3,523,193 | - |
| Issue of shares (3) | 5,617,978 | - | 10,000,000 | - |
| Transaction costs (3) | - | - | (754,948) | - |
| **Balance at end of the period** | **151,412,268** | **27,928,858** | **13,590,304** | **822,059** |

(1) In accordance with S254H of the Corporations Act 2001 (Cth), the ordinary shares of the Company were divided on the basis that every one ordinary share be converted into five ordinary shares in the capital of the Company.

(2) Additional capital of $3.523 million (6,150,000 ordinary shares) was raised during the period through share subscriptions by executives from the management incentive. (Note 29)

(3) Additional capital of $10.000 million (5,617,977 ordinary shares) was raised during the period as part of the Group's initial public offering. Transaction costs arising on the new share issue are accounted as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction. Transaction costs of $0.755 million were accounted as a deduction in equity for the year ended 30 June 2015. (2014: nil). As part of the listing on the Australian Stock Exchange, the Company granted 137,191 shares ($0.244 million) to employees for no consideration, which was recognised in the profit and loss at their fair value at grant date of $1.78 on 20 November 2014.

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 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Retained earnings | (14,310) | 14,074 |
| | **(14,310)** | **14,074** |
| Balance at the beginning of the year | 14,074 | 8,189 |
| Profit attributable to owners of the Company | (8,883) | 7,491 |
| Payment of dividends (refer note 25) | (19,501) | (1,606) |
| **Balance at the end of the year** | **(14,310)** | **14,074** |

## 25. Dividends

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

| | Year Ended 30 June 2015 | | Year Ended 30 June 2014 | |
|---|---|---|---|---|
| | Cents per Share | Total $'000 | Cents per Share | Total $'000 |
| **Fully paid ordinary shares** | | | | |
| Interim dividend | - | - | - | - |
| Special dividend | 13.96 | 19,501 | - | - |
| Final dividend | - | - | 5.75 | 1,606 |
| | **13.96** | **19,501** | **5.75** | **1,606** |

The directors declared a fully franked special dividend of 13.96 cents per share ($19.501 million) on 24 September 2014 to the holders of the pre IPO fully paid ordinary shares. This dividend was paid to facilitate the assignment and repayment of the majority of related party loans outstanding.

The directors declared a fully franked final dividend of 5.30 cents per share ($7.932 million) on 19 August 2015 to the post IPO holders of fully paid ordinary shares in respect to the year ended 30 June 2015, to be paid on 25 September 2015. Dividends will be paid to holders of shares under the Simonds Group Limited Employee Share Plan on 29 September 2015. The dividend will be paid to all shareholders on the Register of Members on 26 August 2015.

The company's adjusted franking account balance as at 30 June 2015 is $3,998,039 (2014: $2,260,398).

## 26. Financial instruments

### 26.1 Capital risk management

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

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

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 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 5,477 | 15,895 |
| Trade and other receivables | 44,956 | 43,106 |
| **Financial liabilities** | | |
| Trade and other payables | 75,685 | 82,789 |
| Borrowings | 2,785 | 2,870 |

**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 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 2015, there were no borrowings other than finance leases.

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.

*26.4.1 Interest Rate Sensitivity Analysis*

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

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

(i) profit for the year ended 30 June 2015 would decrease/increase by $134,900. 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 2015 would 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.

### 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.

| | Weighted Average Effective Interest Rate % | < 6 Months $'000 | 6-12 Months $'000 | >1-5 Years $'000 | Total $'000 |
|---|---|---|---|---|---|
| Year Ended 30 June 2015 | | | | | |
| **Financial liabilities** | | | | | |
| Equipment finance | - | - | - | - | - |
| Finance lease liability | 5.83 | 321 | 587 | 1,877 | 2,784 |
| Borrowings | 4.99 | - | - | - | - |
| Financial Guarantees (1) | - | 5,388 | - | - | 5,388 |
| | | **5,709** | **587** | **1,877** | **8,172** |
| Year Ended 30 June 2014 | | | | | |
| **Financial liabilities** | | | | | |
| Equipment finance | 8.48 | 716 | - | - | 716 |
| Finance lease liability | 6.70 | 252 | 202 | 1,700 | 2,154 |
| Borrowings | 5.21 | - | - | - | - |
| Financial Guarantees (1) | - | 8,723 | - | - | 8,723 |
| | | **9,691** | **202** | **1,700** | **11,593** |

(1) 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 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Short-term employee benefits | 3,905 | 8,960 |
| Post-employment benefits | 119 | 285 |
| Share-based payments | 12,392 | - |
| Termination benefits | - | 564 |
| | **16,416** | **9,809** |

## 28. Related party transactions

### 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.

| | Sale of Goods | | Leases and Services Rendered | |
|---|---|---|---|---|
| | Year Ended 30 June 2015 $ | Year Ended 30 June 2014 $ | Year Ended 30 June 2015 $ | Year Ended 30 June 2014 $ |
| Vallence Gary Simonds and related entities | 1,033,202 | 771,969 | 751,392 | 371,822 |
| Paul McMahon and related entities | - | - | 76,800 | 76,800 |
| Leon Gorr and related entities | - | - | 1,429,620 | - |

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

| | Amounts Owed by Related Parties | | Amounts Owed to Related Parties | |
|---|---|---|---|---|
| | Year Ended 30 June 2015 $ | Year Ended 30 June 2014 $ | Year Ended 30 June 2015 $ | Year Ended 30 June 2014 $ |
| Vallence Gary Simonds and related entities | 297,556 | 18,360,029 | 3,750 | - |
| Paul McMahon and related entities | - | - | 3,200 | - |
| Leon Gorr and related entities | - | - | 43,115 | - |

*Vallence Gary Simonds and Related Entities*

Two homes have been constructed for closely related family members of Vallence Gary Simonds at the Groups usual list prices and in line with relevant internal discount policies. An additional amount of $11,926 has been received for a sub-lease arrangement with SFO Consulting Pty Ltd.

The Group leases a number of properties from Vallence Gary Simonds and related entities on an arms-length basis and amounted to $372,487 for the period ended 30 June 2015 (2014: $360,572).These leases expire on 30 September 2019. Consulting services provided by Mark Simonds, a son of Vallence Gary Simonds, amounted to $74,603. As part of the normal course of business, goods have been received from OzSoft Solutions Pty Ltd and RTOMS Pty Ltd, two entities under the common control of a closely related family member of Vallence Gary Simonds.

*Paul McMahon and Related Entities*

Two display homes owned by Paul McMahon and related entities are leased by the Group on a normal arms-length transaction basis.

*Leon Gorr and Related Entities*

Leon Gorr is both a director of the Company and a Partner at HWL Ebsworth Lawyers who have provided legal services to the Company during the year. Fees incurred as part of the IPO amounted to $1,028,343, with the residual amount of $401,277 relating to legal services provided as part of the normal course of business.

### 28.2 Loans to related parties

During the year, loans to related parties of $17.988 million were repaid. Loans to related parties were under the control of Vallence Gary Simonds, a director of the Company. As at 30 June 2015, loans to related parties amounted to nil (30 June 2014: $17.988 million).

### 28.3 Other related party transactions

Share based payment transactions that took place during the period and are disclosed in note 29.

The Company purchased a number of properties from Simonds Development Projects No 1 Pty Ltd, which is under the control of Vallence Gary Simonds. These properties were acquired as they form part of the Company's display home portfolio. These properties were purchased for $3.271 million, which was at their arms-length value at the time.

Other related party transactions include the salaries and other benefits paid to directors and other key management personnel.

## 29. Share based payments

### 29.1 Share based payments

*Executive share based payments*

Prior to the Initial Public Offering, certain executives of Simonds Group agreed to vary their pre-existing contractual entitlements, which included various cash payments from the Group in the event of a sale of the business, including an Initial Public Offering (IPO), and depending on certain key performance indicators being met. The variation of contractual entitlements included the right to subscribe for 6,150,000 shares in Simonds Group Limited from a Vallence Gary Simonds associated entity prior to the IPO and cash payments by a Vallence Gary Simonds associated entity (outside of the Group) upon Completion of the IPO over a period of up to three years from the date of Listing, subject to certain service and other conditions. The aggregate value of these entitlements was determined with reference to the share price of the Company at IPO date.

*Employee share plan*

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

Share based payments made in the ordinary course of business to the management team amounted to $0.576 million (2014: nil). 1,348,316 performance rights were granted to 9 senior executives during the period and 252,810 service rights were granted 7 senior managers.

The following table outlines the share based payments made under the employee share scheme during the year ended 30 June 2015:

| Incentives | Tranche | Grant Date | Fair Value at Grant Date | Vesting Date | Other Vesting Condition |
|---|---|---|---|---|---|
| Performance rights | Tranche 1 (1) | 17 Nov '14 | $1.03 | 31 Aug '17 | Non market and Market |
| | Tranche 2 (2) | 17 Nov '14 | $1.55 | 31 Aug '17 | Non market |
| | Tranche 3 (3) | 17 Nov '14 | $1.55 | 31 Aug '17 | Non market |
| Services rights | Tranche 1 | 17 Nov '14 | $1.69 | 24 Nov '15 | Non market vesting only |
| | Tranche 2 | 17 Nov '14 | $1.61 | 24 Nov '16 | Non market vesting only |

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

(2) Vesting condition linked to compound annual growth rate in Earnings Per Share (EPS) where EPS is calculated based on the pro-forma Net Profit Before Tax for the period ended 30 June 2015 with the specific EPS methodology to be determined by the board.

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

The following table outlines the share based payments made under the management incentive and employee share plan for the period ended 30 June 2015:

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| **Executive share based payment** | | |
| Equity settled share based payments | 6,337 | - |
| Cash settled share based payments | 20,462 | - |
| | **26,799** | **-** |
| **Employee share plan** | | |
| Share based payments | 576 | - |
| | **27,375** | **-** |

### 29.2 Fair value of performance and service rights granted in the year

Service rights were priced using a Binominal Approximation Option Valuation Model. For performance rights subject to market vesting conditions only (Tranche 1) the model used was a Monte Carlo Simulation Model. For performance rights subject to non-market vesting conditions only (Tranche 2 and Tranche 3) the model used was a Binominal Approximation Option Valuation Model. Expected volatility is estimated using the daily rolling three year standard deviation of a relevant Peer Group. The risk free rate is derived from the average of the 2 and 3 year Commonwealth Treasury Bond Rate. This yield was converted to a continuously-compounded rate for the purposes of the rights valuation.

The following table outlines information relevant to the fair value of performance and service rights granted during the year:

| | Performance Rights | | | Service Rights | |
|---|---|---|---|---|---|
| Fair Value Model Inputs and Assumptions | Tranche 1 | Tranche 2 | Tranche 3 | Tranche 1 | Tranche 2 |
| Fair value at grant date | $1.03 | $1.55 | $1.55 | $1.69 | $1.61 |
| Exercise Price | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 |
| Expected life of instruments (days) | 1,018 | 1,018 | 1,018 | 372 | 738 |
| Expected volatility | 40% | 40% | 40% | 40% | 40% |
| Expected dividend yield | 4.92% | 4.92% | 4.92% | 4.92% | 4.92% |
| Risk - free rate | 2.57% | 2.57% | 2.57% | 2.67% | 2.71% |

### 29.3 Movements in performance and service rights during the year

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

| 2015 | Opening Balance | Granted During the Year | | Forfeited During the Year | | |
|---|---|---|---|---|---|---|
| | Number of Rights | Number of Rights | Weighted Average Fair Value | Number of Rights | Weighted Average Fair Value | Total |
| **Performance Rights** | | | | | | |
| Tranche 1 | - | 449,438 | $1.03 | (37,453) | $1.03 | **411,985** |
| Tranche 2 | - | 449,438 | $1.55 | (37,453) | $1.55 | **411,985** |
| Tranche 3 | - | 449,440 | $1.55 | (37,454) | $1.55 | **411,986** |
| **Service Rights** | | | | | | |
| Tranche 1 | - | 168,549 | $1.69 | - | - | **168,549** |
| Tranche 2 | - | 84,261 | $1.61 | - | - | **84,261** |
| | **-** | **1,601,126** | **$1.42** | **112,360** | **$1.42** | **1,488,766** |

### 29.4 Movements in performance rights during the year

The performance rights outstanding at the end of the year had an exercise price of $0.00 (2014: Nil) and a weighted average contractual life of 1,018 days (2014: Nil). The service rights outstanding at the end of the year had an exercise price of $0.00 (2014: Nil) and a weighted average contractual life of 494 days (2014: Nil).

### 29.5 Performance and service rights vested during the year

There were no performance or service rights which vested during the year.

## 30. 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 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Cash and bank balances | 5,477 | 15,895 |
| | **5,477** | **15,895** |

### 30.1. Reconciliation of profit for the year to net cash flows from operating activities

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit / (loss) for the year | (8,883) | 7,491 |
| Income tax expense recognised in profit or loss | 6,751 | 3,479 |
| Finance costs recognised in profit or loss | 1,005 | 1,220 |
| Interest received | (213) | (361) |
| Loss on disposal of property, plant and equipment | 86 | 217 |
| Costs associated with initial public offering | 5,668 | - |
| Depreciation and amortisation of non-current assets | 4,022 | 3,827 |
| Impairment loss recognised on inventories and loans to related parties | 348 | 6,466 |
| Management incentive and share based payments | 27,375 | - |
| | **36,159** | **22,339** |
| **Movements in working capital** | | |
| (Increase)/decrease in trade and other receivables | (19,839) | (4,513) |
| (Increase)/decrease in inventories | (8,087) | 13,647 |
| (Increase)/decrease in other assets | (2,104) | (399) |
| Increase/(decrease) in trade and other payables | (1,819) | (2,208) |
| Increase/(decrease) in provisions | 777 | (584) |
| **Cash generated by operating activities** | **5,087** | **28,282** |
| Interest paid | (1,005) | (1,220) |
| Income taxes paid | (10,326) | - |
| **Net cash generated by / (used in) operating activities** | **(6,244)** | **27,062** |

## 31. Commitments for expenditure

| Lease commitments | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| **Non – cancellable operating lease payments** | | |
| No longer than 1 year | 9,025 | 7,106 |
| Longer than 1 year and not longer than 5 years | 14,739 | 12,218 |
| | **23,764** | **19,324** |

The Group has no capital expenditure commitments. Lease commitments relate primarily to office leases, display home leases and information technology leases.

### 32. Auditors remuneration

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Audit or review of financial statements | 319,500 | 188,000 |
| IPO advisory costs | 573,231 | - |
| IPO tax costs | 144,186 | - |
| Non – audit services | 268,107 | 200,000 |
| | **1,305,024** | **388,000** |

The Group's auditors are Deloitte Touche Tohmatsu Limited.

### 33. 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.

| Statement of financial position | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Other financial assets | 822 | 822 |
| Trade and other receivables | 50,396 | 6,867 |
| **Total assets** | **51,218** | **7,689** |
| Trade and other payables | 25,329 | 5,828 |
| **Total liabilities** | **25,329** | **5,828** |
| Issued capital | 13,590 | 822 |
| Share based payments | 576 | - |
| Retained earnings | 11,723 | 1,039 |
| **Total equity** | **25,889** | **1,861** |
| **Income statement** | | |
| Dividend Income | 35,673 | 1,606 |
| Operating expense | (1) | - |
| Share Based Payment | (576) | - |
| IPO Offer Costs | (4,913) | - |
| **Profit for the year** | **30,183** | **1,606** |
| **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** | **30,183** | **1,606** |

## 34. Business combinations

### 34.1 Subsidiaries acquired

The acquisition of City-Wide Building and Training Services Pty Ltd (CWBTS) was completed on 1 July 2015 and is disclosed in note 36 as a subsequent event. CWBTS was acquired to enable the Group to extend its established training offering in Victoria to the New South Wales and Queensland markets, and to expand the number of building and construction qualifications it can offer. There were no subsidiaries acquired during the year ended 30 June 2014.

| | Principle Activity | Date of Acquisition | Proportion of Shares Acquired % | Consideration Transferred $'000 |
|---|---|---|---|---|
| 2015 | | | | |
| CWBTS | Provision of building & construction training | 01/07/2015 | 100 | 4,000 |
| | | | | **4,000** |

### 34.2. Consideration transferred

| | CWBTS $'000 |
|---|---|
| Cash | 3,000 |
| Contingent consideration (1) | 1,000 |
| | 4,000 |

(1) Contingent consideration of up to a maximum of $1.0 million may be payable subject to specific performance related key performance indicators. Of this $1.0 million, $0.5 million is a Retention Amount which is payable 1 year after the completion date, 1 July 2016. The residual maximum of $0.5 million is an Earn Out amount which is based on the Gross Revenue for the calendar year 2015.

### 34.3 Assets and liabilities assumed at the date of acquisition

Management is currently assessing the assets and liabilities assumed on acquisition and this will be disclosed in the subsequent financial period.

### 34.4 Non-controlling interests

There was no non-controlling interest recognised at the acquisition date as 100% of the CWBTS share capital was acquired.

### 34.5 Goodwill arising on acquisition

Management is currently assessing the goodwill on acquisition and this will be disclosed in the subsequent financial period.

### 34.6 Net cash outflow on acquisition of subsidiaries

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Consideration paid in cash | 3,000 | - |
| Contingent consideration (1) | 500 | - |
| | **3,500** | **-** |

(1) Cash outflow of $0.5 million relates to a Retention Amount which is payable 1 year after the completion date, 1 July 2016. As per the Share Purchase Agreement, this amount is held in Trust until satisfaction of the retention period condition.

## 35. Contingent liabilities

| | Year Ended 30 June 2015 $'000 | Year Ended 30 June 2014 $'000 |
|---|---|---|
| Other guarantees [(1)] | 5,388 | 8,723 |
| | **5,388** | **8,723** |

(1) 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.

## 36. Subsequent events

The following subsequent events have arisen since 30 June 2015:

### CWBTS acquisition

On 9 January 2015, the Group entered a conditional contract to acquire 100% interest in City-Wide Building and Training Services Pty Ltd (CWBTS). The acquisition was conditional on a number of items including the consent of the NSW & QLD Governments to the transaction. On 1 July 2015, the acquisition of CWBTS was completed. Cash consideration of $3.0 million was paid at the date of completion, and a further contingent consideration of up to a maximum of $1.0 million may be payable subject to specific performance related key performance indicators. Management is currently assessing the goodwill on acquisition and this will be disclosed in the subsequent financial period.

### Share buy-back

The Company intends to undertake an on-market share buy-back ("buy-back") to enable the Company to buy-back up to a maximum 7.5 million shares within a 12 month period. The buy-back is part of the Company's ongoing capital management strategy. The share buy-back is expected to commence on 7 September 2015 for a period of no more than 12 months. The Company will only buy-back shares at such time and in such circumstances as it considers beneficial to the efficient capital management of the Company.

## Top 20 holdings as at 30-06-2015

| Holder Name | Balance at 30-06-2015 | Percentage of total shares |
|---|---|---|
| Gary Simonds & Related Entities | 56,138,895 | 37.08 |
| National Nominees Limited | 22,652,882 | 14.96 |
| J P Morgan Nominees Australia Limited | 11,085,804 | 7.32 |
| UBS Nominees Pty Ltd | 6,802,288 | 4.49 |
| HSBC Custody Nominees (Australia) Limited | 6,219,184 | 4.11 |
| Citicorp Nominees Pty Limited | 5,913,982 | 3.91 |
| BNP Paribas Noms Pty Ltd | 4,812,897 | 3.18 |
| Paul McMahon & Related Entities | 4,040,000 | 2.67 |
| Citicorp Nominees Pty Limited | 2,605,603 | 1.72 |
| HSBC Custody Nominees (Australia) Limited | 2,183,056 | 1.44 |
| RBC Investor Services Australia Nominees Pty Limited | 1,688,958 | 1.12 |
| Sandhurst Trustees Ltd | 1,352,320 | 0.89 |
| Brispot Nominees Pty Ltd | 1,312,061 | 0.87 |
| RBC Investor Services Australia Nominees Pty Ltd | 1,276,400 | 0.84 |
| BNP Paribas Noms (Nz) Ltd | 1,000,001 | 0.66 |
| RBC Investor Services Australia Nominees Pty Limited | 939,369 | 0.62 |
| Mark Vujovich | 880,000 | 0.58 |
| HSBC Custody Nominees (Australia) Limited | 868,049 | 0.57 |
| UBS Wealth Management Australia Nominees Pty Ltd | 809,359 | 0.54 |
| Aust Executor Trustees Ltd | 550,205 | 0.36 |
| **Top 20 total** | **133,131,313** | **87.93** |
| **Total shares on issue** | **151,412,268** | **100.00** |

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