Simonds Group

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ASX ANNOUNCEMENT

SCHEME BOOKLET REGISTERED WITH ASIC

Melbourne, 26 October 2016

- **Scheme Booklet, including Independent Expert's Report, registered with ASIC**
- **Scheme Booklet to be sent to shareholders on or about Friday, 28 October 2016**

Simonds Group Limited announces that the Australian Securities and Investments Commission has today registered the Scheme Booklet in relation to the previously announced scheme of arrangement under which SR Residential Pty Ltd, a company jointly owned by entities associated with Simonds Family Office Pty Ltd and Roche Holdings Pty Ltd, will acquire all of the shares in Simonds not already owned by associates of Simonds Family Office Pty Ltd ("**Scheme**").

If the Scheme is approved by the requisite majority of Simonds shareholders and all other conditions precedent are satisfied or waived (where capable of waiver), shareholders will receive a cash payment of $0.40 per share which is currently expected to be paid on the implementation date (currently expected to be Wednesday, 7 December 2016).

A copy of the Scheme Booklet, which includes an Independent Expert's Report, a Notice of Scheme Meeting and a copy of the proxy form for the Scheme Meeting, is attached to this announcement.

Copies of the Scheme Booklet will be sent to Simonds shareholders on or about Friday, 28 October 2016 and those shareholders who have previously nominated an electronic means of notification to the Simonds share registry will receive an email where they can download the Scheme Booklet and lodge their proxy vote online.

The Independent Directors continue to unanimously recommend that Simonds shareholders vote in favour of the Scheme (in the absence of a superior proposal) at the upcoming Scheme Meeting to be held on Tuesday, 29 November 2016.

ENDS

For more information, please contact:

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Simonds Group

Simonds Group Limited
ACN 143 841 801

SCHEME BOOKLET

For a scheme of arrangement between Simonds Group Limited and its shareholders (other than the Excluded Shareholders) in relation to the proposed acquisition of Simonds Group Limited by SR Residential Pty Ltd, a company associated with Simonds Family Office Pty Ltd and Roche Holdings Pty Ltd

VOTE IN FAVOUR

Your Independent Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal

This is an important document and requires your immediate attention.

You should read it in its entirety before deciding whether or not to vote in favour of the Scheme.

If you are in any doubt about how to deal with this document, you should contact your broker or financial, taxation or legal adviser immediately.

MACQUARIE

Financial Adviser

HERBERT SMITH FREEHILLS

Legal Adviser

Important Notices

Nature of this document

This Scheme Booklet provides Shareholders with information about the proposed acquisition of the Company by associates of Simonds Family Office Pty Ltd (**SFO**) and Roche Holdings Pty Ltd (**Roche Holdings**) through their jointly owned special purpose entity. If you have sold all of your Shares, please ignore this booklet.

Defined terms

A number of defined terms are used in this Scheme Booklet. These terms are explained in section 9 of this Scheme Booklet.

No investment advice

The information contained in this Scheme Booklet does not constitute financial product advice and has been prepared without reference to your own investment objectives, financial situation, taxation position and particular needs. It is important that you read this Scheme Booklet in its entirety before making any investment decision and any decision as to whether or not to vote in favour of the Scheme. If you are in any doubt in relation to these matters, you should consult your financial, legal, taxation or other professional adviser.

Not an offer

This Scheme Booklet does not constitute or contain an offer to Shareholders, or a solicitation of an offer from Shareholders, in any jurisdiction.

Foreign jurisdictions

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside of Australia who come into possession of this Scheme Booklet should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with Australian law and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations outside Australia.

Regulatory information

This document is the explanatory statement for the scheme of arrangement between the Company and Scheme Shareholders for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included in this booklet as Annexure B.

A copy of this Scheme Booklet was provided to ASIC for examination in accordance with section 411(2)(b) of the Corporations Act and was lodged with ASIC for registration under section 412(6) of the Corporations Act. It was then registered by ASIC under section 412(6) of the Corporations Act before being sent to Shareholders.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the time of the Court hearing to approve the Scheme. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been provided to ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

Notice of Scheme Meeting

The Notice of Meeting is set out in Annexure D.

Notice of Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote at the Scheme Meeting.

Any Shareholder may appear at the Second Court Hearing, expected to be held at 10.00am on Wednesday, 30 November 2016 at the Supreme Court of Victoria, 210 William Street, Melbourne.

Any Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on the Company a notice of appearance in the prescribed form together with any affidavit that the Shareholder proposes to rely on.

Important notice associated with the Court order under section 411(1) of the Corporations Act

The fact that under section 411(1) of the Corporations Act the Court has ordered that a meeting be convened and has directed that an explanatory statement accompany the notice of meeting does not mean that the Court:

- has formed any view as to the merits of the proposed scheme or as to how members should vote (on this matter members must reach their own decision); or
- has prepared, or is responsible for, the content of the explanatory statement.

Disclaimer as to forward-looking statements

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

All forward-looking statements in this Scheme Booklet reflect views only as at the date of this Scheme Booklet, and generally may be identified by the use of forward-looking words such as “believe”, “aim”, “expect”, “anticipate”, “intending”, “foreseeing”, “likely”, “should”, “planned”, “may”, “estimate”, “potential”, or other similar words. Similarly, statements that describe the Company’s or the Consortium’s objectives, plans, goals or expectations are or may be forward-looking statements.

The statements contained in this Scheme Booklet about the impact that the Scheme may have on the results of the Company’s operations and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements, expressed, projected or implied by these forward-looking statements.

The operations and financial performance of the Company are subject to various risks, including those summarised in this Scheme Booklet, which may be beyond the control of the Company or the Consortium. Shareholders should note that the historical financial performance of the Company is no assurance of future financial performance of the Company (whether the Scheme is implemented or not). Those risks and uncertainties include factors and risks specific to the industry in which the Company operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. As a result, the actual results of operations and earnings of the Company following implementation of the Scheme, as well as the actual advantages of the Scheme, may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved.

The forward-looking statements included in this Scheme Booklet are made only as of the date of this Scheme Booklet.

Although the Company believes that the views reflected in any forward-looking statements included in the Company Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

Although the Consortium believes that the views reflected in any forward-looking statements included in the Consortium Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

None of the Company, SFO, Roche Holdings, SR Residential, the Company's officers, SFO's officers, Roche Holdings' officers, SR Residential's officers, any persons named in this Scheme Booklet with their consent or any person involved in the preparation of this Scheme Booklet makes any representation or warranty (express or implied) as to the likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement.

You should review all of the information in this Scheme Booklet carefully. Section 1.1 sets out the reasons why you should vote in favour of the Scheme and section 1.2 sets out the reasons why you may wish to vote against the Scheme.

All subsequent written and oral forward-looking statements attributable to the Company, the Consortium or any person acting on their behalf are qualified by this cautionary statement.

Subject to any continuing obligations under relevant laws or the listing rules of a relevant exchange, the Company and the Consortium do not give any undertaking to update or revise any such statements after the date of this Scheme Booklet, to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

Responsibility statement

The Company Information has been prepared by the Company and is its responsibility alone. Neither the Consortium nor any of their respective directors, officers and advisers assume any responsibility for the accuracy or completeness of any such Company Information.

The Consortium Information has been prepared by the Consortium and is the responsibility of the Consortium. Neither the Company nor any of its directors, officers and advisers assume any responsibility for the accuracy or completeness of any such Consortium Information.

KPMG Corporate Finance has prepared the Independent Expert's Report in relation to the Scheme and takes responsibility for that report. The Independent Expert's Report is set out in Annexure A.

Boardroom Pty Limited has had no involvement in the preparation of any part of this Scheme Booklet other than being named as the Registry. Boardroom Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

Liability of IBC member

For the avoidance of doubt, given he is not a Director, Independent Board Committee (**IBC**) member Mr Dimitri Kiriacoulacos does not make a recommendation to Shareholders, nor is he required to do so. While Mr Kiriacoulacos is a member of the IBC, he has not caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

Privacy

The Company and the Consortium may collect personal information in the process of implementing the Scheme. Such information may include the name, contact details and shareholdings of Shareholders and the name of persons appointed by those persons to act as a proxy, attorney or corporate representative at the Scheme Meeting. The primary purpose of the collection of personal information is to assist the Company, and the Consortium to conduct the Scheme Meeting and implement the Scheme. Personal information of the type described above may be disclosed to the Registry, print and mail service providers, authorised securities brokers, Related Bodies Corporate of the Company and the Consortium, and the Company and the Consortium's advisers and service providers. Shareholders have certain rights to access personal information that has been collected. Shareholders should contact the Registry in the first instance, if they wish to access their personal information. Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of these matters.

Date of this Scheme Booklet

This Scheme Booklet is dated 26 October 2016.

Currency and exchange

Unless otherwise stated, all dollar amounts in this Scheme Booklet are in Australian Dollars and all share prices and trading volumes refer to Share trading on ASX.

Contents

Key Dates

Date of this Scheme Booklet	26 October 2016
First Court Date	Wednesday, 26 October 2016
Latest date and time for receipt of Proxy Forms or powers of attorney for the Scheme Meeting	10.00am (Melbourne time) on Sunday, 27 November 2016
Time and date for determining eligibility to vote at the Scheme Meeting	7.00pm (Melbourne time) on Sunday, 27 November 2016
Scheme Meeting to be held at the Pullman Hotel (Park Room), 65 Queens Road, Albert Park, Victoria 3004	10.00am (Melbourne time) on Tuesday, 29 November 2016
If the Scheme is approved by Shareholders	
Second Court Date for approval of the Scheme	Wednesday, 30 November 2016
Effective Date Court order lodged with ASIC and announcement to ASX Last day of trading in Shares – Shares suspended from trading on ASX from close of trading	Wednesday, 30 November 2016
Scheme Record Date for determining entitlements to Scheme Consideration	7.00pm (Melbourne time) on Monday, 5 December 2016
Implementation Date Payment of Scheme Consideration to Scheme Shareholders	Wednesday, 7 December 2016

All dates following the date of the Scheme Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and any other regulatory authority. Any changes to the above timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through ASX and notified on the Company's website at https://simondsgroup.com.au/announcements.

All references to time in this Scheme Booklet are references to Melbourne, Australia time, unless otherwise stated.

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Letter from the Chair of the IBC

26 October 2016

Dear Shareholder,

On 31 August 2016, Simonds Group Limited announced that it had entered into a Scheme Implementation Agreement. Under the terms of the Scheme Implementation Agreement, it is proposed that SR Residential, which is jointly owned by entities associated with the Roche and Simonds families will acquire all of the shares in the Company not already owned by associates of SFO by way of a scheme of arrangement.

If the Scheme is approved and implemented, Shareholders will receive the Scheme Consideration of $0.40 cash for each Share they hold, which represents:

- a 38% premium to the last traded price of $0.29 prior to announcement of the Scheme[1];
- a 42% premium to the Company's pre-announcement 30 day volume weighted average price (**VWAP**) of $0.281[1]; and
- an 84% premium to the Company's pre-announcement 90 day VWAP of $0.218[1].

It is noted that between the announcement of the Scheme on 31 August 2016 and 25 October 2016, Shares have traded at between $0.375 and $0.525 per Share. The VWAP of Shares over this period is $0.413.

Background to the Scheme

In July 2016, the Company received an unsolicited and confidential expression of interest from the Consortium to acquire 100% of the shares in the Company not already held by Consortium members or their associates. Existing Company directors Mr Vallence Gary Simonds (Gary Simonds) (the Chairman of the Board) and Mr Rhett Simonds (Non-Executive Director) have an interest in the transaction as they are associates of the Consortium. Furthermore, Mr Leon Gorr (Non-Executive Director) deemed his involvement in the Scheme on behalf of other Shareholders inappropriate due to his long-standing relationship with the Simonds family.

The Board established an Independent Board Committee (**IBC**) to evaluate the Scheme proposal comprising Ms Susan Oliver (Chair of the IBC and Deputy Chair of the Company) and Mr Matthew Chun (Group Chief Executive Officer and Managing Director), both of whom are regarded by the Board as independent directors for the purposes of the Scheme, as they have no relationship with, or connection to, the Consortium members. To further strengthen the IBC, Mr Dimitri Kiriacoulacos, an experienced executive and corporate lawyer with no relationship with the Consortium members or the Company, also joined the IBC.

The IBC undertook a comprehensive process to determine whether a compelling transaction could be developed for Shareholders, including:

- assessment of the value proposition provided by the unsolicited proposal in the context of the Company's other strategic alternatives;
- provision of due diligence information to the Consortium to minimise conditionality; and

[1] As at 30 August 2016, immediately prior to announcement of the Scheme (Source: IRESS).

- extensive negotiation with the Consortium to achieve the most favourable pricing and terms for Shareholders.

This led to the Scheme proposal before you.

Independent Directors recommendation

The Independent Directors **unanimously recommend that Shareholders vote in favour of the Scheme** in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Shareholders. Subject to those same qualifications, the Independent Directors also intend to vote in favour of the Scheme in relation to the Shares they hold.

The Independent Directors consider that the Scheme, if implemented, is in the best interests of Shareholders for the following reasons:

- **premium** – $0.40 cash per Share Scheme Consideration represents a premium to the pre-announcement trading price of 38% and a premium to the 5-day, 30-day, 60-day and 90-day VWAP of the Shares (however, it is noted that between the announcement of the Scheme on 31 August 2016 and 25 October 2016, Shares have traded at between $0.375 and $0.525 per Share, at a VWAP over this period of $0.413);
- **liquidity** – provides all Shareholders with an equal opportunity to exit their holdings at a premium to recent pre-announcement trading prices as set out above;
- **certainty** – Shareholders will receive cash in exchange for their Shares which will eliminate the uncertainties and risks associated with remaining a Shareholder (refer to section 6 for more detail regarding the risks should the Scheme not be approved);
- **Independent Expert** – the Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Shareholders in the absence of a superior proposal; and
- **no superior proposal** – since the announcement of the Scheme, no superior proposal has emerged.

In forming their view to support the Scheme, the Independent Directors have considered the disadvantages of the Scheme proceeding, including that:

- Shareholders will no longer be able to participate in the future financial performance of the Company; and
- there may be tax consequences of the Scheme for certain Shareholders.

Scheme conditions

The Scheme is subject to a number of customary conditions, including no material adverse change or prescribed occurrence occurring and Shareholder and Court approval.

Subject to all conditions being satisfied, the Scheme will be implemented on 7 December 2016.

A full copy of the Scheme Implementation Agreement was attached to the Company's announcement to ASX on 31 August 2016, and a full copy of the amendments to the Scheme Implementation Agreement was attached to the Company's announcement to ASX on 26 September 2016. A summary of key terms appears in section 8.3 of this booklet.

Independent Expert opinion

The IBC appointed KPMG Corporate Finance as the Independent Expert to assess the merits of the Scheme.

The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Shareholders, in the absence of a superior proposal. The Independent Expert has assessed the full underlying value of the Company as between $0.385 and $0.485 per Share. The Scheme Consideration of $0.40 cash per Share is within this range.[2]

A complete copy of the Independent Expert's Report is included in Annexure A of this Scheme Booklet.

Your vote is important

You should read this Scheme Booklet in full before making a decision as to how to vote. You may vote in person, by proxy, by attorney or, in the case of a corporation, by a duly appointed corporate representative at the Scheme Meeting to be held at 10.00am (Melbourne time) on Tuesday, 29 November 2016 at the Pullman Hotel (Park Room), 65 Queens Road, Albert Park, Victoria 3004. For your proxy vote to be considered, it must be lodged with Boardroom Pty Limited by 10.00am (Melbourne time) on Sunday, 27 November 2016.

Further information

If you have any questions in relation to the Scheme, please contact the Company's Shareholder Information Line on 1300 737 760 (callers in Australia) or +61 2 9290 9600 (callers outside Australia) between 8.30am and 5:30pm (Melbourne time) Monday to Friday, or consult an independent and appropriately licensed and authorised professional adviser.

Conclusion

We look forward to your participation at the Scheme Meeting and encourage you to **vote in favour** of the Scheme.

Yours sincerely,

Susan Oliver

Chair, Independent Board Committee

[2] The Independent Expert's conclusion that the Scheme is fair is highly sensitive to modest changes in the underlying maintainable earnings and net debt adjustment assumptions (refer to Section 3.1 of the Independent Expert's Report). The Independent Expert's basis for determining maintainable earnings and the net debt adjustment is set out in the Independent Expert's Report (refer to Sections 8.3.2 and 8.7 respectively).

1 Key considerations relevant to your vote

1.1 Why you should vote in favour of the Scheme

The Scheme has a number of advantages and disadvantages which may affect Shareholders in different ways depending on their individual circumstances. Shareholders should seek professional advice on their particular circumstances, as appropriate.

This section provides a summary of some of the reasons why the Independent Directors unanimously recommend Shareholders vote in favour of the Scheme. This section should be read in conjunction with section 1.2, which sets out reasons why Shareholders may wish to vote against the Scheme. You should read this Scheme Booklet in full, including the Independent Expert's Report, before deciding how to vote at the Scheme Meeting.

While the Independent Directors acknowledge the reasons to vote against the Scheme, they believe the advantages of the Scheme significantly outweigh the disadvantages.

✓Your Independent Directors unanimously recommend that you should vote in favour of the Scheme

Your Independent Directors unanimously recommend that, in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Shareholders, you vote in favour of the Scheme at the Scheme Meeting.

Subject to those same qualifications, each of your Independent Directors intend to vote all Shares held by them in favour of the Scheme.

The interests of the Independent Directors are set out in section 8.1.

✓ The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in your best interests[3]

The IBC appointed KPMG Corporate Finance to prepare an Independent Expert's Report, including an opinion as to whether the Scheme is in the best interests of Shareholders.

The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, that the Scheme is in the best interests of Shareholders, in the absence of a superior proposal.

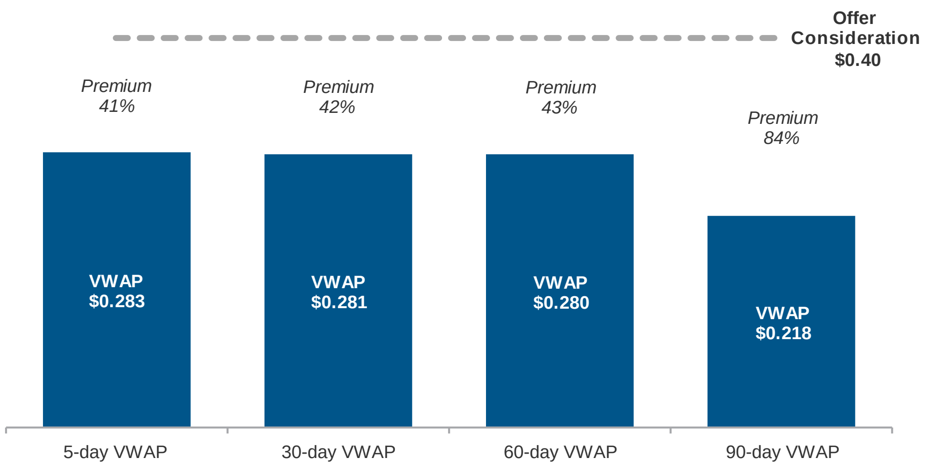
The basis for this conclusion is that the Scheme Consideration of $0.40 cash per Share, is within the valuation range (as assessed by the Independent Expert) of $0.385 to $0.485 per Share.

A complete copy of the Independent Expert's Report is included as Annexure A of this Scheme Booklet. Your Independent Directors encourage you to read this report in full.

[3] The Independent Expert's conclusion that the Scheme is fair is highly sensitive to modest changes in the underlying maintainable earnings and net debt adjustment assumptions (refer to Section 3.1 of the Independent Expert's Report). The Independent Expert's basis for determining maintainable earnings and the net debt adjustment is set out in the Independent Expert's Report (refer to Sections 8.3.2 and 8.7 respectively).

✓ **The Scheme Consideration of $0.40 cash per Share represents a premium to the pre-announcement trading price and VWAP of the Shares**

Figure 1: Scheme Consideration premium to VWAP

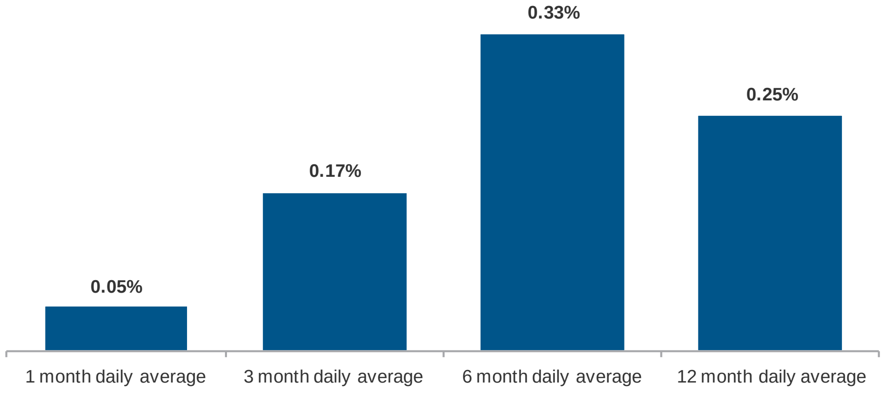


It is noted that between the announcement of the Scheme on 31 August 2016 and 25 October 2016, Shares have traded at between $0.375 and $0.525. The VWAP of Shares over this period is $0.413.

✓ **The Scheme Consideration will offer Shareholders liquidity which may not be otherwise available**

The historical turnover of approximately 0.25% of Shares being traded per day over the 12 months prior to 30 August 2016 is not sufficient to provide all Shareholders with a realistic opportunity for liquidity at the prevailing market price. The Scheme provides all Shareholders with the ability to exit their holdings at a premium to recent pre-announcement trading prices as set out above.

Figure 2: Average daily turnover (%) of Shares



✓ **You will receive certain value for your investment in the Company**

Shareholders will receive the Scheme Consideration of $0.40 cash in exchange for each Share they hold. This provides certainty of value for your Shares, and eliminates the uncertainties and risks associated with remaining a Shareholder.

Your Independent Directors consider that the Company has the potential to implement initiatives to reset the business, improve efficiency, and ultimately restore value for Shareholders as an independent listed company on ASX. However, these initiatives will take time to fully implement, may require further capital, and carry execution risks, some of which are outside the control of the Company.

The Scheme removes these risks and uncertainties for Shareholders and allows Shareholders to exit their investment in the Company at a price that your Independent Directors and Independent Expert currently consider to be in the best interests of Shareholders.

If the Scheme does not proceed, Shares will continue to remain quoted on ASX. Shareholders will continue to be subjected to these risks, as well as other specific risks inherent in the Company' business (including those summarised in more detail in section 6) as well as market risk, including general stock market volatility, the impact of general economic conditions and the demand for listed securities. As such, if the Scheme is not implemented, the price at which Shares trade may fall, including to a price that is below the Scheme Consideration of $0.40 cash per Share.

✓ Since the announcement of the Scheme, no superior proposal has emerged

Since the announcement of the execution of the Scheme Implementation Agreement on 31 August 2016 and up to the date of this Scheme Booklet, no superior proposal has emerged and your Independent Directors are not aware, as at the date of this Scheme Booklet, of any superior or any alternative proposal that is likely to emerge.

1.2 Why you may wish to vote against the Scheme

Although the Scheme is recommended unanimously by your Independent Directors and the Independent Expert has concluded that the Scheme is in the best interests of Shareholders, factors which may lead you to consider voting against the Scheme include the following:

✘ You may disagree with the Independent Directors' unanimous recommendation and the Independent Expert's conclusion and believe that the Scheme is not in your best interests

Despite the view of your Independent Directors and the Independent Expert, you may believe that the Scheme is not in the best interests of Shareholders or not in your individual interest.

✘ You may prefer to participate in the future financial performance of the Company

If the Scheme is approved and implemented, you will cease to be a Shareholder. As such, you will no longer be able to participate in the future financial performance or future prospects of the Company, including any benefits that may result from being a Shareholder. However, as with all investments in listed securities, there is no guarantee as to the Company's future performance.

✘ You may wish to maintain your investment profile

You may wish to maintain an investment exposure in a publicly listed company with the specific characteristics of the Company in terms of industry, operational profile, size, or other factors.

Implementation of the Scheme may result in a disadvantage to those who wish to maintain their investment profile. Shareholders who wish to maintain their investment profile may find it difficult to find an investment with a similar profile to that of the Company and they may incur transaction costs in undertaking any new investment.

✘ The tax consequences of the Scheme for you may not suit your financial position

Implementation of the Scheme may trigger taxation consequences for Shareholders. Shareholders should seek professional taxation advice regarding the tax consequences applicable to their own circumstances.

✘ You may consider that there is potential for a superior proposal to be made in the foreseeable future

It is possible that, if the Company were to continue as an independent listed entity, an alternative corporate control proposal, such as a takeover bid for the Company, may materialise in the future with a higher price. Implementation of the Scheme will mean that Shareholders will not receive the benefit of any such proposal.

Since the announcement of the Scheme to ASX by the Company on 31 August 2016 and up to the date of this Scheme Booklet, no superior proposal has emerged and the Independent Directors are not aware of any superior or any alternative proposal that is likely to emerge, in particular given the nature of the proposed transaction and the involvement of the Company's major shareholder.

The Scheme Implementation Agreement prohibits the Company from soliciting a Competing Proposal. However, the Company is permitted to respond to any Competing Proposal should the Independent Directors determine that failing to do so would likely constitute a breach of their fiduciary or statutory duties. Further details of the key terms of the Scheme Implementation Agreement are provided in section 8.3.

2 Frequently asked questions

Question	Answer	More Information
What is the Scheme?	The Scheme is a scheme of arrangement, which is a statutory procedure that is commonly used to enable one company to acquire another company. The Scheme is between the Company and its Shareholders at the Scheme Record Date and will effect the acquisition of the Company by associates of SFO and Roche Holdings through their jointly owned special purpose entity, SR Residential. If the Scheme is approved and implemented, SR Residential will acquire all of the Scheme Shares for the Scheme Consideration of $0.40 cash per Share.	Section 3 contains an overview of the Scheme and a copy of the Scheme is contained in Annexure B.
What do the Independent Directors recommend and how do they intend to vote?	Your Independent Directors unanimously recommend that all Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Shareholders. Each Independent Director who holds Shares intends to vote all Shares held by them in favour of the Scheme, subject to the same qualifications.	Section 1.1 provides a summary of some of the reasons why the Independent Directors consider that Shareholders should vote in favour of the Scheme.
What is the opinion of the Independent Expert?	The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Shareholders, in the absence of a superior proposal.	A copy of the Independent Expert's Report is contained in Annexure A.
Who is SFO?	SFO is a proprietary company incorporated in Victoria. SFO is the controlling entity of the Simonds Family Office group, which manages the various business interests and investments of the Simonds family. SFO and its related entities hold active investments in a range of businesses in the real estate, property development, education, training and technology sectors. SFO has agreed to guarantee the obligations of SR Residential under the Scheme on the terms set out in the Scheme Implementation Agreement.	Section 5 contains further details about SFO.
Who is Roche Holdings?	Roche Holdings is a proprietary company incorporated in Victoria. Roche Holdings provides administrative and accounting support for businesses and interests of the Roche family, which has been in business in Australia since the mid-1920's. The Roche family has interests in property development, diversified investments and mezzanine finance in Australia. Roche Holdings has agreed to guarantee the obligations of SR Residential under the Scheme on the terms set out in the Scheme Implementation Agreement.	Section 5 contains further details about Roche Holdings.
Who is SR Residential?	SR Residential is a proprietary company incorporated in Victoria. It was established as a special purpose entity through which associates of Roche Holdings and SFO could come together to acquire all of the Shares not currently held by associates of SFO for the purpose of the Scheme. SR Residential is the entity which will be funded to pay the Scheme Consideration to Shareholders. SR Residential is 80.4% owned by an entity controlled by associates of Roche Holdings, and	Section 5 contains further details about SR Residential.

Question	Answer	More Information
	19.6% owned by an entity controlled by associates of SFO.	
Who are the Excluded Shareholders? What will happen to their Shares?	The Excluded Shareholders are shareholders connected with the Simonds family. They are: – Simonds Custodians Pty Ltd as trustee for the Gary Simonds No.1 Family Trust; – Simonds Custodians Pty Ltd as trustee for the Gary Simonds No.2 Family Trust; – Simonds Custodians Pty Ltd as trustee for the Gary Simonds No.3 Family Trust; – Madisson Constructions Pty Ltd as trustee for the Madisson Homes Trust; – Simonds Construction Pty Ltd as trustee for the Simonds Homes Discretionary Trust; – Mr Gary Simonds; and – Mr Rhett Simonds. As at the date of this Scheme Booklet, the Excluded Shareholders held 39.04% in the Shares. The Excluded Shareholders: – are not entitled to vote on the Scheme at the Scheme Meeting; and – will not participate in the Scheme if the Scheme becomes Effective.	N/A
Are there any conditions to be satisfied for the Scheme to be Effective?	There are a number of conditions that will need to be satisfied or waived (where capable of waiver) before the Scheme can become Effective. In summary, as at the date of this Scheme Booklet, the outstanding conditions include: – there being no regulatory restraint issued by a Court of competent jurisdiction in Australia in effect at 8.00am on the Second Court Date; – no Material Adverse Change occurring or being discovered between 30 August 2016 and 8:00am on the Second Court Date; – no Prescribed Occurrence occurring or being discovered between 30 August 2016 and 8:00am on the Second Court Date; – approval by Shareholders; – the representations and warranties given by the Company, SR Residential, and the Consortium in the Scheme Implementation Agreement being true and correct as at 8.00am on the Second Court Date; and – Court approval. The Company intends to announce on ASX the satisfaction (or waiver) of the conditions to the Scheme.	Section 8.3(a) contains further information on the conditions to the Scheme.
When do the conditions have to be satisfied by?	Apart from the conditions relating to Shareholder and Court approval, the conditions must be satisfied as at 8.00am on the Second Court Date. The Second Court Date is scheduled for Wednesday, 30 November 2016. If a condition is not satisfied or waived (where capable of waiver) by 8.00am on this date, the Company will make an application to the Court to change	N/A

Question	Answer	More Information
	the date of this hearing. The conditions must be satisfied or waived (where capable of waiver) by Friday, 2 December 2016, unless the Company and SR Residential agree to extend this date. If the relevant conditions are not satisfied or waived by this date, the Scheme will not be implemented.	
Can I sell my Shares now?	You can sell your Shares on market at any time before close of trading on ASX on the Effective Date at the then prevailing market price (which may vary from the Scheme Consideration). The Company intends to apply to ASX for Shares to be suspended from official quotation on ASX from close of trading on the Effective Date (which is currently expected to be Wednesday, 30 November 2016). You will not be able to sell your Shares on market after this time, however you will receive the Scheme Consideration of $0.40 cash per Share on Wednesday, 7 December 2016.	N/A
When and where will the Scheme Meeting be held?	The Scheme Meeting will be held on Tuesday, 29 November 2016 at the Pullman Hotel (Park Room), 65 Queens Road, Albert Park, Victoria 3004 commencing at 10.00am.	The Notice of Meeting contained in Annexure D sets out further details on the Scheme Meeting.
What vote is required to approve the Scheme?	For the Scheme to proceed, the Scheme Resolution must be passed by: – a majority in number of Shareholders who vote on the Scheme Resolution; and – at least 75% of the votes cast on the Scheme Resolution by Shareholders. The Court has the discretion to waive the first of these two requirements if it considers it appropriate to do so.	Section 3.5(a) and the Notice of Meeting contained in Annexure D set out further details on the Scheme approval requirements.
Am I entitled to vote at the Scheme Meeting?	Each Shareholder (other than the Excluded Shareholders) who is registered on the Register at 7.00pm (Melbourne time) on Sunday, 27 November 2016 is entitled to attend and vote at the Scheme Meeting.	The Notice of Meeting contained in Annexure D sets out further details on your entitlement to vote.
How do I vote?	You can vote by appointing a proxy or attorney to attend the Scheme Meeting and vote on your behalf, or by attending the Scheme Meeting in person.	The Notice of Meeting contained in Annexure D sets out further details on how to vote at the Scheme Meeting.
When will the result of the Scheme Meeting be known?	The result of the Scheme Meeting will be available shortly after the conclusion of the meeting and will be announced to ASX once available. Even if the Scheme Resolution is passed by the Scheme Meeting, the Scheme is subject to approval of the Court.	N/A
What happens to my Shares if I do not vote, or if I vote against the Scheme, and the Scheme becomes Effective?	If you do not vote, or vote against the Scheme, and the Scheme becomes Effective, any Shares held by you on the Scheme Record Date (currently expected to be Monday, 5 December 2016) will be transferred to SR Residential (or its nominee) and you will receive the Scheme Consideration, notwithstanding that you may not have voted or voted against the Scheme.	N/A
When will I be paid?	Payment of the Scheme Consideration is expected to be made on Wednesday, 7 December 2016.	Section 3.1 sets out further details on the Scheme Consideration.
How will I be paid?	All payments will be made by direct deposit into your	Section 3.1 sets out further

Question	Answer	More Information
	nominated bank account, as advised to the Registry as at the Scheme Record Date. If you have not nominated a bank account, payment will be made by Australian dollar cheque sent by post to your registered address as shown on the Register.	details on the Scheme Consideration.
What happens if the Scheme does not proceed?	If the Scheme is not approved at the Scheme Meeting, or another condition to the Scheme is not satisfied or waived (where capable of waiver), then the Scheme will not be implemented. If the Scheme is not implemented, Scheme Shareholders will not receive the Scheme Consideration but will retain their Shares. In these circumstances, the Company will, in the absence of another proposal, continue to operate as a stand-alone company listed on ASX.	N/A
Where can I get further information?	For further information, you can call the Shareholder Information Line on 1300 737 760 (within Australia) or +61 2 9290 9600 (outside Australia).	N/A

3 Overview of the Scheme

3.1 Background

On 30 June 2016, the Company was informed that it would be receiving a confidential expression of interest from the Consortium to acquire 100% of the Shares not already held by associates of SFO. The closing share price on 30 June 2016 was $0.275.

A non-binding, indicative offer letter was received on 7 July 2016, which included a proposed offer price of $0.32 per Share.

Following extensive negotiations, limited due diligence and the negotiation of the Scheme Implementation Agreement, the entry into the Scheme Implementation Agreement was announced on 31 August 2016.

3.2 Independent Board Committee

The Company's largest shareholder is the Simonds family. For this reason, Mr Gary Simonds, the Company's Chairman, and Mr Rhett Simonds, a Non-Executive Director, have an interest in the Scheme which is different from other shareholders. In addition, Mr Leon Gorr, another Non-Executive Director, has a long-standing relationship with the Simonds family and, accordingly, he regards it as inappropriate for him to be involved in the Scheme on behalf of Shareholders.

In these circumstances, the Board resolved to establish a board committee comprising Ms Susan Oliver and Mr Matthew Chun, both of whom are regarded by the Board as independent directors for the purposes of the Scheme, as they have no relationship with, or connection to, the Consortium members.

This committee, called the Independent Board Committee (**IBC**), is authorised to carry out all functions required on the Company's behalf to negotiate, agree and, upon obtaining the necessary approvals, implement the Scheme.

To further strengthen the IBC, Mr Dimitri Kiriacoulacos was invited to join, and did join, the IBC. Mr Kiriacoulacos is not a present or former director or executive of the Company, has no relationship with the Simonds family or the Roche family and has no interest, financial or otherwise, which is dependent on the outcome of the Scheme. Mr Kiriacoulacos is an experienced executive, corporate lawyer and accountant with global legal and commercial experience. He has worked in private practice, investment banking and corporate roles principally in the areas of mergers and acquisitions, business development and corporate governance (including, most recently as Executive General Manager, Corporate Development and General Counsel of Federation Centres).

The IBC met on a number of occasions prior to the announcement of the Scheme. The IBC is unanimously in favour of the Scheme being put to Shareholders. This is subject to no Superior Proposal emerging and the Independent Expert continuing to conclude that the Scheme is in the best interests of Shareholders.

3.3 Recommendation of Independent Directors

Ms Susan Oliver and Mr Matthew Chun, being the Independent Directors, each recommend that Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Shareholders.

The other directors, namely Mr Gary Simonds, Mr Rhett Simonds and Mr Leon Gorr, have each declined to make a recommendation given the interests and relationships outlined in section 3.2.

3.4 Scheme Consideration

If the Scheme is approved and implemented, Shareholders will receive the Scheme Consideration of $0.40 cash per Share.

Payments will be made by direct deposit into your nominated bank account, as advised to the Registry as at the Scheme Record Date. If you have not nominated a bank account, payment will be made by Australian dollar cheque.

If a Shareholder does not have a registered address, or the Company considers the Shareholder is not known at its registered address and no bank account has been nominated, payments due to the Shareholder will be held by the Company until claimed or applied under the relevant laws dealing with unclaimed money.

3.5 Key steps in the Scheme

(a) Scheme approval requirements

The Scheme will only become Effective and be implemented if it is:

- agreed to by the requisite majorities of Shareholders at the Scheme Meeting to be held on Tuesday, 29 November 2016; and
- approved by the Court.

Agreement by Shareholders requires the Scheme Resolution to be agreed by:

- a majority in number (more than 50%) of Shareholders present and entitled to vote at the Scheme Meeting (either in person or by proxy)[4]; and
- at least 75% of the total number of votes cast by Shareholders present and entitled to vote at the Scheme Meeting (either in person or by proxy).

For this purpose, Shareholders connected with the Simonds family (the Excluded Shareholders) are not permitted to vote on the Scheme. The vote will therefore be determined by independent shareholders in the Company.

In the event that:

- the Scheme is agreed to by the requisite majorities of Shareholders at the Scheme Meeting; and
- all other conditions (except Court approval of the Scheme) have been satisfied or waived (where capable of waiver),

the Company will apply to the Court for orders approving the Scheme.

Each Shareholder has the right to appear at the Second Court Hearing.

(b) Effective Date

If the Court approves the Scheme and all other conditions have been satisfied or waived, where capable of waiver, the Scheme will become Effective on the date when a copy of the Court order approving the Scheme is lodged with ASIC. The Company will, on the Scheme becoming Effective, give notice of that event to ASX.

The Company intends to apply to ASX for Shares to be suspended from official quotation on ASX from close of trading on the date the Scheme becomes Effective.

(c) Scheme Record Date

Shareholders on the Register on the Scheme Record Date (currently expected to be 7:00pm on Monday, 5 December 2016), other than the Excluded Shareholders, will be entitled to receive the Scheme Consideration in respect of the Shares they hold as at the Scheme Record Date.

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[4] The Court has the power to waive this requirement.

(1) **Dealings on or prior to the Scheme Record Date**

For the purpose of determining which Shareholders are eligible to participate in the Scheme, dealings in Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS, the transferee is registered on the Register as the holder of the relevant Shares as at 7.00pm on the Scheme Record Date (currently expected to be Monday, 5 December 2016); and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the Registry on or before the Scheme Record Date (and the transferee remains registered as at the Scheme Record Date).

For the purposes of determining entitlements under the Scheme, the Company will not accept for registration or recognise any transfer or transmission applications in respect of Shares received after the Scheme Record Date.

The Excluded Shareholders will not participate in the Scheme.

(2) **Dealings after the Scheme Record Date**

For the purpose of determining entitlements to the Scheme Consideration, the Company must maintain the Register in its form as at the Scheme Record Date until the Scheme Consideration has been paid to the Scheme Shareholders. The Register in this form will solely determine entitlements to the Scheme Consideration.

After the Scheme Record Date:

- all statements of holding for Shares (other than statements of holding in favour of any Excluded Shareholder) will cease to have effect as documents relating to title in respect of such Shares; and
- each entry on the Register (other than entries on the Register in respect of any Excluded Shareholder) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Shares relating to that entry.

(d) **Implementation Date**

The Implementation Date is the date that is the second Business Day after the Scheme Record Date. This is currently expected to be Wednesday, 7 December 2016.

By the Business Day before the Implementation Date, SR Residential must pay into a trust account nominated by the Company the aggregate Scheme Consideration payable to Scheme Shareholders.

On the Implementation Date, the Company will pay the Scheme Consideration received from SR Residential to Scheme Shareholders.

Immediately after the Scheme Consideration is sent to Scheme Shareholders, the Scheme Shares will be transferred to SR Residential (or its nominees) without Scheme Shareholders needing to take any further action.

(e) **Deed Poll**

SR Residential, SFO and Roche Holdings have executed the Deed Poll pursuant to which SR Residential has undertaken in favour of each Scheme Shareholder, and SFO and Roche Holdings has undertaken to procure SR Residential, to provide each Scheme Shareholder with the Scheme Consideration to which they are entitled under the Scheme, subject to the Scheme becoming effective.

A copy of the Deed Poll is contained in Annexure C.

3.6 Warranties by Shareholders

The Scheme provides that each Scheme Shareholder is taken to have warranted to the Company and SR Residential on the Implementation Date, and appointed and authorised the Company as its attorney and agent to warrant to SR Residential on the Implementation Date, that all their Shares (including any rights and entitlements attaching to those Shares) which are transferred under the Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any ‘security interests’ within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to transfer their Shares to SR Residential (or its nominee) together with any rights and entitlements attaching to those Shares.

4 Information about the Company

4.1 Introduction and overview

Simonds Group Limited (the **Company**), headquartered in Melbourne, is an integrated homebuilder and Registered Training Organisation (**RTO**), comprising three business divisions:

- Simonds Homes Australia (**SHA**);
- Builders Academy Australia (**BAA**); and
- Simonds Land Development (**SLD**).

SHA was founded in 1949 by Mr Gary Simonds and has grown to become one of the largest home builders in Australia, with operations spanning Victoria, South Australia, Queensland and New South Wales. In 2005, BAA was established as an internal workforce training department which has become one of Victoria's largest providers of specialised, private Vocational Education and Training (**VET**) in the building and construction training space. SLD focuses on small to medium sized land subdivisions in locations which are complementary with existing SHA operations.

The Company became publically listed as a result of its Initial Public Offering (**IPO**), undertaken in November 2014. Interests associated with the Simonds family retained 55.9 million Shares at the IPO. As at the date of this Scheme Booklet, they hold 56.2 million Shares (a 39.04% interest in the Company).

The Company is led by Mr Matthew Chun as Group Chief Executive Officer and Managing Director alongside an experienced team of executives.

A summary of the Company's three business divisions is outlined below:

(a) **Simonds Homes Australia**[5]

- One of Victoria's leading homebuilders with operations also across Queensland, New South Wales and South Australia
- A record 2,545 site starts achieved in FY16
- 116 strategically located display homes[6]
- Customer base typically includes a large portion of first home buyers, price-conscious second home buyers, and property investors
- Diverse range of product offerings
- Approximately 637 full time equivalent employees[7]
- For the year ended 30 June 2016, contributed pro forma[8] revenue of $600.7 million (statutory revenue of $635.1 million), and pro forma[8] EBITDA of $12.0 million (statutory EBITDA of $(14.9) million). No adjustment to revenue and EBITDA for this business division was made for the impact of the adoption of changes in invoicing (discussed in this Section 4.1 in respect of the working capital impact), as this was not considered material to the results or earnings for the period. The Independent

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[5] On 21 January 2016, the Company announced the closure of its loss-making Madisson business, which formed part of the SHA business division. The Madisson business was acquired by the Company in 2002 and operates in the medium-density market, building apartments and townhouses for commercial developers using their own concepts, designs and specifications. As at 31 August 2016, there was 1 Madisson project remaining, which was 93% complete and due to conclude in October 2016.

[6] As at 30 September 2016.

[7] As at 31 August 2016.

[8] Excludes the contribution of the Madisson business and other significant one-off items.

Expert has estimated that the impact resulted in a delay of $7.2m in revenue and $0.9m to $1.3m in EBITDA in FY16 (refer to Section 8.3.2 of the Independent Expert's Report).

(b) **Builders Academy Australia**

- Specialised, private VET provider of building and construction training courses offered in Victoria, New South Wales and Queensland as well as via a newly established virtual classroom delivery model
- Core courses offered are certificate and diploma qualifications in building and construction
- 2,232 active students[9]
- Further roll out of virtual classroom courses planned for FY17
- Approximately 90 trainers
- For the year ended 30 June 2016, contributed statutory and pro forma[8] revenue of $19.1 million, and statutory and pro forma[8] EBITDA of $4.1 million

(c) **Simonds Land Development**

- Focused on small to medium sized land subdivisions in locations which are complementary with existing SHA operations
- Undertaken on balance sheet or through externally managed funds or joint ventures
- Enables development profits and incremental site starts for SHA business
- Currently four projects in Victoria with the potential for 290 lots to be delivered in FY17-FY18
- SLD was not a material contributor to the Company's FY16 revenue (statutory and pro forma[8] revenue of $8.7 million) or EBITDA (statutory EBITDA of $(2.7) million and pro forma EBITDA[8] of $(1.0 million))
- During FY16, the Company acquired Chun Property Advisory which specialises in development and project management services. The acquisition will increase the development management expertise within this division in addition to revenue and earnings growth through third party project management services.

For the year ended 30 June 2016, the Company reported pro forma[8] revenue of $628.5 million (statutory revenue of $662.9 million), and pro forma[8] EBITDA of $15.1 million (statutory EBITDA of $(13.5) million).

Change in working capital

The Company's working capital balance is expected to increase in FY17 and going forward as a result of changes relating to customer billing methods and creditor payment terms.

1. Change in method of billing customers

A. SHA Contracts - Change in invoicing from 'Method 2' to 'Method 1'

The change from 'Method 2' invoicing (where the builder and the customer agree on stages at which progress payments must be made and the percentage of the building contract value) to 'Method 1' invoicing (where the stages at which progress payments must be made and the percentage of the building contract value are prescribed by the relevant domestic building contracts legislation) results in alterations to the percentage of the total sales price for each house that can be claimed by the Company from customers at each stage of the build.

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[8] Excludes the contribution of the Madisson business and other significant one-off items.

[9] As at 30 June 2016.

The effect of this change is to reduce the amount of each milestone payment receivable at earlier stages (base and frame) with a corresponding increase in the milestone payments receivable at later stages (lock-up and fixing). It is anticipated that the impact in FY17 of completing the transition to Method 1 will result in a permanent additional working capital requirement going forward of $3 million to $4 million. As at 30 June 2016, the majority of jobs on site in Victoria and a portion of jobs in Queensland had been affected by this change.

B. Delaying the invoicing of the 'fixing stage'

Domestic builders are permitted to issue invoices at defined milestone stages of the project. These milestones include:

- base;
- frame;
- lock-up; and
- fixing.

The 'fixing stage' of construction involves ensuring that all internal cladding, architraves, skirting, doors, built-in shelves, baths, basins, troughs, sinks, cabinets and cupboards are fitted and fixed in position. This stage represents 25% of the building contract value.

The difference in the timing of when a builder can make a progress claim from a customer in Victoria or Queensland for the 'fixing' stage under Method 1 compared with Method 2 will result in a delay in the receipt of funds for this construction stage of 22 days on average for the Company. The Company implemented the change of this progress claim in late June 2016 in Victoria and plan to have fully implemented this change in Queensland by January 2017.

The Company estimates that this change will result in a permanent additional working capital requirement of $12 million to $14 million.

The aggregate impact of the billing changes noted in (A) and (B) above is estimated to be between $15 million and $18 million.

2. Creditor payment terms

In FY16 a number of measures were taken by the Company to improve cash flows, which included delays in the payment of certain suppliers beyond normal terms. The Company expects that the reduction of creditor days going forward will have a significant impact on working capital requirements. The Independent Expert has estimated that the reduction of creditor days will have an impact of approximately $8 million in increased working capital requirements (refer to Section 8.7 of the Independent Expert's Report).

The Company will continue to work with its key suppliers to manage its payments in line with its agreed payment terms.

The impact of net increases in working capital as a result of the change in billing methods, creditor payment terms, and other working capital efficiency improvements is expected to be predominantly funded via an increase in stabilised net debt during FY17. Further information on the Company's working capital requirements is set out in Section 8.7 of the Independent Expert's Report.

4.2 Board and key management personnel

(a) Board

The Board comprises the following directors:

Mr Gary Simonds	Chairman
Mr Matthew Chun	Group Chief Executive Officer and Managing Director
Ms Susan Oliver	Deputy Chair
Mr Leon Gorr	Non-Executive Director
Mr Rhett Simonds	Non-Executive Director

(b) Key management personnel

The Company's key management personnel are:

Mr Matthew Chun	Group Chief Executive Officer and Managing Director
Mr Mick Myers	Chief Financial Officer
Ms Joanne Barber	Group Manager (People and Performance)
Mr Andrew Shea	Chief Executive Officer, Builders Academy Australia

4.3 Historical financial position

The information set out below summarises certain historical financial information about the Company and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act. The financial information has been extracted from the FY16 Financial Report.

For further information regarding the Company's historical financial information (including notes to the financial statements), please refer to the FY16 Financial Report, lodged with ASX on 30 August 2016.

(a) Consolidated statement of profit or loss and other comprehensive income

	FY16 ($ million)	FY15 ($ million)
Revenue	662.9	628.8
COGS	(542.0)	(486.3)
Gross Margin	**120.9**	**142.5**
Overheads	(123.7)	(107.5)
EBITDA (pre adjustments)	**(2.8)**	**35.0**
Significant one-off items	(10.7)	(34.4)
EBITDA (post adjustments)	**(13.5)**	**0.6**
Depreciation, Amortisation and Financing costs	(7.8)	(4.7)
Tax benefit / (expense)	6.4	(6.8)
Net Profit After Tax	**(14.9)**	**(10.9)**

(b) **Consolidated statement of financial position**

	30 June 2016 ($ million)	30 June 2015 ($ million)
Assets		
Cash / Equivalents	3.2	5.5
Receivables	43.6	45.0
Inventories	49.6	71.7
PP&E	9.8	7.4
Other	17.5	14.6
Total Assets	**123.7**	**144.2**
Liabilities		
Trade / other payables	75.6	75.7
Debt	11.3	2.8
Provisions	21.5	18.2
Other	18.6	20.8
Total Liabilities	**127.0**	**117.5**
Net Assets	**(3.3)**	**26.7**

(c) **Consolidated statement of cash flows**

	FY16 ($ million)	FY15 ($ million)
Cash flows from operating activities		
Receipts from customers	664.0	609.0
Payments to suppliers / employees	(637.7)	(603.9)
Interest paid	(2.2)	(1.0)
Income taxes paid	(9.2)	(10.3)
Net cash generated from operating activities	**14.9**	**(6.2)**
Net cash from investing activities	**(7.3)**	**(8.4)**
Net cash from financing activities	**(9.9)**	**4.2**
Net decrease in cash	**(2.3)**	**(10.4)**
Cash / Equivalents at end of the period	**3.2**	**5.5**

4.4 Capital structure

(a) **Capital structure**

As at the date of this Scheme Booklet, the Company had the following securities on issue:

- 143,841,655 Shares; and
- 519,003 Plan Rights.

Refer to section 8.4 of this document in relation to the impact of the Scheme on the Company's Plan Rights.

(b) **Substantial shareholders**

Based on filings to ASX[10], the substantial holders of Shares as at 24 October 2016 are:

Substantial shareholder	Number of shares	Percentage
Gary Simonds and related entities	56,138,895	39.03%
McDonald Jones Homes Investments Pty Ltd	15,910,975	11.06%
Henry Morgan Limited	7,216,728	5.01%
Brahman Pure Alpha Pte Ltd	7,202,420	5.01%

4.5 The Independent Directors' intentions for the business

The Corporations Regulations require a statement by the Directors of their intentions regarding the Company's business. If the Scheme is implemented, the current Directors, other than Mr Gary Simonds and Mr Rhett Simonds, will resign[11] and an alternate board will be determined by SR Residential. It is for the reconstituted Board to determine its intentions as to:

- the continuation of the business of the Company;
- any major changes, if any, to be made to the business of the Company; and
- the future employment of the present employees of the Company.

If the Scheme is implemented, SR Residential and the Excluded Shareholders will own all of the Shares and will control the Company. The intentions of the Consortium if the Scheme is implemented are set out in section 5.6.

If the Scheme is not implemented, the Directors intend to continue to operate the business of the Company in the ordinary course of business.

4.6 Material changes to the Company's financial position since 30 June 2016

Other than:

- the accumulation of earnings in the ordinary course of trading; or
- as disclosed in this Scheme Booklet or as otherwise disclosed to ASX by the Company,

within the knowledge of the Board, the financial position of the Company has not materially changed since 30 June 2016, being the date of the Company's FY16 Financial Report.

4.7 Publicly available information about the Company

As a company listed on ASX and a disclosing entity under the Corporations Act, the Company is subject to regular reporting and disclosure obligations. Broadly, these require the Company to announce price sensitive information as soon as it becomes aware of the information, subject to exceptions for certain confidential information. ASX maintains files containing publicly disclosed information about all companies listed on ASX. Information disclosed to ASX by the Company is available on ASX's website at www.asx.com.au. Further announcements concerning developments at the Company will continue to be made available on this website after the date of this Scheme Booklet.

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[10] Shareholdings may change from time to time. Shareholders should refer to filings lodged on ASX's website at www.asx.com.au for information on substantial shareholders.

[11] While Mr Matthew Chun will resign as a director, as set out in section 5.6(c), the Consortium presently intends to work with the Company's existing management, including Mr Chun, to formulate the future plans and growth strategies of the business.

The Company is required to prepare and lodge with ASIC and ASX both annual and half-yearly financial statements accompanied by a statement and report from the Directors and an audit or review report. Copies of these and other documents lodged with ASIC may be obtained from or inspected at an ASIC office and on the Company's website https://simondsgroup.com.au/announcements.

Shareholders may also obtain copies of the Simonds Annual Report for the financial year ended 30 June 2016 free of charge by calling the Shareholder Information Line on 1300 737 760 (in Australia) or +61 2 9290 9600 (outside Australia) Monday to Friday between 8.30am and 5.30pm (Melbourne time).

Further information regarding the Company's financial performance is also set out in the Independent Expert's Report which forms Annexure A to this Scheme Booklet.

5 Information about the Consortium

5.1 Introduction

SR Residential is a proprietary company incorporated in Victoria and registered on 26 August 2016. It was established as a special purpose entity through which associates of SFO and Roche Holdings could come together to acquire all of the Shares not currently held by associates of SFO for the purpose of the Scheme.

5.2 Overview of SR Residential

(a) Corporate information

SR Residential is 80.4% owned by Tarquin Australia Pty Ltd as trustee for the James Francis Roche Family Trust (**Roche Trust**) and 19.6% owned by SFO Operations Pty Ltd as trustee for the SFO Operations Trust (**SFO Trust**). Tarquin Australia Pty Ltd is controlled by associates of Roche Holdings, some of whom are beneficiaries of the Roche Trust. SFO Operations Pty Ltd is controlled by associates of SFO, some of whom are beneficiaries of the SFO Trust.

As at the date of this Scheme Booklet, there are four officers of SR Residential being Mr James Roche and Mr Paul Santoro, as directors and representatives of the Roche family interests, and Mr Mark Simonds and Mr Piers O'Brien, as director and secretary respectively and representatives of the Simonds family interests.

(b) SR Residential's principal activities and operations

SR Residential was incorporated as a special purpose entity to give effect to the Scheme on behalf of the Roche family interests and the Simonds family interests. SR Residential does not currently have any activities other than for the purpose of carrying out its obligations pursuant to the Scheme.

Under the terms of the Scheme Implementation Agreement, SR Residential must co-operate with the Company in preparing this Scheme Booklet, and must use all reasonable endeavours to satisfy the conditions to the Scheme (refer to section 8.3 for more information).

SR Residential is the entity which will pay the Scheme Consideration to Shareholders (refer to section 5.7 for more information).

On the Implementation Date of the Scheme, SR Residential will pay the Scheme Consideration to the Company to be held by the Company on trust for the Scheme Shareholders, and it will also direct the Company to transfer the Scheme Shares to entities associated with the Roche family and the Simonds family respectively, in proportion to their current ownership interests in SR Residential.

5.3 Overview of SFO

(a) Corporate information

SFO is a proprietary company incorporated in Victoria and registered on 25 September 2014. The sole shareholder of SFO is Mr Gary Simonds.

As at the date of this Scheme Booklet, there are seven officers of SFO, being Mr Gary Simonds (director and secretary), Mr Mark Simonds (director), Mr Rhett Simonds (director), Ms Pamela Simonds (director), Ms April Waddell (director), Mr Harley Waddell (director) and Mr Piers O'Brien (secretary).

(b) **SFO's principal activities and operations**

SFO is the controlling entity of the Simonds Family Office group, which was established following the IPO of the Company in 2014 to manage the various business interests and investments of the Simonds family.

SFO and its related entities hold active investments in a range of businesses in the real estate, property development, education, training and technology sectors, and also hold a range of passive financial investments.

SFO has access to sufficient funds to meet its obligations under the Scheme Implementation Agreement, and the Company has been provided with confirmation of this in writing from SFO's external accountants, Pricewaterhouse Coopers.

5.4 Overview of Roche Holdings

(a) **Corporate information**

Roche Holdings is a proprietary company incorporated in Victoria and it was registered on 4 August 1988. The sole shareholder of Roche Holdings is Ropar Pty Ltd. Ropar Pty Ltd is ultimately owned by interests associated with the Roche family.

As at the date of this Scheme Booklet, there are six officers of Roche Holdings, being Mr Denis Roche (director and secretary), Mr Ken Roche (director and secretary), Mr Nicholas Roche (director and secretary), Ms Danielle Roche (director), Mr James Roche (director) and Mr Edward Roche (director).

(b) **Roche Holdings' principal activities and operations**

Roche Holdings provides administrative and accounting support for businesses and interests of the Roche family, which has been in business in Australia since the mid-1920's. The Roche Brothers civil engineering business grew rapidly in the 1980's and 1990's and became one of Australia's largest contract mining companies. It was sold to Downer EDI Limited in 1997.

The Roche family has interests in property development, diversified investments and mezzanine finance in Australia.

The Company has been provided with confirmation in writing from the external accountant to Roche Holdings, Pitcher Partners, that Roche Holdings has access to sufficient funds to meet its obligations under the Scheme Implementation Agreement.

5.5 Further details about the Consortium

The Consortium is comprised of interests associated with the Roche family and the Simonds family respectively. If the Scheme is approved by Shareholders and the Court then, following the Implementation Date, the Company will be 51% owned by the Simonds family interests and 49% owned by the Roche family interests.

On 30 August 2016, SFO and Roche Holdings entered into a Joint Bid Agreement under which SFO and Roche Holdings have agreed to come together to pursue the proposed Scheme.

The Joint Bid Agreement (a full copy of which was disclosed to ASX on 31 August 2016) sets out the terms on which SFO and Roche Holdings agreed to propose an offer for the Shares which are not currently held by associates of the Simonds family.

The Joint Bid Agreement requires SFO and Roche Holdings to co-operate for the purpose of:

- progressing the Scheme, including undertaking appropriate due diligence;
- entering into, or procuring SR Residential to enter into, the Scheme Implementation Agreement with the Company;

- entering into, or procuring SR Residential to enter into, other agreements necessary to effect the Scheme; and
- undertaking all other activities which the parties agree are reasonably necessary for the purpose of the Scheme.

The Consortium has obtained relief from ASIC (ASIC Instrument 16-0831) from section 606 of the Corporations Act to allow the Consortium members to come together and pursue the proposed Scheme.

5.6 Consortium's intentions if the Scheme is implemented

(a) Rationale for the Consortium's proposed acquisition of the Company

The Consortium believes that the residential construction sector in Australia will remain strong for a number of years, and particularly the market for freestanding home building. Although the Consortium believes that the Company's underlying business is solid, it sees an opportunity to improve the performance of the Company through the direct, active involvement of the Simonds family, and the substantial business and property development experience of the Roche family.

The Consortium believes that returning the business to private ownership will provide opportunities for employees, customers and other stakeholders of the Company, without the obligations and costs associated with the Company remaining listed on ASX.

(b) Proposed Board

If the Scheme is successful, the Consortium presently intends that Mr Gary Simonds and Mr Rhett Simonds will continue as Directors, and will be joined on the Board by Mr Mark Simonds, Mr Ken Roche, Mr James Roche and Mr Paul Santoro.

(c) Proposed management team

The Consortium views the existing management team as an important part of the business. In particular, the Consortium acknowledges that the current management of the Company has taken steps towards improving the performance of the business, and the Consortium presently intends to work with the Company's existing management team to formulate the future plans and growth strategies of the business.

(d) Impact on employees

The Consortium recognises that many of the Company's employees have extensive knowledge and skills relevant to the continued success of the business. Many employees have long-standing customer and supplier relationships which will be important to the future prospects of the Company. Following implementation of the Scheme, the Consortium presently intends to retain the Company's employees with no material job losses expected.

(e) Impact on operations

If the Scheme is implemented, the Consortium presently intends to continue the operation of all of the material divisions of the Company in substantially the same manner as at the date of this Scheme Booklet.

The Consortium will work with management and employees of the Company to identify appropriate opportunities for delivering consistent financial performance via a strong focus on the underlying strengths of the business.

(f) Delisting

If the Scheme is implemented, the Consortium intends to arrange for the Company to be removed from the official list of ASX as soon as practicable after the Implementation Date.

5.7 Funding arrangements for the Scheme Consideration

The Scheme Consideration of $0.40 cash per Share will be paid entirely in cash, representing approximately $35.1 million payable by the Consortium to Scheme Shareholders.

The payment of the Scheme Consideration will be funded entirely from cash reserves of the Consortium members. As at the date of this Scheme Booklet, the Consortium had binding written equity commitments from the Simonds family interests and the Roche family interests totalling $35.1 million, being the total Scheme Consideration payable by the Consortium to Scheme Shareholders. The Consortium will not require funding from any external source to complete the Scheme.

Given these equity commitments, the Consortium has a reasonable basis to expect that it will, by the Implementation Date, have available to it sufficient funds in cash to satisfy the obligations of SR Residential to pay the Scheme Consideration in accordance with the Scheme and the Deed Poll, along with transaction costs related to the Scheme.

5.8 Consortium's interests in Shares

(a) Interest in Shares

As at the date of this Scheme Booklet, the Consortium has a Relevant Interest in 56,138,895 ordinary shares in the Company, and voting power of approximately 39.04%. The Consortium's Relevant Interest in the Company arises as a result of the shareholdings of entities associated with SFO and the entry by the Consortium members into the Joint Bid Agreement (refer to section 5.5 for more information).

(b) No dealing in Shares in previous four months

Except in respect of the Scheme Consideration, during the four months prior to the date of this Scheme Booklet, no person who is a member of the Consortium nor any of their associates has provided or agreed to provide consideration for any Shares pursuant to any transaction, agreement or otherwise.

(c) No benefits to holders of Shares

During the four months prior to the date of this Scheme Booklet, no person who is a member of the Consortium nor any of their associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person or associate to:

- vote in favour of the Scheme; or
- dispose of Shares,

where the benefit was not offered to all Shareholders.

(d) No benefits to the Company's officers

No person who is a member of the Consortium nor any of their associates intends to make any payment or give any other benefit to any current officer of the Company as compensation or consideration for, or otherwise in connection with, their resignation from the Company if the Scheme becomes Effective.

6 Risks

6.1 Introduction

In considering the Scheme, you should be aware that there are a number of risk factors which could materially adversely affect the future operating and financial performance of the Company, as well as the value of the Company and any potential future dividends.

This section outlines:

- general risks associated with investing in securities (refer to section 6.2);
- general risks associated with your current investment in Shares (refer to section 6.3); and
- specific risks associated with your current investment in Shares (refer to section 6.4).

This section 6 is a summary only and does not purport to list every risk that may be associated with an investment in the Company now or in the future. If the Scheme is implemented you will receive the Scheme Consideration, will cease to be a Shareholder and will also no longer be exposed to the risks set out below. If the Scheme does not proceed, you will continue to hold your Shares and continue to be exposed to risks associated with that investment. In making your decision to vote on the Scheme Resolution, you should read this Scheme Booklet carefully. You should carefully consider the risk factors outlined below and your individual circumstances. This section 6 is general in nature only and does not take into account your individual objectives, financial situation, taxation position or particular needs.

6.2 General risks associated with investing in securities

The market price of securities and any future dividends made to security holders are influenced by a number of factors, including:

- changes in investor sentiment and overall performance of the Australian and international stock markets;
- changes in general business, industry cycles and economic conditions including inflation, interest rates, exchange rates, commodity prices, employment levels and consumer demand;
- changes in government fiscal, monetary and regulatory policies, including foreign investment;
- broader political stability;
- interruptions arising from industrial disputes, work stoppages and accidents, which may result in construction delays;
- natural disasters and catastrophes, whether on a global, regional or local scale; and
- accounting standards which affect the financial performance and position reported by the Company.

6.3 General risks associated with your current investment in Shares

(a) Financing risk

The Company currently has a $32.7 million bank debt facility with undrawn debt facilities of $13.0 million as at 18 October 2016. Should the Company require additional debt financing for working capital or other purposes, there is a risk that the Company may not be able to procure such financing on favourable terms, or at all.

Similarly, upon expiry of the existing facility on 7 May 2018, there is a risk that the Company may not be able to refinance the facility on favourable terms, or at all.

(b) **Reputation risk**

Ongoing share market underperformance may cause a deterioration in the Company's reputation, which may adversely impact upon the Company's interactions with current or potential customers, suppliers and sub-contractors. Should such a reputational issue become material, it may lead to a decline in sales and margins as well as difficulty in procuring relevant insurance.

(c) **Supply chain risk**

The Company has a number of contractual arrangements with key suppliers and sub-contractors. Should any of these key suppliers or sub-contractors become unable to deliver the required product or service, this may impact the Company's ability to deliver products on time or on budget which may lead to a decline in profitability.

(d) **Cost of doing business**

The Company carries a significant level of corporate and region level fixed costs. Whilst a certain level of fixed cost is required to operate the business, there is a risk that the Company may not be able to generate sufficient sales or margins to cover this fixed cost or generate returns for Shareholders.

(e) **Departure of key personnel**

The Company has seen a significant level of key management turnover. The future departure of key personnel may adversely affect the operations of the business until suitable replacements are recruited.

(f) **Competition risk**

The Company is susceptible to competition for the provision of homes and course offerings in the markets in which the Company operates. Should competition result in declining sales or margins, this would have a negative impact on returns to Shareholders.

(g) **Information technology (IT) risk**

The potential failure of IT security measures may result in the loss, destruction or theft of customer, supplier, and financial or other commercially-sensitive information including intellectual property. This has the potential to adversely affect the operating results and potentially damage the reputation of the Company brand, or create other liabilities for the Company.

6.4 Specific risks associated with your current investment in Shares

(a) **Financial position**

The Company reported in its FY16 Financial Report (dated 30 August 2016) a negative net asset position of $3.3 million. As a result, there is a lack of surplus assets available to the Company should it require additional liquidity to meet current or future payment obligations. Should this situation arise, the Company may need to undertake additional capital management strategies in order to meet its payment obligations which may impact the financial position or performance of the Company and the value of Shares.

Notwithstanding this, the FY16 Financial Report was prepared on a going concern basis and as at 18 October 2016, the Company had total undrawn debt facilities of $13.0 million.

(b) **Regulatory uncertainty**

The Company operates primarily within the residential building and construction and VET industries, both of which are subject to ongoing regulatory attention. As such, the Company may be adversely affected by any current or future legal or regulatory changes or requirements applicable to these industries.

Since listing, there have been a number of regulatory changes that have impacted the SHA and BAA business divisions, including:

- changes to the limits on debt finance available to foreign home buyers for the purchase of residential real estate; and
- increased scrutiny across the VET sector which has resulted in a number of providers being subject to a range of penalties, including repatriation of past government funding, loss of future funding contracts or course suspensions.

These or other regulatory changes or interventions may impact the Company's future performance as a result of less favourable working capital terms, reduced sales, reduced margins, increased compliance costs, financial penalties or other adverse outcomes.

(c) **BAA quality review**

As part of the ongoing accreditation process and approval process for RTOs such as BAA, and for approved delivery under state and federal funding regimes, RTOs are reasonably expected to be regularly subject to compliance monitoring activity and audits.

It is recognised that any adverse findings from national or state regulators and/or funding bodies have the potential to have a material adverse impact on BAA's operations, financial performance and financial position.

The Company disclosed in its FY16 Financial Report that BAA is currently undergoing a quality review process which is being completed by a third party audit service provider on behalf of the Victorian Department of Education and Training (the **Department**). An initial draft report provided to BAA from the third party audit service provider highlighted areas requiring further clarification or investigation in respect of compliance with some sections of the VET Funding Contract for 2015 calendar year training activity. BAA has provided management comments to the third party audit service provider in relation to this draft report.

Since the release of the FY16 Financial Report a final report has been provided to the Department for review. BAA has raised a number of objections in relation to the accuracy of its content and will continue to work in cooperation with the Department to ensure clarity regarding BAA's continued focus on embedding a quality framework across its operations and where required ensure that it fully remediates any findings that the final report may include.

(d) **Residential real estate market**

Approximately 96% of the Company's total revenue is generated from building and construction of residential housing. The Company's ability to generate site starts and appropriate margins may be impacted by factors impacting residential housing supply and demand dynamics, including:

- interest rates;
- unemployment rates;
- immigration;
- business and consumer confidence;
- inflation or deflation levels; and
- development land availability.

The Company also holds a significant property portfolio, comprising display homes, speculative land and development land holdings, and is therefore exposed to potential fluctuations in residential property values.

(e) **Government funding arrangements**

BAA holds various funding state and federal contracts which allow students to access subsidised training or take out government loans to pay for their training and are the primary source of revenue for BAA. Applications for 2017 Victorian VET Funding Contracts have opened from 1 September 2016 with the approval process expected to be finalised and providers notified by the end of the 2016 calendar year.

If BAA was to lose these contracts, or be denied an extension of these contracts in the future, the funding currently received would no longer be available. This could have a material adverse impact on BAA's contribution to the Company's financial performance and financial position.

(f) **Impairment and non-operating loss risk**

The Company's recent financial performance has been significantly impacted by impairments, management restructure costs and losses from discontinuing operations. While a comprehensive process was undertaken by management to identify the appropriate level of impairments and losses to record pursuant to the FY16 audit process, there remains a risk that not all impairments, restructure costs or losses have been fully captured within the FY16 reporting period.

(g) **Expansion risk**

The Company has undertaken expansion of its residential building and construction operations into markets outside of Victoria, namely South Australia, Queensland, and New South Wales. Furthermore, the Company has recently expanded the operations of BAA to include virtual delivery courses. There is a risk that this expansion plan does not deliver the outcomes which management envisioned, which may lead to a decline in the profitability of the Company and even the closure of these operations in the future.

Closure of any of the Company's businesses is likely to incur additional costs which would have a further adverse effect on the Company's financial performance and may also result in an erosion of the Company's reputation and/or broader market share.

7 Taxation implications

7.1 Introduction

The following is a general description of the Australian tax consequences of the Scheme (assuming it becomes Effective) for Shareholders who participate in the Scheme. It does not constitute tax advice and should not be relied upon as such. The comments set out below are relevant only to those Shareholders who hold their Shares on capital account.

The description is based upon the Australian law and administrative practice in effect at the date of this Scheme Booklet, but is general in nature and is not intended to be an authoritative or complete statement of the laws applicable to the particular circumstances of a Shareholder. Shareholders should seek independent professional advice in relation to their own particular circumstances.

The description does not address the Australian tax consequences for Shareholders who:

- hold their Shares for the purposes of speculation or a business of dealing in securities (e.g. as trading stock);
- acquired their Shares pursuant to an employee share, option or rights plan; or
- are subject to the taxation of financial arrangements rules in Division 230 of *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their Shares.

Shareholders who are tax residents of a country other than Australia (whether or not they are also residents, or are temporary residents, of Australia for tax purposes) should take into account the tax consequences of the Scheme under the laws of their country of residence, as well as under Australian law.

7.2 Australian resident shareholders

(a) Capital Gains Tax (CGT)

Under the Scheme, Shareholders will dispose of their Shares to the Consortium. This disposal will constitute a CGT event A1 for Australian CGT purposes for Shareholders.

The time of the CGT event will be the date the Scheme is implemented.

(b) Calculation of capital gain or capital loss

Shareholders may make a capital gain on the disposal of Shares to the extent that the capital proceeds from the disposal of the Shares are more than the cost base of those Shares. Conversely, Shareholders may make a capital loss to the extent that the capital proceeds are less than their reduced cost base of those Shares.

(1) Cost base

The cost base of the Shares generally includes the cost of acquisition and certain non-deductible incidental costs of their acquisition and disposal. The reduced cost base of the Shares is usually determined in a similar, but not identical, manner.

(2) Capital proceeds

The capital proceeds received in respect of the disposal of each Share should be $0.40 per Share, being the amount of the Scheme Consideration.

(3) **CGT discount**

Individuals, complying superannuation entities or trustees that have held Shares for at least 12 months (excluding the date of acquisition and the date of disposal) but do not index the cost base of the Shares (refer above) may be entitled to discount the amount of the capital gain (after application of available capital losses) from the disposal of Shares by 50% in the case of individuals and trustees or by 33.33% for complying superannuation entities. For trustees, the ultimate availability of the discount for beneficiaries of the trusts will depend on the particular circumstances of the beneficiaries.

Capital gains (prior to any CGT discount) and capital losses of a taxpayer in an income year are aggregated to determine whether there is a net capital gain. Any net capital gain is included in assessable income and is subject to income tax. Capital losses may not be deducted against other income for income tax purposes, but may be carried forward to offset against future capital gains (subject to satisfaction of loss recoupment tests for certain taxpayers).

7.3 Non-resident shareholders

For a Shareholder who:

- is not a resident of Australia for Australian tax purposes; and
- does not hold their Shares in carrying on a business through a permanent establishment in Australia;

the disposal of Shares will generally only result in Australian CGT implications if:

(a) that Shareholder together with its associates held 10% or more of the Shares at the time of the CGT event or for any continuous 12 month period within two years preceding the CGT event (referred to as a 'non-portfolio interest'); and

(b) more than 50% of the Company's value is due to direct or indirect interests in Australian real property (as defined in the income tax legislation).

If you are a non-resident who holds a 'non-portfolio interest' in the Company, you should obtain independent advice as to the tax implications of sale (including whether more than 50% of the Company's value may be directly or indirectly attributable to Australian real property), and whether any protection will be available under a relevant double tax treaty.

A non-resident individual Shareholder who has previously been a tax resident of Australia and chose to disregard a capital gain or loss in respect of the Shareholder's Shares on ceasing to be a tax resident will be subject to Australian CGT consequences on disposal of the Shares as set out in section 7.2.

7.4 Goods and services tax (GST)

Shareholders should not be liable for GST in respect of a disposal of Shares.

Shareholders may be charged GST on costs (such as adviser fees relating to their participation in the Scheme) that relate to the Scheme. Shareholders may be entitled to input tax credits or reduced input tax credits for such costs, but should seek independent advice in relation to their individual circumstances.

8 Additional information

8.1 Interests of the Directors in the Company

As at the date of this Scheme Booklet, the number of Shares held by or on behalf of the Directors is as follows:

Director	Number of Shares
Mr Gary Simonds	56,138,895
Mr Rhett Simonds	14,044
Mr Leon Gorr	461,180
Ms Susan Oliver	44,000
Mr Matthew Chun	Nil
TOTAL	**56,658,119**

No director of the Company has acquired or disposed of a Relevant Interest in any Shares in the four month period ending on the date immediately before the date of this Scheme Booklet.

8.2 Interests of the Directors in the Consortium

As at the date of this Scheme Booklet, other than as outlined below, no shares in SFO, Roche Holdings or SR Residential are held by or on behalf of any Directors:

- Mr Gary Simonds is the legal and beneficial holder of 100% of the issued shares in SFO.

No Director has acquired or disposed of any shares in SFO, Roche Holdings or SR Residential in the four month period ending on the date immediately before the date of this Scheme Booklet.

8.3 Summary of Scheme Implementation Agreement

On 30 August 2016, the Company, SFO, Roche Holdings and SR Residential entered into a Scheme Implementation Agreement under which the Company agreed to propose the Scheme. The Scheme Implementation Agreement contains terms and conditions that are standard for these types of agreements, including in relation to the parties' obligations to implement the Scheme and the Company's obligation to conduct its business in the ordinary course during the Scheme process.

On 26 September 2016, the Company announced to ASX that the Scheme Implementation Agreement had been amended to address the impact of the Supreme Court of Victoria's decision in relation to an application brought by the Company's former Chief Executive Officer, Mr Paul McMahon (see section 8.8 for further information).

A summary of the key elements of the Scheme Implementation Agreement is set out below. A full copy of the Scheme Implementation Agreement was released by ASX on 31 August 2016, and a full copy of the amendments to the Scheme Implementation Agreement released by ASX on 26 September 2016, each of which can be obtained from www.asx.com.au or from https://simondsgroup.com.au/announcements.

(a) **Conditions**

Implementation of the Scheme is subject to the following conditions which must be satisfied or waived (where capable of waiver) before the Scheme can be implemented:

- **No restraint**: there being no regulatory restraint issued by a Court of competent jurisdiction in Australia in effect at 8.00am on the Second Court Date.
- **Material Adverse Change**: no Material Adverse Change has occurred or becomes known to SR Residential after 30 August 2016 and before 8.00am on the Second Court Date.
- **Prescribed Occurrence**: no Prescribed Occurrence has occurred or becomes known to SR Residential after 30 August 2016 and before 8.00am on the Second Court Date.
- **Shareholder approval**: Shareholders approve the Scheme at the Scheme Meeting by the majorities required under section 411(4)(a)(ii) of the Corporations Act.
- **Representation and warranties**: the representations and warranties given by the Company, SR Residential, SFO and Roche Holdings are true and correct in all material respects on 30 August 2016 and as at 8.00am on the Second Court Date.
- **Court approval**: the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act.

Full details of the conditions and the ability of the Company and SR Residential to rely on the various conditions and the provisions relating to satisfaction or waiver of these conditions are set out in clause 3 of the Scheme Implementation Agreement. As at the date of this Scheme Booklet, the Company is not aware of any reason why the conditions will not be satisfied.

At the date of the Scheme Implementation Agreement, there was a condition that required the Consortium to receive assurances from the Commonwealth Bank of Australia that the current lending facility would remain available to the Company after implementation of the Scheme. This condition has been satisfied.

(b) **End date**

Either party may terminate the Scheme Implementation Agreement if the conditions to the Scheme are not satisfied or waived (where capable of waiver) by Friday, 2 December 2016, unless the Company and SR Residential agree to extend this date.

This termination right was a key requirement of the Consortium's proposal. As at the date of this Scheme Booklet, and on the timetable proposed, this condition is achievable.

(c) **Exclusivity**

The Scheme Implementation Agreement contains certain exclusivity arrangements in favour of SR Residential. These arrangements are in line with market practice in this regard and are summarised as follows:

- **No Shop**: the Company must not solicit any enquiries, discussions or proposals that may encourage or lead to a Competing Proposal.
- **No Talk**: the Company must not participate in discussions or provide information that may encourage or lead to a Competing Proposal.
- **Notification**: if the Company is approached in relation to a Competing Proposal, or a proposed or potential Competing Proposal, the Company must notify SR Residential of any such approach within two Business Days, and provide the identity of the relevant person making or proposing the Competing Proposal.
- **Matching Right**: the Company is prohibited from entering into an agreement to undertake a Competing Proposal and must use its reasonable endeavours to ensure that none of the Independent Directors recommend a Competing Proposal unless the Company has given SR Residential at least three Business Days to provide a matching or Superior Proposal to the terms of the Competing Proposal.

However, the Company is not required to comply with its obligations under the No Talk and Notification provisions in the Scheme Implementation Agreement if the Independent Directors determine that complying with those provisions would be likely to constitute a breach of the fiduciary or statutory duties owed by the Board.

These exclusivity arrangements are set out in full in clause 7 of the Scheme Implementation Agreement.

(d) **SR Residential Reimbursement Fee**

In accordance with market practice, the Company has agreed to pay SR Residential a cash reimbursement fee of $575,367 in certain circumstances (**SR Residential Reimbursement Fee**). Those circumstances are:

- **Competing Proposal:** an actual, proposed or potential Competing Proposal of any kind is announced prior to the earlier of the holding of the Scheme Meeting and the date the Scheme Implementation Agreement is terminated, and, within six months of such announcement, the party proposing the Competing Proposal or any associate of that party acquires control of more than 25% of the Shares;
- **Change of recommendation:** an Independent Director fails to recommend the Scheme or publicly changes, withdraws or in any way qualifies his or her recommendation or voting intention or publicly recommends a Competing Proposal, other than:
  - following the receipt of an Independent Expert's Report which states (either in its initial report or any subsequent update of its report) that, in the opinion of the Independent Expert, the Scheme is not in the best interests of Shareholders for reasons unrelated to any Competing Proposal;
  - as a result of any matter or thing giving the Company the right to terminate as a result of a material breach of the agreement by SR Residential, SFO or Roche Holdings (including any breach of a representation or warranty given by any of them); or
  - after any event occurs which would, or in fact does, prevent a condition (except the Prescribed Occurrence condition and condition in relation to representations and warranties given by the Company) being satisfied and that condition is not waived, other than as a result of a breach by the Company of its obligations to use all reasonable endeavours to procure that the condition is satisfied; or
- **Termination:** SR Residential becomes entitled to terminate the agreement due to:
  - the Company being in material breach of any clause of the agreement where that breach has not been remedied to SR Residential's satisfaction within five Business Days' notice; or
  - the failure of the Prescribed Occurrence condition.

The Independent Directors consider the SR Residential Reimbursement Fee is reasonable and appropriate in amount, structure and effect. The fee is not payable if the Scheme does not proceed merely because Shareholders do not vote in favour of the Scheme in sufficient numbers to satisfy the legal requirements.

For full details of the SR Residential Reimbursement Fee, see clause 8 of the Scheme Implementation Agreement.

(e) **Simonds Reimbursement Fee**

SR Residential has also agreed to pay the Company a cash reimbursement fee of $575,367 (**Simonds Reimbursement Fee**) if SR Residential is in material breach of the agreement where that breach has not been remedied to the Company's satisfaction within five Business Days' notice.

(f) **Termination**

Either party can terminate the Scheme Implementation Agreement:

- in certain circumstances where an event occurs which would, or does, prevent a condition being satisfied; or
- where the other party is in material breach of the agreement and that breach has not been remedied to the non-breaching party's satisfaction within five Business Days' notice.

The Company may also terminate the Scheme Implementation Agreement if:

- a guarantor is in material breach of the of the agreement and that breach has not been remedied to the Company's satisfaction within five Business Days' notice; or
- a majority of the Independent Directors adversely change or withdraw their recommendation to Shareholders in relation to the Scheme or recommend a Competing Proposal.

SR Residential may also terminate the Scheme Implementation Agreement if an Independent Director adversely changes or withdraws his or her recommendation to Shareholders in relation to the Scheme or recommends a Competing Proposal.

(g) **Guarantee by SFO and Roche Holdings**

SFO and Roche Holdings have jointly and severally provided an unconditional and irrevocable guarantee to the Company in respect of the performance of SR Residential's obligations under the Scheme Implementation Agreement.

8.4 Executive incentive arrangements

(a) **Plan Rights**

The Company operates an employee share plan to provide incentives and rewards for executives and employees. As at the date of this Scheme Booklet, the Company has on issue (in aggregate) 507,768 rights which vest subject to achievement of various performance, and in some cases, time-based tests (**Performance Rights**) and 11,235 rights which vest subject to satisfying time-based tests (**Service Rights**).

Under the terms of the plan, on the occurrence of a change of control, the Board has discretion to determine the manner in which all unvested and vested rights will be dealt with.

The Board has determined that, subject to the Scheme becoming Effective, all Performance Rights which are subject to performance tests that have been satisfied (a total of 74,908 rights) will vest.

On vesting, the Company will issue one Share for each right so that the relevant holders will participate in the Scheme and receive the Scheme Consideration of $0.40 per Share. The relevant holders hold an immaterial number of Shares.

All other Performance Rights (a total of 432,860) will be cancelled for no consideration.

The Service Rights are subject to the relevant holder being employed by the Company at 25 November 2016. Accordingly, the Service Rights will vest prior to the Scheme becoming Effective and the relevant holder will be issued one Share for each right. No Board discretion is required to be exercised in respect of Service Rights.

(b) **Tax-exempt Shares**

As at 24 October 2016, the Company has on issue 154,289 'tax-exempt Shares' issued to employees as part of the Company's IPO. These Shares are subject to a holding lock, which applies for a period of three years from issue.

Given that implementation of the Scheme will occur prior to the end of the three-year period:

- subject to the Scheme becoming Effective, the Board will exercise its discretion to waive the restriction period applying to the tax-exempt Shares so that holders will be able to participate in the Scheme; and
- the Company will apply to the Commissioner of Taxation by way of ruling for an exercise of his discretion to allow the holders of tax-exempt Shares to retain the same tax treatment. As the Company intended for the holding lock to apply for three years, the Company believes that the application should result in a favourable ruling in connection with the Scheme. In the event that the Commissioner of Taxation does not provide the ruling and the holders of tax-exempt Shares are required to pay tax

on those Shares, the Board has resolved that the Company is authorised to pay holders an amount which will compensate them for any additional tax payable as a result of the tax exemption not being available.

8.5 Benefits and agreements

(a) **Benefits in connection with retirement from office**

There is no payment or other benefit that is proposed to be made or given to any director, secretary or executive officer of the Company (or any of its Related Bodies Corporate) as compensation for the loss of, or consideration for or in connection with his or her retirement from, office in the Company (or any of its Related Bodies Corporate) in connection with the Scheme.

(b) **Agreements connected with or conditional on the Scheme**

There are no agreements or arrangements made between any Director and any other person in connection with, or conditional on, the outcome of the Scheme.

SR Residential has agreed to indemnify each Director from any claim, action, damage, loss, liability, cost, expense or payment of whatever nature and however arising out of any breach of any of the representations and warranties given by SR Residential in Schedule 2 of the Scheme Implementation Agreement.

(c) **Interests of Directors in contracts with the Consortium**

Other than Mr Gary Simonds and Mr Rhett Simonds in respect of the Scheme Implementation Agreement (by reason of their interests as potential beneficiaries under the SFO Operations Trust, the trustee of which is SFO Operations Pty Ltd, which is one of the shareholders in SR Residential), none of the Directors has any interest in any contract entered into by SFO, Roche Holdings or SR Residential.

(d) **Benefits under the Scheme or from the Consortium**

None of the Directors has agreed to receive, or is entitled to receive, any benefit from SFO, Roche Holdings or SR Residential which is conditional on, or is related to, the Scheme, other than as set out in clause 8.5(b).

8.6 ASIC relief

Information on the ASIC relief granted to the Consortium is set out in section 5.5.

Paragraph 8302(h) of Part 3 of Schedule 8 of the Corporations Regulations requires an explanatory statement to set out whether, within the knowledge of the Directors, the financial position of the Company has materially changed since the date of the last balance sheet laid before the Company in general meeting or sent to Shareholders in accordance with sections 314 or 317 of the Corporations Act, being 30 June 2015. Given that the FY16 Financial Report was released to ASX on 30 August 2016, ASIC has granted the Company relief from this requirement so that this Scheme Booklet set out whether, within the knowledge of the Directors, the financial position of the Company has materially changed since 30 June 2016.

Under the Corporations Act, the Company is required to hold its annual general meeting by 30 November 2016.

If the Scheme is implemented on the expected Implementation Date of Wednesday, 7 December 2016, you should be aware that ASIC has granted the Company relief so that the date an annual general meeting is held is extended to a date no later than 19 December 2016, at which time you will no longer be a Shareholder.

8.7 Consents and disclosures

(a) Consents

This Scheme Booklet contains statements made by, or statements said to be based on statements made by:

- the Consortium in respect of the Consortium Information only; and
- KPMG Corporate Finance as the Independent Expert.

Each of those persons named above has consented to the inclusion of each statement it has made in the form and context in which the statements appear and has not withdrawn that consent at the date of this Scheme Booklet.

The following parties have given and have not, before the time of registration of this Scheme Booklet with ASIC, withdrawn their consent to be named in this Scheme Booklet in the form and context in which they are named:

- Macquarie Capital (Australia) Limited as financial adviser to the Company;
- Herbert Smith Freehills as legal adviser to the Company; and
- Boardroom Pty Limited as the Registry.

(b) Disclosures and responsibility

Further, each person named in section 8.7(a):

- has not authorised or caused the issue of this Scheme Booklet;
- does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than:
  - the Consortium in respect of the Consortium Information only; and
  - KPMG Corporate Finance, in relation to its Independent Expert's Report; and
- to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in this section 8.7(b).

8.8 Litigation by former CEO

On 16 September 2016, the Company's former Chief Executive Officer, Mr Paul McMahon, applied to the Supreme Court of Victoria for an interlocutory injunction to restrain the Company from taking any step that would result in a disposal of his Shares being implemented prior to 21 November 2016.

Mr McMahon alleged that the timing of the Scheme had been designed to frustrate the operation of a share price indemnity granted to him by certain Simonds private family companies which only becomes operative if he sells his Shares after 17 November 2016.

On 20 September 2016, the Supreme Court heard Mr McMahon's application. The Court indicated that it would ensure that Court approval of the Scheme (if given) would not involve the disposal of Mr McMahon's shares before 18 November 2016 so as to avoid the loss of his share price indemnity. The Court held that it was not necessary to grant the injunction sought by Mr McMahon at this stage and adjourned the application for an injunction to a date to be fixed.

The original Scheme Implementation Agreement was subject to a condition that permitted SR Residential to terminate the agreement if the Scheme was not implemented on or before 17 November 2016. Therefore, the Court's decision effectively meant that SR Residential's right to terminate would inevitably come into operation.

Consequently, the Company and the Consortium entered into negotiations, following which both parties agreed to amend the Scheme Implementation Agreement to remove that right on the basis that SR Residential had a new right to terminate the agreement, but this right was only exercisable until 21 October 2016, or seven days after SR Residential was provided with the Company's financial results for the three month period to 30 September 2016 (whichever was later). The Company provided SR Residential with the relevant information on 14 October 2016. The Consortium did not exercise its right to terminate the agreement by 21 October 2016, and accordingly, this right has lapsed.

8.9 No unacceptable circumstances

The Directors believe that the Scheme does not involve any circumstances in relation to the affairs of the Company that could reasonably be characterised as constituting 'unacceptable circumstances' for the purposes of section 657A of the Corporations Act.

8.10 Other information material to the making of a decision in relation to the Scheme

Except as set out in this Scheme Booklet, there is no other information material to the making of a decision in relation to the Scheme, being information that is within the knowledge of any Director, at the time of lodging this Scheme Booklet with ASIC for registration, which has not previously been disclosed to Shareholders.

8.11 Supplementary information

If, between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date, the Company becomes aware that:

- a material statement in this Scheme Booklet is false or misleading;
- there is a material omission from this Scheme Booklet;
- a significant change affecting a matter in this Scheme Booklet has occurred; or
- a significant new matter has arisen which would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC,

the Company will prepare a supplementary document to this Scheme Booklet.

The form which the supplementary document may take, and whether a copy will be sent to each Shareholder, will depend on the nature and timing of the new or changed circumstances.

In all cases, the supplementary document will be available from the Company's website at https://simondsgroup.com.au/announcements and from ASX's website at www.asx.com.au.

9 Glossary and interpretation

9.1 Glossary

The meanings of the terms used in this Scheme Booklet are set out below:

Term	Meaning
ASIC	Australian Securities and Investments Commission.
Associate	has the same meaning as in section 12 of the Corporations Act.
ASX	ASX Limited (ABN 98 008 624 691) and, where the context requires, the financial market that it operates.
BAA	Builders Academy Australia.
Board	the board of directors of the Company.
Business Day	a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally in Victoria, Australia.
CHESS	the Clearing House Electronic Subregister System operated by ASX Settlement Pty Ltd and ASX Clear Pty Limited.
Company	Simonds Group Limited (ABN 54 143 841 801).
Company Group	the Company and each of its Related Bodies Corporate and a reference to a “Company Group Member” or a “member of the Company Group” is to the Company or any of its Related Bodies Corporate.
Company Information	the information contained in this Scheme Booklet, other than the Consortium Information, and the information contained in Annexure A.
Competing Proposal	a proposed transaction or arrangement pursuant to which a person other than SR Residential or any of its shareholders or related entities would, if the transaction or arrangement is entered into or completed substantially in accordance with its terms: 1 directly or indirectly acquire, have a right to acquire or otherwise acquire an economic interest in, all or a substantial part of the business of the Company Group; 2 acquire a Relevant Interest in 25% or more of Shares or acquire control of the Company or the Company Group within the meaning of section 50AA of the Corporations Act; or 3 otherwise acquire or merge with the Company whether by way of takeover offer, scheme of arrangement, shareholder approved acquisition, capital reduction, share buy back, sale or purchase of assets, joint venture, reverse takeover, dual-listed company structure or other synthetic merger or any other transaction or arrangement.
Consortium	1 SFO; 2 Roche Holdings; and 3 SR Residential.
Consortium Information	the information contained in: 1 the paragraph commencing “Although the Consortium believes that the views” in the subsection headed ‘Disclaimer as to forward-looking statements’ in the Important Notices; 2 the answer to the questions “Who is SR Residential?”, “Who is SFO?”, “Who is Roche Holdings?”, and “Who are the Excluded Shareholders? What will happen to their Shares?” in section 2; 3 footnote 11 in section 4.5; 4 section 5; 5 section 8.2; and

Term	Meaning
	6 section 8.5(c).
Corporations Act	the *Corporations Act 2001* (Cth).
Corporations Regulations	the *Corporations Regulations 2001* (Cth).
Court	the Supreme Court of Victoria or such other Court of competent jurisdiction as agreed to in writing by the Company and SR Residential.
Data Room	the electronic data room established by the Company to allow the Consortium and its representatives to undertake due diligence in respect of the Company Group.
Deed Poll	the deed poll executed by each of SR Residential, SFO and Roche Holdings on 25 September 2016 under which each party covenants in favour of the Scheme Shareholders to perform the obligations attributed to them under the Scheme. A copy of the Deed Poll is contained in Annexure C.
Director	a member of the Board.
Due Diligence Materials	the: 1 written information and documents provided to SR Residential by the Company and its representatives prior to 11.59pm on 29 August 2016 in the Data Room; and 2 written questions and answers raised by the Consortium in the due diligence process and the written responses to those questions provided by the Company and its representatives prior to 11.59pm on 29 August 2016 in the Data Room.
Effective	when used in relation to the Scheme, the coming into effect, under subsection 411(10) of the Corporations Act, of the Court order made under paragraph 411(4)(b) of the Corporations Act in relation to this Scheme.
Effective Date	the date on which the Scheme becomes Effective.
Excluded Shareholder	each of: 1 Simonds Custodians Pty Ltd as trustee for the Gary Simonds No.1 Family Trust; 2 Simonds Custodians Pty Ltd as trustee for the Gary Simonds No.2 Family Trust; 3 Simonds Custodians Pty Ltd as trustee for the Gary Simonds No.3 Family Trust; 4 Madisson Constructions Pty Ltd as trustee for the Madisson Homes Trust; 5 Simonds Construction Pty Ltd as trustee for the Simonds Homes Discretionary Trust; 6 Mr Gary Simonds; and 7 Mr Rhett Simonds.
FY16	the financial year commencing 1 July 2015 and ending 30 June 2016.
FY16 Financial Report	the Company's audited financial report for the year ended 30 June 2016.
FY17	the financial year commencing 1 July 2016 and ending 30 June 2017.
Government Agency	any foreign or Australian Government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity or any minister of the Crown in right of the Commonwealth of Australia or any state, or any other federal, state, provincial, local or other government, whether foreign or Australian.
IBC	the independent board committee of the Company established by the Board to consider and, if thought fit, approve entry into the Scheme, which consists of Ms Susan Oliver (Deputy Chair), Mr Matthew Chun (Group Chief Executive Officer and Managing Director) and Mr Dimitri Kiriacoulacos (independent consultant).
Implementation Date	18 November 2016 or such later date which is two Business Days after the

Term	Meaning
	Scheme Record Date.
Independent Directors	Ms Susan Oliver and Mr Matthew Chun, both of whom are regarded by the Board as independent directors for the purposes of the Scheme, as they have no relationship with, or connection to, the Consortium members.
Independent Expert	KPMG Corporate Finance (a division of KPMG Financial Advisory Services (Australia) Pty Ltd) (ACN 007 363 215).
Independent Expert's Report	the report prepared by the Independent Expert dated 26 October 2016 set out in Annexure A.
IPO	initial public offering.
Listing Rules	the official listing rules of ASX.
Material Adverse Change	any event, occurrence or matter which individually or when aggregated with all such related events, occurrences or matters: 1 diminishes, or could reasonably be expected to diminish (whether in the FY16 Accounts, now or in the future) the consolidated net assets of the Company Group by an amount of at least $3,000,000 as against what the consolidated net assets would reasonably have been expected to have been but for that event, occurrence or matter; 2 diminishes, or could reasonably be expected to diminish (whether in the FY16 Accounts, now or in the future) the EBITDA of the Company Group by an amount of at least $2,000,000 as against what the EBITDA would reasonably have been expected to have been but for that event, occurrence or matter; or 3 has the result, or could be reasonably expected to have the result, that the Company Group is unable to carry on its business in substantially the same manner as carried on as at the date of the Scheme Implementation Agreement (including as a result of a loss of a material licence necessary for the Company to carry on any material part of its business). other than an event, occurrence or matter: 4 required or expressly permitted to be done by the Company Group pursuant to the Scheme Implementation Agreement or the Scheme; 5 fully and fairly disclosed in the Due Diligence Materials or in any announcement on ASX made by the Company prior to 30 August 2016 (or which ought reasonably have been expected to arise from an event, occurrence or matter which was so disclosed); 6 resulting from an act of God, lightning, storm, flood, fire, earthquake or explosion, cyclone, tidal wave, landslide or adverse weather conditions occurring on or after the date of the Scheme Implementation Agreement; 7 resulting from changes in general economic or political conditions, the securities market in general or law; 8 done or not done at the written request or with the written acknowledgement and approval of SR Residential, including any consequences arising as a result of such matters; 9 resulting from the actual or anticipated change of control of the Company contemplated by the Scheme; or 10 resulting from changes in generally accepted accounting principles or the interpretation of them.
Notice of Meeting	the notice of meeting relating to the Scheme Meeting which is contained in Annexure D.
Plan Rights	the performance rights and service rights issued by the Company to certain employees under the Company's employee share plan.

Term	Meaning
Prescribed Occurrence	other than: 1 as required or expressly permitted to be done by the Company Group pursuant to the Scheme Implementation Agreement or the Scheme; 2 as fully and fairly disclosed in the Due Diligence Materials or in any announcement on ASX made by the Company prior to the parties entering into the Scheme Implementation Agreement (or which ought reasonably have been expected to arise from an event, occurrence or matter which was so disclosed); or 3 with the written consent of SR Residential, the occurrence of any of the following events between 30 August 2016 and 8.00am on the Second Court Date: 4 the Company converting all or any of its securities into a larger or smaller number of securities; 5 a Company Group member resolving to reduce its capital in any way or resolving to re-classify, combine, split, redeem or re-purchase directly or indirectly any of its shares; 6 a Company Group member: (i) entering into a buy-back agreement; or (ii) resolving to approve the terms of a buy-back agreement under the Corporations Act. 7 a Company Group member issuing shares, or granting an option over its shares or agreeing to make such an issue or grant such an option except where a Share is issued on the exercise of a Plan Right issued under the Company employee share plan, where that Plan Right was issued prior to 30 August 2016; 8 a Company Group member issuing, or agreeing to issue, convertible notes or any other security convertible into shares; 9 the Company agreeing to pay, declaring or paying a dividend or any other form of distribution of profits or return of capital to its members; 10 a Company Group member disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property; 11 a Company Group member creating or agreeing to create any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property otherwise than in the ordinary course of business; 12 an application being made to a court or a resolution being passed or an order being made for the winding up or dissolution of a Company Group member; 13 a Company Group member proposing or taking any steps to implement a scheme of arrangement or other compromise or arrangement with its creditors or any class of them; 14 a receiver, receiver and manager, liquidator, provisional liquidator, administrator, trustee or similar officer being appointed in respect of a Company Group member or any of its assets; or 15 a Company Group member making or proposing to make any change to its constitution.
Proxy Form	the proxy form which accompanies this Scheme Booklet.
Register	the share register of the Company.
Registry	Boardroom Pty Limited (ACN 003 209 836).
Regulatory Authority	any: 1 government or local authority and any department, minister or agency of any government; and 2 other authority, agency, commission or similar entity having powers or jurisdiction under any law or regulation or the listing rules of any

Term	Meaning
	recognised stock or securities exchange.
Related Body Corporate	has the same meaning given to it in the Corporations Act.
Relevant Interest	has the same meaning as given by sections 608 and 609 of the Corporations Act.
Roche Holdings	Roche Holdings Pty Ltd (ACN 007 046 040).
Roche Trust	the James Francis Roche Family Trust.
RTO	an organisation registered as a Registered Trading Organisation by the Australian Skills Quality Authority.
Scheme or Scheme of Arrangement	the scheme of arrangement between the Company and the Scheme Shareholders under which all Scheme Shares will be transferred to SR Residential (or its nominees) in accordance with Part 5.1 of the Corporations Act, substantially in the form in Annexure B, together with any amendment or modification made pursuant to section 411(6) of the Corporations Act.
Scheme Booklet	this document.
Scheme Consideration	in respect of each Scheme Share, $0.40 cash.
Scheme Implementation Agreement	the Scheme Implementation Agreement between the Company, SR Residential, SFO and Roche Holdings dated 30 August 2016 (as amended on 25 September 2016). A summary is set out in section 8.3, and a full copy can be obtained from the Company's website at https://simondsgroup.com.au/announcements.
Scheme Meeting	the meeting of Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act.
Scheme Record Date	7.00pm (Melbourne time) on the third Business Day after the Effective Date.
Scheme Resolution	the resolution to agree to the terms of the Scheme.
Scheme Share	a Share on issue on the Scheme Record Date.
Scheme Shareholder	each person who holds Scheme Shares, other than the Excluded Shareholders.
Second Court Date	the first day on which an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme or, if the hearing of such application is adjourned for any reason, the first day on which the adjourned application is heard.
Second Court Hearing	the hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.
SFO	Simonds Family Office Pty Ltd (ACN 602 022 140).
SFO Trust	the SFO Operations Trust.
SHA	Simonds Homes Australia.
Share	a fully paid ordinary share in the capital of the Company.
Shareholder	each person registered in the Register as a holder of Shares.
Shareholder Information Line	1300 737 760 from within Australia and +61 2 9290 9600 from outside Australia.
SLD	Simonds Land Development.
SR Residential	SR Residential Pty Ltd (ACN 614 474 949).
Superior Proposal	a Competing Proposal which, in the determination of the Independent Directors, acting in good faith and having had regard to written advice from their external financial and legal advisers: 1 is reasonably capable of being completed, taking into account both the nature of the Competing Proposal and the person or persons making it; and 2 would, if completed substantially in accordance with its terms, result in a transaction more favourable to the Shareholders (as a whole, other than

Term	Meaning
	Excluded Shareholders) than the Scheme, taking into account all terms and conditions, including: (i) the value of the consideration payable to Shareholders under the Competing Proposal; (ii) the conditions of the Competing Proposal and the likelihood of those conditions being satisfied; (iii) the likely timing to implement the Competing Proposal; and (iv) the certainty of funding required for the Competing Proposal to be implemented.
VET	vocational education and training.
VWAP	volume weighted average price.

9.2 Interpretation

In this Scheme Booklet:

(a) words of any gender include all genders;

(b) words importing the singular include the plural and vice versa;

(c) an expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;

(d) a reference to a section or annexure, is a reference to a section of or annexure of, this Scheme Booklet as relevant;

(e) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;

(f) headings and bold type are for convenience only and do not affect the interpretation of this Scheme Booklet;

(g) a reference to time is a reference to Melbourne time;

(h) a reference to dollars, $, A$, AUD, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia;

(i) an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia; and

(j) the words “include”, “including”, “for example” or “such as” when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.

Annexure A

Independent Expert's Report

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The Independent Directors
Simonds Group Limited
Level 1, 570 St Kilda Rd,
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VIC 3004

26 October 2016

Dear Independent Directors

INDEPENDENT EXPERT REPORT AND FINANCIAL SERVICES GUIDE

PART ONE –INDEPENDENT EXPERT'S REPORT

1 Introduction

On 31 August 2016, Simonds Group Limited (Simonds or the Company) announced that it had entered into a Scheme Implementation Agreement (SIA) with SR Residential Pty Ltd, which is jointly owned by entities associated with Roche Holdings Pty Ltd (Roche) and the Simonds Family Office Pty Ltd (SFO) (together the Consortium), to acquire all of the shares in Simonds, not already held by SFO or its associates, for cash consideration of $0.40 per Simonds share (Scheme Consideration). The acquisition would proceed by way of a scheme of arrangement (Scheme) between the Company and the Scheme Shareholders, being each person who holds shares, other than the Excluded Shareholders[1] (Proposal).

SFO, is an entity owned by Vallence Gary Simonds (Gary Simonds), the largest shareholder of the Company with 39.03% of the issued share capital. Following the implementation of the Scheme, the Company would be delisted and owned 51% by Simonds family interests and 49% by Roche family interests.

Simonds consists of three integrated businesses:

- Simonds Homes Australia (SHA) is one of the leading residential homebuilders in Australia

[1] Excluded Shareholders are each of, Simonds Custodians Pty Ltd ATF Gary Simonds Family Trusts, No. 1, No. 2 and No. 3, Madisson Constructions Pty Ltd ATF Madisson Homes Trust, Simonds Construction Pty Ltd ATF Simonds Homes Discretionary Trust, Gary Simonds and Rhett Simonds. The Excluded Shareholders hold 39.04% of the issued share capital being Gary Simonds 39.03% and Rhett Simonds 0.01%

- Builders Academy Australia (BAA) is a specialised Registered Training Organisation (RTO) providing building and construction focused Vocational Education Training (VET) courses in Australia
- Simonds Land Development (SLD) which focuses on small to medium sized land subdivisions in locations which are complementary with existing SHA operations, but at present is a relatively small part of the overall Simonds business.

SHA was established in 1949 by Gary Simonds, the current Chairman of the Board, and BAA was established in 2005 as an internal workforce training department. Immediately prior to the announcement of the Proposal, on 30 August 2016 Simonds had a market capitalisation of $41.7 million having listed on the Australian Securities Exchange (ASX) in November 2014 at an implied market capitalisation of $269.5 million.

In the absence of a superior proposal and subject to an independent expert opining that the Scheme is in the best interests of Scheme Shareholders, each Simonds Independent Director intends to vote all shares held by them in favour of the Scheme.

The Independent Directors (Ms Susan Oliver and Mr Matthew Chun, both of whom are regarded by the Board as independent directors for the purposes of the Scheme, as they have no relationship with, or connection to, the Consortium members) have requested that KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) prepare an independent expert's report setting out whether the Scheme is in the best interests of Scheme Shareholders.

This report outlines KPMG Corporate Finance's opinion as to the merits or otherwise of the Scheme. This report should be considered in conjunction with and not independently of the information set out in the Notice of meeting and Explanatory statement (Scheme Booklet).

Further information regarding the scope of this report is set out in Section 6.

KPMG Corporate Finance's Financial Services Guide is contained in Part Two of this report.

2 Requirements of our report

The Independent Directors of Simonds have requested KPMG Corporate Finance prepare a report in accordance with Section 411 of the Corporations Act (the Act) and the guidance provided by the Australian Securities and Investments Commission (ASIC).

Section 411(3) of the Act requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Act include information that is material to the making of a decision by a creditor or member as to whether or not to agree with the relevant proposal.

Part 3 Schedule 8 of the Corporations Regulations specifies that the information to be lodged with ASIC must include a report prepared by an expert:

- if the other party to a reconstruction in a scheme of arrangement holds at least 30% of the company; or

- where the parties to the reconstruction have common Directors.

The report prepared by the expert must state whether, in the expert's opinion, the proposed scheme of arrangement is in the best interests of Scheme Shareholders and set out the expert's reason(s) for forming that opinion.

Associates of SFO owned approximately 39.04% of Simonds immediately prior to announcing the Proposal. SFO is a Consortium member and party to the SIA relating to the Scheme. Accordingly, an IER is required for the purpose of Section 411.

In addition, on 30 August 2016, ASIC exempted the Consortium from Section 606 of the Act in relation to the Proposal providing certain conditions are met. One of the conditions is that Simonds engage an independent expert to prepare a report on whether the Scheme is in the best interests of holders of ordinary shares in Simonds (other than entities associated with the Consortium) and whether the acquisition of Simonds by the Consortium is fair to holders of ordinary shares in Simonds (other than entities associated with the Consortium). Further details regarding the requirements of the report are provided in Section 6.1 of this report.

3 Opinion for Scheme Shareholders

In our opinion, we consider the Scheme **to be in the best interests of Scheme Shareholders**, in the absence of a superior proposal.

In arriving at this opinion, we have assessed whether the Scheme is:

- *fair*, by comparing the Scheme Consideration to our assessed value of a Simonds share on a controlling interest basis. This approach is in accordance with the guidance set out in Regulatory Guide 111 'Content of Expert Reports' (RG111)
- *reasonable*, by assessing the implications of the Scheme for Simonds shareholders, the alternatives to the Scheme which are available to Simonds and Scheme Shareholders, and the consequences for Scheme Shareholders of not approving the Scheme.

Based on our assessment we have formed the view that the Scheme is fair and reasonable. As such, consistent with RG 111, we have concluded that the Scheme is in the best interests of Scheme Shareholders.

In addition, consistent with ASIC exemption requirements, because we have concluded the Scheme to be fair and reasonable in the context of RG 111, we also find the acquisition of Simonds to be fair to Scheme Shareholders.

Background

Simonds listed on the ASX in late 2014, at a time when there were significant opportunities for the business to leverage their successful home building platform in Victoria (VIC) through expansion into New South Wales (NSW), Queensland (QLD) and South Australia (SA). The VET sector had seen significant growth and BAA had the opportunity to expand its training qualification levels and diversify its training revenue sources. Investors were confident that Simonds could take advantage of these opportunities and as a result it listed at $1.78 in November 2014.

However, despite exceeding its prospectus forecasts, undertaking a share buyback and paying a maiden dividend, a number of market and operational challenges impacted the business throughout FY15 and FY16 that resulted in investors losing confidence in Simonds and the share price dropped as low as $0.15 in May 2016.

The first industry event to negatively impact Simonds came immediately upon listing, as the share price fell 10% on debut as investors grew concerned about companies exposed to the vocational education sector. Concerns had arisen in the wake of regulatory and disclosure issues at Vocation Limited, (a previously ASX listed VET provider) which had lost State funding following a review by the Department of Education and Training Victoria (DETV) due to the low quality of training and inappropriate course enrolments. As a result, the Victorian Government undertook a review to improve the quality, stability and sustainability of the Victorian vocations training market.

Despite concerns from investors, Simonds exceeded its prospectus forecasts in its inaugural results as a listed company and the outlook at that time remained positive with SHA's pipeline at an all-time high and the BAA course pipeline continuing to grow with new course offerings.

In October 2015, the then CEO, Paul McMahon resigned and shortly afterwards (November 2015), Simonds announced that it had commenced a strategic review of the business-to-business project builder Madisson Projects (Madisson), which later resulted in the division being discontinued with an estimated cost of $12.6 million (after tax).

In early 2016, Simonds announced half year losses for FY16, attributed to factors impacting profitability in SHA, slower than anticipated growth in key BAA courses and costs associated with the closure of Madisson. During FY16, Simonds encountered a number of further challenges that adversely impacted the performance of SHA and BAA. Establishing businesses in NSW and QLD proved challenging. Furthermore, operating margins in BAA fell due to increasing demands arising from a changing regulatory environment which poses both a risk and opportunity for the business.

Following the appointment of Matthew Chun as CEO and Managing Director in April 2016, an operational review resulted in accelerated sales of display homes, non-core land and construction holdings and other inventories to provide cash to the business. Several senior positions were rationalised, reducing annual overheads and simplifying the organisational structure.

A combination of underperformance of SHA and BAA, losses from Madisson, impairments of intangibles assets and management restructure costs, resulted in a statutory operating loss after tax of $14.9 million in FY16.

Having stabilised the business the new management team's strategic focus is on simplification, improving cash flow, driving operational efficiency and profitable growth. SHA and BAA have significant visibility of FY17 pipelines and the Board is optimistic about the future trading performance but acknowledges there are execution risks to turnaround the business (see Section 3.2).

It is in this context that KPMG Corporate Finance has assessed the cash offer by the Consortium of $0.40. Since listing on the ASX, a number of changes have occurred within the SHA and BAA businesses, and Simonds has been unable to capitalise on the growth opportunities that were identified upon listing. SHA has struggled to perform as well as anticipated, particularly in NSW and QLD. The regulatory environment, particularly for BAA has changed significantly and investor's sentiment towards VET providers declined following several competitors entering administration and as the regulatory risk and scrutiny increased.

With the completion of the operational review Simonds is now focussed on generating cash flow, achieving operational efficiency and attaining profitable growth.

Although KPMG Corporate Finance acknowledge the potential for significant value to be extracted from Simonds in the future, a turnaround in its performance will take time and carry risks.

Assessment of fairness

In forming our view as to the value of Simonds we have considered a series of factors including Simonds's earnings profile, regulatory risk, market position and growth prospects. As required by RG 111 we have valued Simonds on a controlling interest basis assuming that the Proposal was for 100% of the shares, notwithstanding the current shareholding of associates of SFO (39.04%).

We have assessed the value of a Simonds share to be in the range $0.385 to $0.485. This is comparable to the Scheme Consideration of $0.40 per Simonds share. As the Scheme Consideration falls within our assessed value range for a Simonds share, we consider the Scheme to be fair.

Our analysis of the fairness of the Scheme is detailed further in Section 3.1 below.

Assessment of reasonableness

In accordance with RG 111, an offer is reasonable if it is fair. As we have assessed the Scheme to be fair, this means that the Scheme is reasonable. However, we have also considered a range of other factors that are relevant to assessing the reasonableness of the Scheme and which on balance, support a reasonableness conclusion.

These include:

- the Scheme Consideration represents a substantial premium to the trading price of Simonds before the announcement of the Proposal. Therefore, the Scheme represents the best opportunity for Scheme shareholders to realise a control value for their shares in the absence of a superior proposal
- the Scheme Consideration is in cash and allows the Scheme Shareholders to immediately realise the value from their investment and provides certainty of the pre-tax amount they will receive
- in the event that the Scheme is not approved, Simonds will continue to operate in its current form and remain listed on the ASX. As a consequence Simonds shareholders will continue to be exposed to the opportunities and risks associated with an investment in Simonds, which include:

  - future growth and profitability within SHA which is predicated on the ability of Simonds to change its strategic focus from site starts/revenue growth to operational efficiency and profitable growth. Key risks to SHA range from an inability to deliver margin improvements and a deterioration in demand within the residential property market caused by economic events or political action beyond Simonds' control
  - the performance of BAA is dependent on its ability to build a sustainable profitable platform having invested in improvements in governance and management systems with a focus on improving the quality of operations. Key risks relate to potential changes to VET funding arrangements and adverse audit outcomes
  - future benefits are predicated on the sustainability of the capital structure with a focus on generating cash and improving the balance sheet position, which showed a net asset deficiency of $3.3 million at 30 June 2016. Furthermore, working capital requirements of Simonds are expected to increase during the course of FY17 by an estimated $17.3m mainly due to the timing of when the Company invoices certain customers and a change in assumed creditor terms. However, the actual impact may differ to this estimate
- the Consortium, through associates of SFO, hold a 39.04% interest in Simonds. Despite this significant holding it is possible that a third party may seek to merge/acquire Simonds. However, the SFO interest would most likely deter any potential bidders as they risk not achieving full control without the support of the SFO. In this regard, no superior alternative proposal has emerged since announcement of the Proposal. Accordingly, the Scheme represents a clear opportunity for the Scheme Shareholders to monetise their investment at a significant premium to the pre Proposal trading prices
- in the absence of the Scheme or a superior alternative proposal, the Simonds share price is likely to fall to levels which do not reflect a control premium.

Scheme Shareholders should also consider the general tax implications associated with the scheme, the number of conditions which if not satisfied will result in the Scheme not being implemented and the transaction costs which will be incurred irrespective of whether the scheme is implemented.

Our analysis of the reasonableness of the Scheme is detailed further in Section 3.2 below.

The decision of whether or not to approve the Scheme is a matter for individual shareholders based on their views as to value, expectations about future market conditions and their particular circumstances including investment strategy and portfolio, risk profile and tax position. Scheme Shareholders should consult their own professional adviser, if in doubt, regarding the action they should take in relation to the Scheme.

3.1 The Scheme is fair

We have assessed the value of a Simonds share to be in the range $0.385 to $0.485. As the Scheme Consideration of $0.40 per Simonds share falls within our assessed value range for a Simonds share, we consider the Scheme to be fair. Our valuation is set out in Section 8 of this report and the assessment of fairness is summarised below.

Table 1: Assessment of fairness

$'000s (unless otherwise stated)	Section reference	Value Low	Value High
Value of Simonds business operations	8.3	80,608.0	95,108.0
Plus: net non operating assets and liabilities	8.5	(42.0)	(42.0)
Less: net debt	8.7	(25,423.0)	(25,423.0)
Value of equity		**55,143.0**	**69,643.0**
Fully diluted shares on issue	8.8	143,854.4	143,854.4
Value per Simonds share ($ per share, rounded)		**0.385**	**0.485**

Source: KPMG Corporate Finance analysis
Note: Table may not sum due to rounding

Our valuation reflects 100% ownership of Simonds and incorporates a control premium. Therefore, we would expect the valuation to be in excess of the price at which Simonds shares would trade on the ASX in the absence of a takeover offer. In assessing an appropriate premium for control in accordance with RG 111, we have only considered those synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of Simonds. As such, we have not included the value of special benefits that may be unique to the Consortium.

Our valuation of the shares in Simonds is based on a sum-of-the-parts of the core businesses and takes into consideration:

- the expected future maintainable earnings of Simonds' two core businesses, acknowledging the impact of non-recurring items (including a delay in invoicing) on recent financial performance and potential volatility of earnings
- our assessment of appropriate multiples to be applied to the selected maintainable earnings. Different multiple ranges have been applied to SHA and BAA taking into consideration the nature of the businesses, growth expectations, regulatory risk and exposure to the economic environment and outlook
- the value of the assets within SLD
- net debt and the need for an increase in working capital arising from changes to the timing of when the Company invoices certain customers (that was initiated in FY16 and will continue to impact the Company progressively throughout FY17) and creditor and debtor assumptions are expected to revert from the short-term strategy adopted in FY16 of stretching creditor's payment terms, to be in line with contractual terms. It is anticipated that this will result in a corresponding increase in the Company's normalised drawn debt levels. We have estimated the increase to be approximately $17.3m, however the actual impact may differ

- dilution of shares through the vesting of performance and service rights under the Scheme.

The Scheme consideration of $0.40 is within our assessed range of $0.385 to $0.485, albeit towards the low end of the range and lower than the mid-point of $0.435. In our view the low end of the range is fully supported by the selection of maintainable earnings and the modest margin improvement required by SHA to achieve those earnings. However, a significant portion of the valuation range falls above the Scheme Consideration. In this regard, whilst there is potential for significant value to be extracted from Simonds in the future, a turnaround in its performance will take time and will carry risks. Notwithstanding, if a Scheme Shareholder formed the view that the value of a share was above $0.40, then they may not consider the Scheme to be fair.

We have cross-checked our valuation of Simonds by comparing it to share trading and a high level discounted cash flow (DCF) analysis, respectively. In this regard:

- the trading price for Simonds shares (adjusted to reflect a premium for control) of $0.35 to $0.39, overlaps the range derived from our primary capitalised earnings methodology
- the high level DCF analysis overlaps our valuation of Simonds.

Sensitivity analysis

The maintainable earnings and net debt assumptions are critical to the valuation. There is potential volatility to both of these assumptions as a result of the initiatives underway and therefore a level of judgement is required in their selection.

In this regard, a modest increase in the maintainable earnings of $0.6m for SHA, or $1.2m for BAA, would result in the low end of the value per share increasing from $0.385 to $0.405 per share. As this would fall above the Scheme Consideration, the Scheme would not be considered fair.

Likewise, a change in any one of the assumptions supporting the normalised net debt position (such as change in creditor days or the delay of invoicing method) that reduces the adjustment from $17.3m to $14.7m ($2.8m change), would result in the low end of the value per share increasing from $0.385 to $0.405. As this would fall above the Scheme Consideration, the Scheme would not be considered fair.

Detailed sensitivity analysis is provided in Section 8.3.2 and 8.7

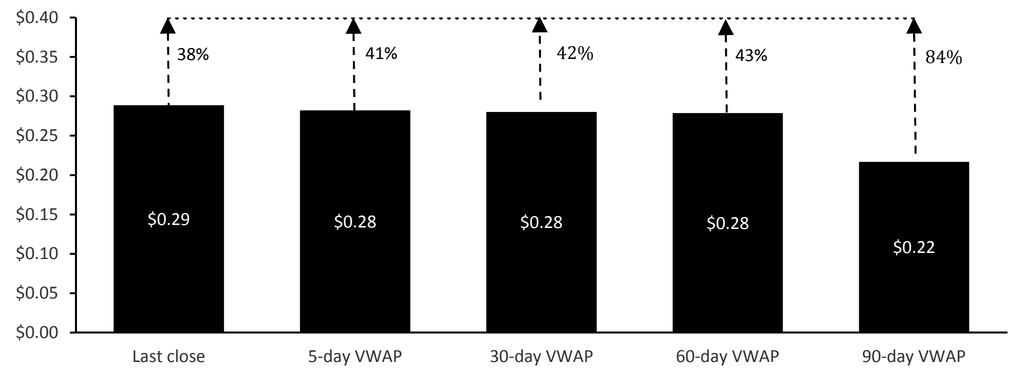
3.2 The Scheme is reasonable

In accordance with RG 111, an offer is reasonable if it is fair. As we have assessed the Scheme to be fair, this means that the Scheme is reasonable. However, we have also considered a range of factors as set out below that on balance support a reasonableness conclusion.

The Scheme Consideration offered represents a premium to the trading price of Simonds

The Scheme Consideration of $0.40 represents a 37.9% premium to the last closing price prior to the announcement of the Proposal on 31 August 2016. The premium is broadly consistent when calculated over a 5 day, 30 day and 60 day period as illustrated below.

Figure 1: Premium of Scheme Consideration over the Simonds share price



Source: IRESS; KPMG Corporate Finance analysis

With regard to our assessment of the premium implied by the Scheme Consideration, we note:

- it is commonly accepted that acquirers of 100% of a business should pay a premium over the value implied by the trading prices of a share to reflect their ability to obtain control over the target's strategy and operations, as well as extract synergies from integration. Observations from transaction evidence indicate that takeover premiums generally range from 20 to 35%[2] for completed takeovers depending on the individual circumstances. In transactions where it was estimated that significant synergies could be achieved, the takeover premium was frequently estimated to be at the high end of this range or greater
- the premium offered by the Consortium over Simonds trading price likely reflects a combination of the synergies available from full control and cost savings available as a result of delisting Simonds from the ASX
- between the announcement of the Scheme on 31 August 2016 and 25 October 2016, Simonds shares have traded between $0.375 and $0.525 per Share, with a VWAP over this period of $0.413 per Share (Source: IRESS). It is unusual for shares to trade at a premium to an offer price and potentially reflects speculative activity of existing shareholders or new shareholders coming onto the register. In addition, we are not aware of an increased or alternative offer to the Proposal, or the intentions of the parties who have increased their interests. We note that the VWAP over this period falls within our valuation range.

Certainty of value

The Scheme Consideration is in cash and allows the Scheme Shareholders to immediately realise the value from their investment and provides certainty of the pre-tax amount they will receive per Simonds share. In addition, Scheme Shareholders will not incur brokerage fees as part of the Scheme.

[2] Based on analysis of transactions between 2000 and 2016 sources from Connect4

Consequences of not approving the Proposal

In the event that the Scheme is not approved, Simonds will continue to operate in its current form and remain listed on the ASX. As a consequence:

- Simonds shareholders will not receive the Scheme Consideration. In addition, there will be some one-off transaction costs incurred, or committed to, prior to the Scheme Meeting
- the liquidity and trading volumes of Simonds shares will continue to be impacted by the significant shareholding of associates of SFO
- Simonds will continue to operate as a standalone entity and execute on its strategy as set out in Section 7.2 of this report
- Simonds shareholders will continue to be exposed to the opportunities associated with their investment, including but not limited to the:
  - expected improvements in financial performance due to the shift in strategic focus from site starts and revenue growth to operational efficiency and profitable growth
  - growth in opportunities arising from Simonds' operations in the NSW, QLD and SA markets
  - opportunity to benefit from the growing population across Australia, particularly on the eastern seaboard with immigration being a driving factor
  - the roll-out of online and VET Fee Help courses in BAA.

  On the other hand, shareholders will continue to be exposed to a number of key risks including, but not limited to:

  - SHA's exposure to the residential housing construction market in the eastern states of Australia. Activity levels are cyclical and sensitive to a range of economic and other factors that are beyond Simonds' control, including interest rates, inflation, population growth, unemployment levels, consumer confidence and other general economic conditions. Any deterioration in these factors may reduce the demand for housing construction, which could have an adverse effect on the future financial performance of Simonds
  - changes in immigration policies that negatively impact immigration inflows which are a significant contributor to population growth and a major driver of new home sales
  - changes in government housing incentives such as grants, new home incentives and negative gearing, may impact demand for affordable new housing
  - ongoing share market underperformance may cause a deterioration in the Company's reputation, which may adversely impact upon the Company's interactions with current or potential customers, suppliers and sub-contractors. Should such a reputational issue become material, it may lead to a decline in sales and margins
  - competition and associated loss of market share from other home builders and course providers

- regulatory actions which could affect the RTO accredited status of BAA as a result of compliance monitoring and audits and the increased scrutiny impacting the vocation training providers
- risk of loss of funding from the various funding contracts that BAA has with state governments in VIC, NSW and QLD. These funding contracts are the primary source of revenues for BAA and the loss of these contracts for material breaches or non-compliance, or not being granted future approval could have a material adverse impact on BAA operations, financial performance and financial position
- a net asset deficiency at 30 June 2016 as a result of asset impairments, one-off adjustments primarily related to Madisson, management restructuring costs and the accelerated sale of display homes and land holdings. As a result, there are limited surplus assets available to the Company should it require additional liquidity to meet current or future payment obligations. Should this situation arise, the Company may need to undertake additional capital management strategies in order to meet its payment obligations which may impact the financial position and/or performance of the Company and the value of shares
- the need for an increase in working capital that will impact the Company progressively throughout FY17. The increase is estimated to be $17.3m, however the actual impact may differ to this estimate.

Likelihood of a superior alternative proposal

In assessing the merits of the Scheme, we have considered the alternative options available to Scheme Shareholders.

The Consortium, through associates of SFO, hold a 39.04% interest in Simonds. Despite this significant holding it is possible that a third party may seek to merge/acquire Simonds. However, the SFO interest would most likely deter any potential bidders as they risk not achieving full control without the support of the SFO. In this regard, no superior alternative proposal has emerged since announcement of the Proposal. Accordingly, the Scheme represents a clear opportunity for the Scheme Shareholders to monetise their investment at a significant premium.

Under the SIA, Simonds is restricted from either soliciting or entering into discussions with third parties in relation to alternative proposals. Simonds is also required to notify the Consortium should it become aware of any possible alternative proposal and the Consortium has a last right to match a competing proposal. Further, under certain circumstances Simonds would be required to pay a break fee to the Consortium of approximately $0.6 million. Similarly, a reverse break fee of approximately $0.6 million will be payable to Simonds by the Consortium in certain circumstances.

Although the likelihood of a superior alternative proposal is impacted by these terms, it does not preclude an alternative proposal from being made. The Independent Directors of Simonds would be required under their fiduciary duties to consider the merits of an alternative proposal should it arise.

Simonds' share price will likely fall

The current share price of Simonds reflects the Scheme Consideration, which includes a premium for control. As such, in the absence of the Scheme, a superior alternative proposal or speculation concerning an alternative proposal, the Simonds share price is likely to fall to levels which do not reflect a control premium.

3.3 Other considerations

In forming our opinion, we have also considered a number of other factors as outlined below. Although we do not necessarily consider these will impact our assessment of the reasonableness of the Scheme, we consider it necessary to address these considerations in arriving at our opinion.

Legal proceedings by Mr McMahon

On 20 September 2016, the Supreme Court of Victoria made a decision to the effect that, if necessary, it would not allow shares held by the former Chief Executive Officer of the Company, Mr McMahon to be acquired before 18 November 2016 in order that a share price indemnity given to him by certain Simonds private family companies would not be frustrated.

As the Supreme Court confirmed the share price indemnity would not be inoperative the Proposal does not include any special value to the bidder. In addition, as the share price indemnity is between certain Simonds private family companies (i.e. not Simonds) and Mr McMahon, it is not relevant to determining the market value of a Simonds share.

Taxation implications for Simonds shareholders

Section 7 of the Scheme Booklet sets out a general description of the tax consequences for shareholders who hold their shares on capital account and acquired those shares on or after 20 September 1985. If the Scheme is implemented, those shareholders will be deemed to have disposed of their Simonds shares and the disposal will constitute a capital gains tax event. Shareholders will make a capital gain or loss depending on the cost base of their shares. Shareholders who are not Australian residents and who hold portfolio interests are generally not subject to Australian capital gains tax.

We note that Scheme Shareholders should consider their individual circumstances, review Section 7 of the Scheme Booklet for further information where it applies to their circumstances and should seek the advice of their own professional adviser.

The Scheme is subject to a number of conditions

There are a number of conditions that will need to be satisfied or waived before the Scheme can be implemented. The conditions must be satisfied or waived by 2 December 2016, unless the Company and SR Residential agree to extend this date. If the relevant conditions are not satisfied or waived by this date, the Scheme will not be implemented.

One-off transaction costs

Simonds management has estimated total one-off transaction costs in relation to the Scheme to be approximately $3.0 million on a pre-tax basis, of which approximately $1.1 million will have been paid, or committed, prior to the Scheme Meeting.

4 Other matters

In forming our opinion, we have considered the interests of Scheme Shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Simonds shareholders. It is not practical or possible to assess the implications of the Proposal on individual Simonds shareholders as their financial circumstances are not known. The decision of Scheme Shareholders as to whether or not to approve the Proposal is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual Simonds shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual shareholders, including residents of foreign jurisdictions seek their own independent professional advice.

Our report has also been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting Scheme Shareholders in considering the Proposal. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

All currency amounts in this report are denominated in Australian dollars unless otherwise stated.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Notice of Meeting and Scheme Booklet to be sent to Simonds shareholders in relation to the Proposal, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Scheme Booklet.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully

Adele Thomas
Authorised Representative

Ian Jedlin
Authorised Representative

Contents

5 The Proposal

5.1 Background and overview

On 31 August 2016, Simonds announced that it had entered into a SIA with SR Residential Pty Ltd, which is jointly owned by entities associated with Roche and SFO (together the Consortium), to acquire all of the shares in Simonds, not already held by SFO or its associates, for cash consideration of $0.40 per Simonds share (Scheme Consideration). The acquisition would proceed by way of a scheme of arrangement (Scheme) between the Company and the Scheme Shareholders, being each person who holds shares, other than the Excluded Shareholders (Proposal).

SFO, is an entity owned by Gary Simonds, the largest shareholder of the Company with 39.03% of the issued share capital. Following the implementation of the Scheme, the Company would be delisted and owned 51% by Simonds family interests and 49% by Roche family interests.

In the absence of a superior alternative proposal, and subject to the Proposal being in the best interest of Scheme Shareholders, the Independent Directors of Simonds recommend that the Scheme Shareholders approve the Proposal.

5.2 Conditions of the Scheme

The Scheme is subject to a number of conditions which are set out in full in the Scheme Booklet. The key conditions are:

- no material adverse change or prescribed occurrence occurring
- approval of Scheme Shareholders
- Court approval.

The Company and SR Residential each have the right to terminate the Scheme Implementation Agreement in other circumstances, including where there has been a material breach of the agreement by the other party.

If the Scheme Implementation Agreement is terminated, the Scheme will not be implemented. The SIA also contains customary exclusivity provisions including no shop and no talk restrictions, a notification obligation and a matching right, subject to the Independent Directors' fiduciary obligations. A break fee of approximately $0.6 million will be payable to the Consortium by Simonds in certain circumstances. Similarly, a reverse break fee of approximately $0.6 million will be payable to the Simonds by the Consortium in certain circumstances.

The SIA included a condition that required the Consortium to receive assurances from the Commonwealth Bank of Australia that the current lending facility would remain available to the Company after implementation of the Scheme. This condition has been satisfied.

5.3 Cost of the Scheme

The total transaction and implementation costs in relation to the Scheme are estimated to be approximately \$3.0 million. In the event the Scheme does not proceed, Simonds will incur costs of \$1.1 million.

6 Scope of the report

6.1 Purpose

As discussed in Section 2, Section 411(3) of the Act requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Act include information that is material to the making of a decision by a creditor or member as to whether or not to agree with the relevant proposal.

Part 3 Schedule 8 of the Corporations Regulations specifies that the information to be lodged with ASIC must include a report prepared by an expert:

- if the other party to a reconstruction in a scheme of arrangement holds at least 30% of the company; or
- where the parties to the reconstruction have common Directors.

The report prepared by the expert must state whether, in the expert's opinion, the proposed scheme of arrangement is in the best interests of the shareholders subject to the Scheme and set out the expert's reason(s) for forming that opinion.

Associates of SFO owned approximately 39.04% of Simonds immediately prior to announcing the Proposal. SFO is a Consortium member and party to the SIA relating to the Scheme. Accordingly, an IER is required for the purpose of Section 411.

In addition, on 30 August 2016, ASIC issued ASIC Instrument 16-0831 exempting the Consortium from Section 606 of the Act in relation to the Proposal providing certain conditions are met. Section 606 effectively prohibits a person from acquiring a relevant interest in a listed company where that person's voting power increases from 20% or below to in excess of 20%, or, if that person already has voting power in excess of 20%, their voting power increases further, except in limited circumstances.

In this case, execution of a joint bid agreement by each of the Consortium members on 30 August 2016 (setting out the terms and conditions on which the Consortium members agreed to propose and implement the Proposal), resulted in each Consortium member having a relevant interest in at least 39.04% of the shares on issue in Simonds. This would have constituted a breach of Section 606 but for the relief granted by ASIC. One of the conditions of ASIC's relief is that Simonds engage an independent expert to prepare a report on whether the Scheme is in the best interests of holders of ordinary shares in Simonds (other than entities associated with the Consortium); and that the acquisition of Simonds by the Consortium is fair to holders of ordinary shares in Simonds (other than entities associated with the Consortium).

Accordingly, the Independent Directors of Simonds have requested KPMG Corporate Finance prepare an independent expert's report. The report is to set out our opinion as to whether the Scheme is in the best interest of Scheme Shareholders and to state reasons for that opinion.

6.2 Basis of assessment

RG 111 "Content of expert reports", issued by ASIC, indicates the principles and matters which it expects a person preparing an independent expert report to consider. RG 111.18 states that where a scheme of arrangement has the effect of a takeover bid, the form of analysis undertaken by the expert should be substantially the same as for a takeover bid. That form of analysis considers whether the transaction is "fair and reasonable" and, as such, incorporates issues as to value. In particular:

- 'fair and reasonable' is not regarded as a compound phrase
- an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities subject to the offer
- the comparison should be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash
- the expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison
- an offer is 'reasonable' if it is 'fair'.

RG 111.20 states that if an expert would conclude that a proposal was 'fair and reasonable' if it was in the form of a takeover bid, it will also be able to conclude that the scheme is 'in the best interests' of the members of the company.

In the circumstance of a 'not fair but reasonable' outcome, RG 111.21 states that the expert can also conclude that the scheme is 'in the best interests' on the basis that it clearly states that the consideration is less than the value of the shares subject to the scheme but that there are sufficient reasons for shareholders to vote in favour of the scheme in the absence of a higher offer.

6.3 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of Simonds for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have had discussions with Simonds' management in relation to the nature of the Company's business operations, its specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Simonds has been responsible for ensuring that information provided by it or its representatives is not false or misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (forward-looking financial information) prepared by the management of Simonds. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, Simonds remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any forward-looking financial information, however we have made sufficient enquiries to satisfy ourselves that such information has been prepared on a reasonable basis.

Notwithstanding the above, KPMG Corporate Finance cannot provide any assurance that the forward-looking financial information will be representative of the results which will actually be achieved during the forecast period. Any variations in the forward looking financial information may affect our valuation and opinion.

It is not the role of the independent expert to undertake the commercial and legal due diligence that a company and its advisers may undertake. The Independent Directors of Simonds, together with the Company's legal advisers, are responsible for conducting due diligence in relation to the Scheme. KPMG Corporate Finance provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process, which is outside our control and beyond the scope of this report. We have assumed that the due diligence process has been and is being conducted in an adequate and appropriate manner.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

6.4 Disclosure of information

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. Simonds has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to Simonds and its subsidiaries. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information of the operating entities comprising Simonds. As such the information in this report has been limited to the type of information that is regularly placed into the public domain by Simonds.

7 Company overview

7.1 Overview

Simonds was established by the current Chairman of the Board, Gary Simonds. In 1949, Gary began a carpentry apprenticeship and three year construction course. On completion of his apprenticeship, Gary formed Simonds and built a small number of client-contracted homes in Victoria. Gary's son, Mark, joined the company in 1973 and established display centres around Melbourne, each showcasing up to four award winning homes which lead to a significant increase in the number of homes built, as young families embraced the concept of building their own homes.

In 2007, Paul McMahon was appointed Group General Manager (before becoming CEO between 2010 and 2015) and implemented operational initiatives which greatly enhanced site starts, productivity and profitability. From this point Simonds targeted key growth markets in NSW, QLD and SA, building on the success in VIC.

BAA was established in 2005 to train Simonds' staff and those of Simonds' suppliers and partners. In early 2014, BAA opened its building and construction VET courses to the general trade public and registrations grew significantly.

In November 2014, Simonds listed on the ASX with a market capitalisation of $269.5 million. The purpose of the listing was to enable a partial sale of shares by existing shareholders, enhance Simonds corporate profile, raise new equity to fund acquisitions, working capital and growth initiatives, provide access to capital market and provide employees with the opportunity to invest in Simonds. Upon listing the Simonds family partially sold their interest but retained 36.89% of the shares on issue immediately post listing. The total proceeds of the offer was $161 million, of which $10 million was new equity and $151 million was paid to the existing shareholder.

Simonds exceeded its prospectus forecasts in its inaugural year as a listed company, and announced an on-market share buyback and a maiden dividend in August 2015. SHA achieved record pro forma revenues of $542.7 million and record site starts of 2,471. BAA exceeded the prospectus EBITDA by 6.1% as revenues grew from $3.8 million in FY14 to $23.2m in FY15.

However, during the course of CY2015, following the identification of poor practices on the part of certain VET providers, the Victorian Government undertook a review to improve the quality, stability and sustainability of the Victorian vocational training market. The review outlined broad reforms to the industry and created a period of uncertainty for BAA while the implications for individual providers were unknown.

In October 2015, then CEO, Paul McMahon announced his resignation. Shortly afterwards, Simonds announced that it had commenced a strategic review of its Madisson Projects business which targeted the apartment, medium density and townhouse sectors. Subsequently, the directors announced an orderly closure of the Madisson business as greater competition and weakening margins were negatively affecting SHA. The original cost estimate for the closure was $7.0m to $8.5m after tax. To 30 June 2016, the loss from the business totalled $12.6 million (after tax) including provisioning for future project losses. The closure was impacted by project delivery delays and increased costs to complete remaining projects.

In early 2016, Simonds group announced expected half year losses for FY16. This was attributable to factors impacting profitability in SHA, slower than anticipated growth in key BAA courses and costs associated with closure of Madisson.

Over the course of FY16 Simonds encountered a number of challenges that adversely impacted the performance of SHA and BAA. Delays in obtaining land titles across the country, particularly in NSW and QLD, led to lower than expected site starts and completions. In addition, establishing businesses in NSW and QLD proved challenging. Furthermore, BAA operating margins fell due to increasing demands arising from a changing regulatory environment which poses both a risk and opportunity for the business.

Following the appointment of Matthew Chun as CEO and Managing Director in April 2016, a full operational review was conducted, resulting in accelerated sale of display homes, non-core land and construction holdings and other inventories to provide cash into the business. Several senior positions were rationalised, reducing annual overheads and simplifying the organisational structure. Cost control measures were implemented to reduce controllable overheads and simplification of product and locations was commenced.

A combination of the under-performance of SHA and BAA, losses from Madisson, impairments of intangibles assets and management restructure costs, resulted in a statutory operating loss after tax of $14.9 million in FY16.

These changes have led to an update in the strategy as discussed below.

7.2 Strategy

Following a review of business operations a number of areas were identified as strategic priorities:

- Simplification of organisational structure
- Reduce debt / improve cash flow
- Reduce fixed costs
- Change focus to increasing margin and profitability in addition to existing focus on revenue generation
- Simplification of business across both the product range and locations of operations.

The strategic focus has shifted from increasing site starts and revenues, to operational efficiency and profitable growth.

7.3 Business operations

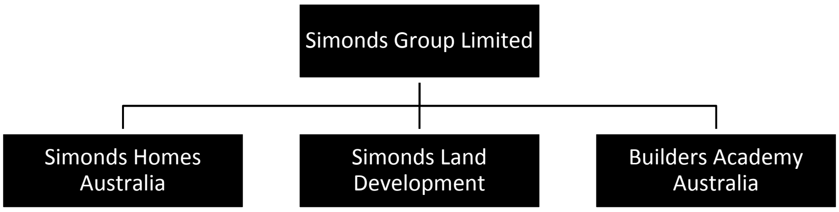
7.3.1 Overview

Simonds consists of three integrated businesses:

- SHA - one of Australia's leading homebuilders with operations VIC, QLD, NSW and SA
- BAA - a specialised RTO providing building and construction focused VET courses in Victoria, NSW and QLD as well as via a newly established Virtual Classroom delivery model

- SLD – focused on small to medium sized land subdivisions in locations which are complementary with existing SHA operations.

Figure 2: Simonds organisational structure



Source: Simonds Company presentations May 2016

7.3.2 Simonds Homes Australia

With over 67 years of continual operations, SHA is one of Australia's oldest and largest home builders with over 2,500 site starts during FY16 and 120 open display homes situated across the Australian eastern seaboard and SA. The core product is single storey detached homes, with a target market of first and second home families in the outer-metropolitan areas of capital and large regional cities. The average Simonds home sale price in FY16 was $222,166 (excluding GST).

Table 2: Site starts per annum

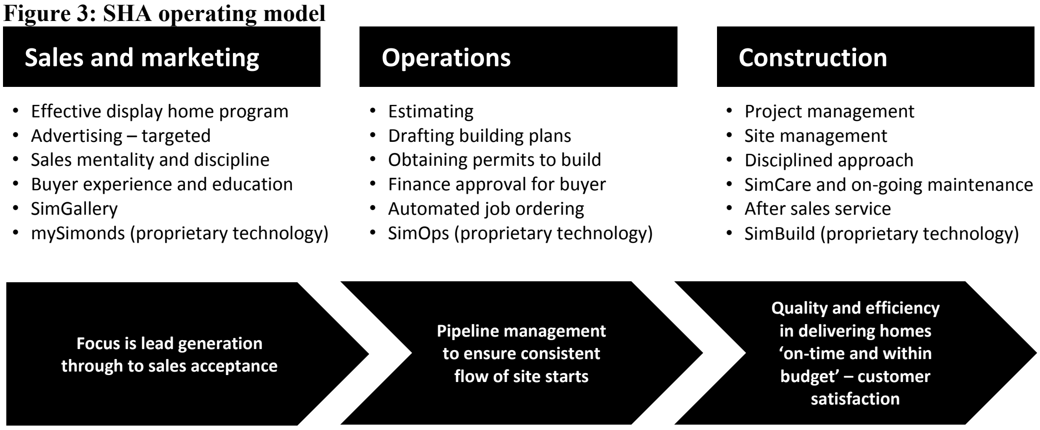
	FY14	FY15	FY16
Site starts	2,211	2,471	2,545

Source: Simonds
Note: Excludes Madisson

Operating model

The Simonds operating model focusses on selling and constructing new homes for customers. Simonds typically does not own land, but rather works with land developers and owners to match Simonds products to available land. The operating model can be split into the following three areas, with an overarching focus on generating new sales to allow for consistent site starts and on time and within budget construction of homes.

Figure 3: SHA operating model



Source: Simonds Company presentations May 2016

Simonds has a dedicated sales team to generate and process sales. From foot traffic of 70,000 groups walking through display homes the sales team converts approximately 3,700 into payment of initial deposits, a conversion of 1 in 19 (FY16 statistics). The price, product and promotions are key elements to converting leads to sales.

SHA's competitive advantage is strong relationships with land developers, particularly in VIC. This allows SHA to strategically position their display homes in prime positions at display sites. Simonds has strong brand recognition in the homebuilding sector given their long history and has developed six sub-brands covering each of the major buyer categories and designs at different price points.

The construction process is highly structured given the volume of builds, with focus on meeting budget, time and quality targets. SimBuild, a proprietary IT platform is used to monitor construction, with real-time, online data and reporting. Simonds uses sub-contractors for all trades and supplies, providing a flexible work force in periods of subdued or increased demand.

Table 3: Geographies of display homes completed and under construction

Region	Open Displays	Displays Under Construction	Total Displays
VIC	81	18	99
NSW	7	0	7
QLD	18	0	18
SA	10	2	12
Total	**116**	**20**	**136**

Source: Simonds, 30 September 2016

7.3.3 Simonds Land Development

SLD is focused on small to medium sized land subdivisions in locations which are complementary with existing SHA operations. Whilst SHA generally operate through the sale and construction of homes on customers' land titles, opportunities may arise through relationships with land holders which allows SLD to acquire land lots to package with SHA. It enables development profits for SLD and incremental site starts for SHA. Developments are financed on balance sheet or through externally managed funds or joint ventures.

Currently there are four projects in VIC with potentially 290 lots to be delivered in FY17 and FY18. Investments are either undertaken directly through externally managed funds or indirectly, through minority holdings in a dedicated Land Fund established to reduce capital requirements.

During FY16, the Company acquired Chun Property Advisory (CPA) which is a related party of Mr Matthew Chun, which specialises in development and project management. CPA is now managing all of the projects in SLD in addition to 18 other projects that it manages for third party clients across medium density and townhouse type developments in Melbourne.

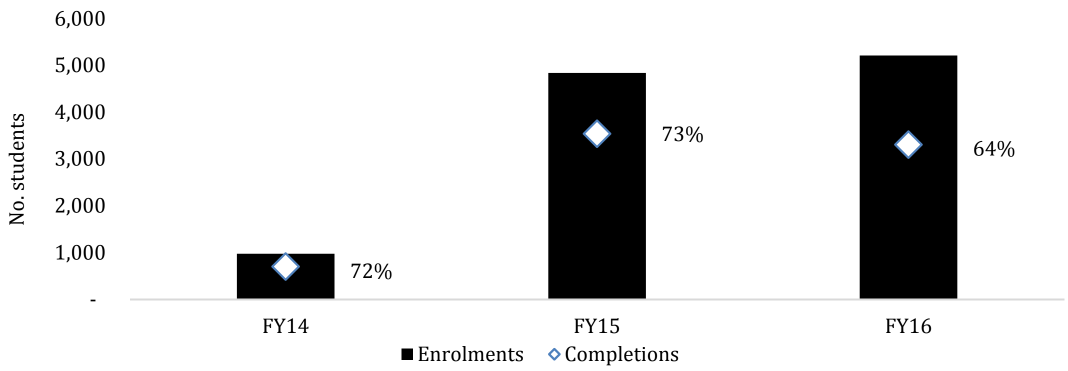
7.3.4 Builders Academy Australia

BAA is an RTO that focuses on offering nationally accredited qualifications in building and construction. During FY16, Simonds acquired City-Wide Building and Training Services Pty Ltd (CWBTS) to diversify its earnings base across the NSW and QLD registered training markets.

The origins of BAA date back more than ten years, when Simonds established its training division. Embedded within Simonds, BAA distinguishes itself as 'builders training builders', offering a career employment pathway for course participants as well as a well-trained network of employees, suppliers and contractors for SHA.

In early 2014, BAA opened its building and construction VET courses to the general trade public resulting in growth from 973 enrolments in FY14 to 5,206 in FY16.

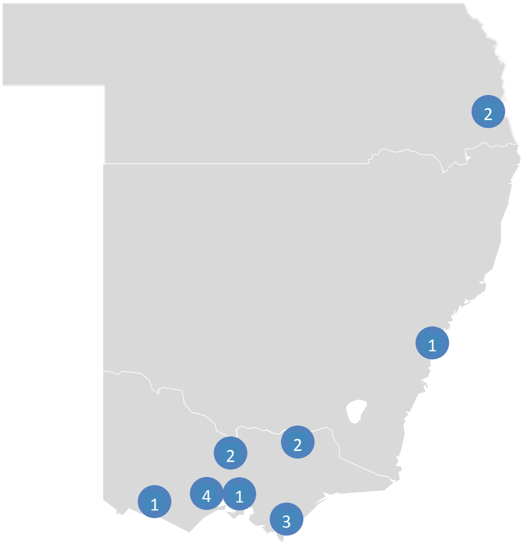
Figure 4: Historical enrolments and completions



Source: Simonds

BAA delivers building and construction training courses across Certificate II, III, IV and Diploma qualifications. Until the start of FY17, all courses were delivered in person within a classroom environment across a number of locations in VIC, NSW and QLD. From the start of FY17 a virtual delivery model has been developed and is being rolled out, creating a flexible network of study options in terms of location and course availability.

Figure 5: Geographic locations of BAA classrooms



Source: Simonds Company presentations May 2016

As a result of additional scrutiny and changed regulatory environment BAA have focused on improving governance, management systems and processes and embedding a quality framework across operations.

Licences and contracts

Wholly owned subsidiaries, House of Learning Pty Ltd (trading as Builders Academy Australia, or BAA) and CWBTS are nationally accredited RTOs under the Australian Skills Quality Authority (ASQA) and hold funding contracts across multiple states. Both CWBTS and BAA have undergone compliance audits and reviews during FY2016 from both funding bodies and ASQA.

In VIC, BAA is undergoing a quality review by a third party audit service provider on behalf of the DETV. A final report has been provided to the Department for review. BAA has raised a number of objections in relation to the accuracy of its content and will work with the Department to ensure clarity regarding BAA's continued focus on embedding a quality framework across its operations and where required ensure that it fully remediates any findings that the final report may include.

BAA and CWBTS hold various funding contracts with state governments in VIC, NSW, QLD, and ACT. They also hold VET FEE-HELP contracts with the Federal Department of Education and Training. These funding contracts (which allow students to access subsidised training or government loans) are the primary source of revenue for both BAA and CWBTS. Applications for 2017 Victorian VET Funding Contracts are due to open in September 2016 with the approval process expected to be finalised and providers notified by the end of the 2016 calendar year.

It is recognised that if either entity were to lose these contracts for material breaches or non-compliance, or not be granted future approval when applications are required for extensions of these contracts the funding currently received would no longer be available. This could have a material adverse impact on BAA and/or CWBTS and Simonds' operations, financial performance and financial position.

7.3.5 Corporate

The corporate cost centre includes 172 staff at 30 September 2016, including executive management, human resources, finance, transactional services, IT and group services teams that include sales, marketing, operations and construction.

7.4 Financial performance

The financial performance of Simonds for the three years ended 30 June 2016 is summarised below.

Table 4: Financial performance of Simonds

For the period ending $'000	Actual 30-Jun-14	Restated[3] 30-Jun-15	Actual 30-Jun-16
Revenue			
SHA	469,380	542,687	600,746
BAA	3,829	23,172	19,097
SLD	3,924	11,028	8,665
Revenue from continuing operations	**477,133**	**576,887**	**628,508**
Revenue from discontinuing operations (Madisson)	66,670	51,933	34,372
Total revenue	**543,803**	**628,820**	**662,880**
Pro forma EBITDA			
SHA	19,972	27,643	11,957
BAA	1,300	10,296	4,135
SLD	200	(151)	(1,000)
Pro forma EBITDA from continuing operations[4]	**21,472**	**37,788**	**15,092**
Depreciation and amortisation	(3,827)	(4,023)	(5,604)
EBIT from continuing operations[5]	**17,645**	**33,765**	**9,488**
Interest expense (net)	(859)	(792)	(2,100)
Underlying profit before tax from continuing operations	**16,786**	**32,973**	**7,388**
Significant and non recurring items	(5,944)	(34,366)	(10,643)
Profit before tax from continuing operations	**10,842**	**(1,393)**	**(3,255)**
Profit / (Loss) before tax from discontinuing operations (Madisson)	128	(2,788)	(18,058)
Income tax expense (benefit)	(3,479)	(6,751)	6,422
Net profit after tax	**7,491**	**(10,932)**	**(14,891)**
Metrics (continuing operations)			
SHA - Revenue growth	*na*	*15.6%*	*10.7%*
BAA - Revenue growth	*na*	*505.2%*	*(17.6%)*
SHA - EBITDA margin	*4.3%*	*5.1%*	*2.0%*
BAA - EBITDA margin	*34.0%*	*44.4%*	*21.7%*
Interest cover (times)[6]	*20.5x*	*42.6x*	*4.5x*

Source: Simonds Annual Reports

[3] FY15 was restated due to updated share based payment. There was no impact to pro forma EBITDA or cash flow.
[4] EBITDA is earnings from continuing operations (i.e. excluding Madisson) before interest, tax, depreciation, amortisation and significant non-recurring items.
[5] EBIT is earnings from continuing operations before interest, tax, income from equity accounted investments and significant non-recurring items.
[6] Interest cover is EBIT from continuing operations divided by interest expense (net)

As mentioned previously, in its inaugural full-year results as a listed company, Simonds exceeded its prospectus forecasts with the SHA business achieving record revenues and site starts and BAA achieving strong revenue and margin growth.

EBITDA from continuing operations increased from $21.5m in FY14 to $37.8m in FY15 (an increase of $16.3m) mainly as a result of:

- SHA (EBITDA increase of $7.7m from $20.0m to $27.6m) driven by expansion into QLD and NSW and strong growth in VIC and SA
- BAA (EBITDA increase of $9.0m from $1.3m to $10.3m) driven primarily by increased student uptake through increasing course offering and increased advertising and organic growth.

During FY16 Simonds encountered a number of challenges that adversely impacted profitability. EBITDA from continuing operations decreased by $22.7m mainly as a result of:

- SHA (EBITDA decrease of $15.7m from $27.6m to $12.0m) driven by title delays, display home openings and trade shortages, inefficiencies in the expansion into NSW and QLD, and higher overhead costs due to structuring the business for 10% greater anticipated site starts. The customisation of house designs helped secure sales but did not deliver margin. Consequently, the EBITDA margin fell to 2.0% in FY16 from 4.3% and 5.1% in FY14 and FY15, respectively
- SHA FY16 pro forma EBITDA was also impacted by a change in invoicing methodology. Adjusted for invoicing, FY16 pro forma EBITDA was between approximately $12.8m and $13.2m (refer section 8.3.2 for additional details)
- BAA (EBITDA decrease of $6.2m from $10.3m to $4.1m) driven by slower than anticipated growth in key BAA courses, a decrease in the number of active students from 4,155 as at 30 June 2015 to 2,232 as at 30 June 2016, a significant investment in student experience to aid retention, improvements in governance and managements systems and extending course durations to ensure students have sufficient time and support to complete their studies. BAA achieved revenue of $7.5m and pro forma EBITDA of $0.1m in the second half of FY16, compared to revenue of $11.6m and pro forma EBITDA of $4.0m in the first half of FY16, driven by a reduction in the number of active students, increased voluntary repayments and higher operating costs.

Following a strategic review in FY16, a decision was made to undertake an orderly closure of the Madisson division due to greater competition and weakening margins. The loss from the Madisson division recognised in FY16 totalled $18.1m (before interest and tax) including provisioning for future losses associated with winding down the division in accordance with accounting standards.

Simonds has also incurred several significant non-recurring items over the last three years. In FY14 and FY15 significant items mainly related to the initial public offering (IPO). In FY16, significant items mainly related to the restructuring of the business, including accelerated sale of a significant volume of display homes, non-core land and construction holdings and other inventories in order to improve cash flows. The impairment of IT project costs relates to capitalised costs of a number of IT and business related projects that were cancelled during the financial year and determined unlikely to produce future economic benefit.

Significant non-recurring items reported by Simonds are summarised below:

Table 5: Significant and non recurring items

For the period ending	Actual	Restated	Actual
$'000	**30-Jun-14**	**30-Jun-15**	**30-Jun-16**
Significant items:			
Impairment of IT project costs			(3,665)
Impairment of non-core development land			(1,700)
Impairment of display homes, non-core speculative land inventories associated with operation review and restructure			(2,691)
Costs associated with IPO		(4,913)	
IPO restructuring costs		(605)	
Costs associated with organisational review and management restructure including settlement of share based payments		(28,848)	(2,587)
New executive structure	(1,400)		
Non-recurring items	1,100		
Asset impairments	(6,444)		
Listed public company and director fees	800		
Total significant items	**(5,944)**	**(34,366)**	**(10,643)**

Source: Simonds Annual Reports and full year results presentations

7.4.1 Outlook

On 30 August 2016, Simonds released a positive outlook for FY17 citing:

- visibility of pipeline for SHA and BAA
- increased maturity in the NSW and QLD markets
- further roll out of virtual classrooms and VET fee help courses in BAA
- closure of the Madisson business, with anticipated project losses fully provisioned in FY16
- operating cost saving initiatives.

The Company has stated the SHA operations in VIC and SA continue to perform well, while challenges remain in NSW and QLD businesses. The Company expects to improve its market penetration, sales and site starts in FY17 and beyond as a result of focusing on building strategic relationships in partnership with land developers, the location of display homes in key growth zones and the consolidation of its product range. SHA's pipeline of work at 30 September 2016 consisted of a total of 2,335 homes, a slight decrease from the pipeline at 30 June 2016 of 2,405.

In the short term, significant improvements in volumes in QLD and improvement in margins in NSW (albeit from a low base in both States), will largely be offset by an equivalent reduction in volumes in VIC. The reduction in volumes in the relatively higher margin VIC business, offsets the improvements within QLD and NSW. Consequently, short term performance is expected to be relatively stable.

BAA continues to focus on delivering high quality trade qualifications, while meeting the increasing demands of a changed regulatory environment. BAA accepted 990 course enrolments in the quarter to 30 September, compared to total course enrolments of 3,283 in FY16. A further 567 students graduated in the quarter compared to 3,306 in FY16.

The recently completed management and operational restructures are expected to lead to a reduction in overheads of approximately $5.0m, enabling the Company to become more efficient.

7.5 Financial position analysis

The financial position of Simonds as at:

- 30 June 2014 prior to the Simonds IPO
- 30 June 2014 on a pro forma basis as included in the Simonds IPO prospectus
- 30 June 2015 on a restated basis as included as a comparative in the FY16 Simonds' annual report
- 30 June 2016

is summarised below:

Table 6: Financial position of Simonds as at 30 June 2016

For the period ending	Actual	Pro forma IPO	Actual Restated	Actual
$'000	30-Jun-14	30-Jun-14	30-Jun-15	30-Jun-16
Assets				
Current assets				
Cash and bank balances	15,895	24,900	5,477	3,176
Trade and other receivables	42,946	24,900	44,956	43,630
Inventories	63,947	67,300	71,686	49,610
Other assets	1,705	1,700	6,809	7,491
Total current assets	**124,493**	**118,800**	**128,928**	**103,907**
Non-current assets				
Trade and other receivables	160	200	-	-
Property, plant and equipment	6,839	6,400	7,433	9,800
Intangible assets	1,889	1,900	4,080	4,798
Other financial assets	-	-	-	1,260
Deferred tax assets	2,284	3,300	3,675	3,946
Total non-current assets	**11,172**	**11,800**	**15,188**	**19,804**
Total assets	**135,665**	**130,600**	**144,116**	**123,711**
Liabilities				
Current liabilities				
Trade and other payables	82,789	82,800	75,685	75,630
Borrowings	1,170	800	908	1,790
Provisions	10,126	9,700	11,786	14,658
Income in advance	7,184	7,200	9,704	12,484
Total current liabilities	**101,269**	**100,500**	**98,083**	**104,562**

For the period ending **$'000**	**Actual** **30-Jun-14**	**Pro forma IPO** **30-Jun-14**	**Actual Restated** **30-Jun-15**	**Actual** **30-Jun-16**
Non-current liabilities				
Borrowings	1,700	1,700	1,877	9,500
Provisions	7,265	7,300	6,384	6,877
Deferred tax liabilities	10,535	10,500	11,117	6,097
Total non-current assets	**19,500**	**19,500**	**19,378**	**22,474**
Total liabilities	**120,769**	**120,000**	**117,461**	**127,036**
Net assets	**14,896**	**10,600**	**26,655**	**(3,325)**
Equity				
Issued capital	822	13,800	13,590	12,911
Share buy-back reserve	-	-	-	(7,204)
Share based payments reserve	-	25,800	29,424	30,248
Retained earnings	14,074	(29,000)	(16,359)	(39,280)
Total equity	**14,896**	**10,600**	**26,655**	**(3,325)**
Metrics				
Total shares on issue ('000s)	*27,929*	*151,412*	*151,412*	*143,842*
Net assets per share (cents)	*0.53*	*0.07*	*0.18*	*(0.02)*
NTA per share (cents)	*0.47*	*0.06*	*0.15*	*(0.06)*
Gearing (%)	*(87.4%)*	*(211.3%)*	*(10.1%)*	*(244.0%)*

Source: Simonds Prospectus and Annual Reports
Note: Gearing calculated as net debt divided by the book value of equity

Simonds incurred a statutory net loss of $14.9m in FY16 which resulted in the net asset deficiency of $3.3m. This was predominantly driven by the impact of the Madisson business losses, other non-operating losses and impairments and capital management decisions (namely the share buyback and dividend).

Working capital has decreased from $26.3m as at 30 June 2015 to a deficit of $2.0m as at 30 June 2016 mainly due to a reduction in inventories of $22.1m as a result of the release of capital previously held in display and non-core speculative land and home inventory in the June quarter of FY16 and the closure of Madisson.

Deferred consideration of $1.2m in relation to the sale of a parcel of land is recognised within trade receivables as at 30 June 2016.

Other current assets includes $4.1m of tax receivable as at 30 June 2016 and $3.3m of prepayments.

Property, plant and equipment includes $3.9m of motor vehicles, $2.6m of leasehold improvements, $1.1m of computer equipment, $1.6m of office furniture and fittings and $0.6m of display home furniture and fittings.

Intangible assets includes $3.0m of goodwill from acquisitions and $1.7m of computer software and capitalised courses.

Other financial assets includes a 20% interest in the Mernda & Officer land fund of $1.26m.

Provisions relates to $14.2m of warranties and contract maintenance provisions and $6.4m of employee benefits.

Net debt increased by $10.8m associated with the establishment of a $5.0m facility with Simons Homes Display Fund managed by Aura Funds Management in September 2015 and increase in lease facilities of $1.5m.

Simonds has provided financial guarantees of $2.1m as at 30 June 2016 which relate to guarantees for property rentals, project contracts, crossing deposits, merchant facilities and a Significant Investor Funds for the acquisition and leaseback of displays. Financial guarantees are disclosed as contingent liabilities in the notes to the annual report.

Under the Australian tax consolidation regime, Simonds and its wholly owned Australian resident entities have elected to be taxed as a single entity. At 30 June 2016, Simonds franking balance was $10.7m. In this regard, the company has not declared a dividend for FY16.

Given the Company's net asset deficit, the Company has undertaken a detailed analysis of its ability to pay its debts as and when they become due and payable, and concluded amongst other matters:

- the underlying businesses of SHA and BAA are profitable
- as at 30 June 2016 the Company had $24.2m of unused debt facilities and has complied with all financial covenants and expects to continue to operate within its covenants for the 12 months following the annual report
- the unaudited management accounts as at 30 September 2016 show the Company is on track with key assumptions in its forecasts, such as site starts, student enrolments and pipeline of work.

On the basis of the above, the Directors are of the opinion that the Company is a going concern as at 30 June 2016.

7.5.1 Debt

At 30 June 2016, Simonds had net borrowings of $8.1m comprising net cash at bank of $3.2m and interest bearing liabilities of $11.3m.

Table 7: Cash and debt facilities as at 30 June 2016

Item	Total facilities ($'000s)	Amount drawn ($'000s)	Available facility ($'000s)	Maturity date	Weighted average cost of debt (%)
Cash on hand	na	(7,343)	na	na	na
Overdraft	4,167	4,167	-	na	7.75%
Commercial bills	26,342	2,000	24,342	May-18	4.64%
Finance leases	4,546	4,290	256	na	6.76%
Simonds Display Home Fund	5,000	5,000	-	Sep-17	7.20%
Total	**40,055**	**8,114**	**24,598**		

Source: Simonds FY16 Annual Report

7.6 Cash flow

The cash flow statements of Simonds for the three years ending 30 June 2016 are summarised below.

Table 8: Cash flow of Simonds

For the period ending $'000	Actual 30-Jun-14	Actual Restated 30-Jun-15	Actual 30-Jun-16
Cash flows from operating activities			
Receipts from customers	538,292	608,981	664,047
Payments to suppliers and employees	(509,760)	(603,894)	(637,699)
Interest paid	(1,220)	(1,005)	(2,212)
Income taxes paid	(250)	(10,326)	(9,192)
Net cash generated from operating activities	**27,062**	**(6,244)**	**14,944**
Cash flows from investing activities			
Interest received	361	213	112
Payment for acquisition	-	(3,000)	-
Payment to acquire subsidiary and its working capital, net of cash acquired	-	-	(1,647)
Proceeds from disposal of property, plant and equipment	427	183	281
Investment in land fund	-	-	(1,260)
Payments for property, plant and equipment	(3,387)	(5,770)	(4,823)
Net cash used in investing activities	**(2,599)**	**(8,374)**	**(7,337)**
Cash flows from financing activities			
Repayment of borrowings (external)	(15,114)	(716)	-
Proceeds from borrowing	-	-	7,000
Costs associated with initial public offering	-	(5,668)	-
Payment for leases	(975)	(672)	(1,152)
Amounts advanced from and (repaid) to related parties	(4,433)	17,989	157
Proceeds from the issue of share capital	-	12,768	-
Share buy-back	-	-	(7,883)
Dividends paid to shareholders	(1,606)	(19,501)	(8,030)
Net cash used in financing activities	**(22,128)**	**4,200**	**(9,908)**
Net increase in cash and cash equivalents	**2,335**	**(10,418)**	**(2,301)**
Cash and cash equivalents at the beginning of the year	13,560	15,895	5,477
Cash and cash equivalents at the end of the year	**15,895**	**5,477**	**3,176**

Source: Simonds Annual Reports

Cash flow from operations is significantly impacted by changes in working capital, specifically including changes in display homes and land holdings recorded as inventories. In FY15, cash flow from operations was materially below earnings as a result of a net cash outflow of $15.7m associated with display homes. In the final quarter of FY16, the Company released approximately $25.0m of display and non-core speculative land and home inventory. As a result, cash flow from operations in FY16 was materially greater than earnings.

Cash flow from investing in FY15 included $3.0m paid for the acquisition of CWBTS and $5.8m invested in property plant and equipment.

Cash flows from investing in FY16 includes:

- $1.6m for the completion of business acquisitions, including CWBTS and CPA
- $1.3m investment in units in the Mernda & Officer land fund
- net $4.8m of property, plant and equipment which includes additions of a total of $5.8m ($1.9m of motor vehicles, $1.2m of computer equipment and $1.4m of leasehold improvements, $0.7m of office furniture and fittings, $0.7m of display homes furniture and fittings) offset by proceeds from disposals.

Cash flows from financing in FY16 included an outflow of $15.8m associated with transactions with shareholders, partially offset by an inflow of $7.0m of new borrowings.

7.7 Equity capital

Simonds has the following securities on issue as at the date of the Scheme Booklet:

- 143,841,655 ordinary shares
- 519,003 performance and service rights over unissued ordinary shares.

Ordinary shares are listed and traded on the ASX. Shareholders are entitled to receive dividends (should the directors elect to pay them) and cast one vote per share at shareholder meetings. Performance and service rights are over unissued ordinary shares and do not entitle the holder to dividends or voting rights.

The top five registered shareholders accounted for approximately 60% of shares on issue and other than Gary Simonds, are principally investment managers. Simonds' registered shareholders are predominantly Australian based investors.

Since the announcement of the Scheme, Henry Morgan Limited and Brahman Pure Alpha Pte Ltd have each amassed a 5.02% and 5.01% stake respectively (notified via substantial shareholder notices on 16 September 2016 and 4 October respectively). Henry Morgan Limited is a listed investment company based in QLD. Brahman Pure Alpha Pte Ltd is a Singaporean based fund, managed by Brahman Capital Management. We are not aware of the motives for the accumulation of their stakes.

McDonald Jones Homes Investments Pty Ltd has increased its stake from 5.06% to 11.06% (notified via substantial shareholder notice on 30 September 2016). McDonald Jones Homes Investments Pty Ltd is a new home builder, providing new home and home and land packages in NSW, ACT and QLD.

Furthermore, both Renaissance Smaller Companies Pty Ltd and Regal Funds Management Pty Limited have sold down their interests and ceased to be substantial shareholders (on 28 September 2016), they previously held 5.58% and 5.68%, respectively.

The following table outlines the substantial shareholders in Simonds.

Table 9: Substantial Simonds shareholders

Shareholder	Date of Notice	Number of SIO shares	% of issued capital
Gary Simonds	19/08/2015	56,138,895	39.03%
McDonald Jones Homes Investments Pty Ltd	30/09/2015	15,910,975	11.06%
Henry Morgan Limited	16/09/2016	7,216,728	5.02%
Brahman Pure Alpha Pte Ltd	4/10/2016	7,202,420	5.01%
Total Simonds Group shares held by substantial Simonds Group shareholders		**86,469,018**	60.11%
Other Simonds Group shareholders		**57,372,637**	39.89%
Total Simonds Group shares on issue		**143,841,655**	**100.00%**

Source: Capital IQ; KPMG Corporate Finance Analysis at 19 October 2016
Note: Based on number of shares outstanding as at date of notice.

A range of different employee share scheme (ESS) interests were created as part of the Simonds Employee Share Plan. The Employee Share Plan was created to promote employee share ownership amongst staff members and to encourage retention and appropriate reward for executives and employees. Simonds has 507,768 performance rights and 11,235 service rights on issue under the Simonds Employee Share Plan as at the date of the Scheme Booklet. Each of the performance and service rights is exercisable into one ordinary share for nil consideration. Performance and service rights are subject to the achievement of a range of performance and service criteria. Under the terms of the plan, on the occurrence of a change of control, the Simonds Board has discretion to determine the manner in which all unvested and vested rights will be dealt with.

The Simonds Board has determined that, subject to the Scheme becoming effective, all performance rights which are subject to vesting conditions that have been satisfied (a total of 74,908 rights) will vest. On vesting, the Company will issue one Share for each right so that the relevant holders will participate in the Scheme and receive the Scheme Consideration of $0.40 per Share.

The service rights are subject to the relevant holder being employed by the Company at 25 November 2016. Accordingly, the service rights will vest prior to the Scheme becoming effective and the relevant holder will be issued one Share for each right. No Board discretion is required to be exercised in respect of service rights.

A total of 86,143 performance and service rights are expected to vest. 73,418 will be satisfied through the reallocation of unallocated shares from Simonds, through its plan trust, resulting in a net issue of 12,725 new shares. All other performance rights (a total of 421,625) will be cancelled for no consideration.

7.8 Trading performance

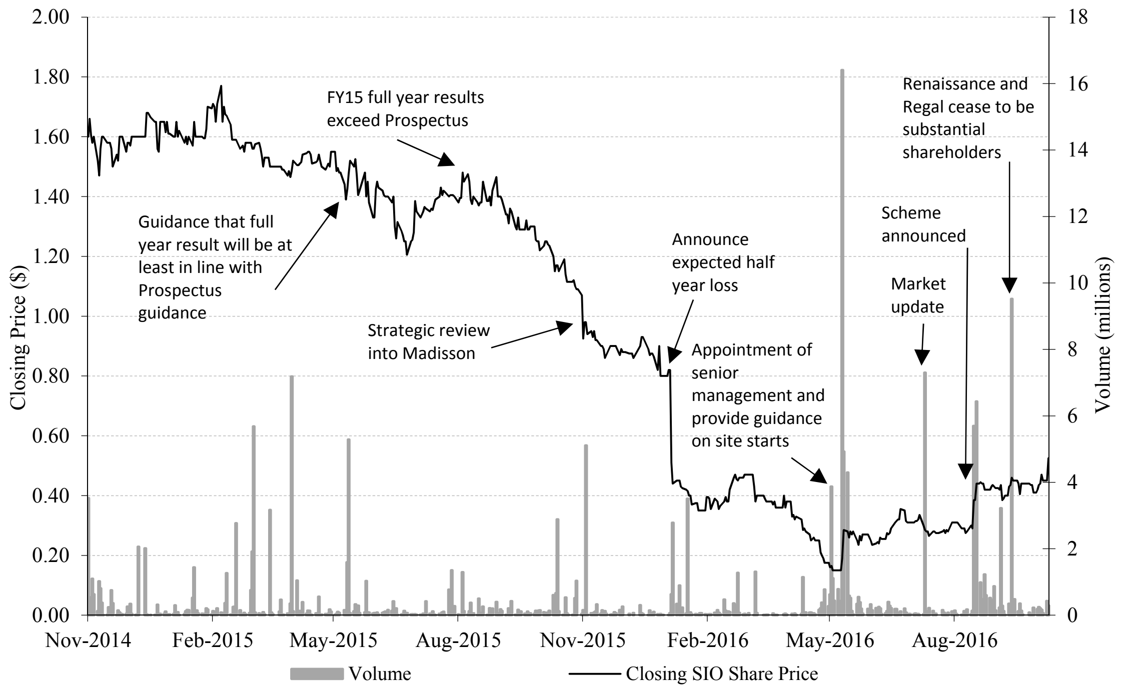
In assessing Simonds' share price performance, we have:

- analysed price and volume performance since 17 November 2014, the date on which Simonds was admitted to the official list of the ASX and commenced trading
- compared Simonds' share price movement to the S&P/ASX Emerging Companies Index
- considered the volume weighted average price (VWAP) and trading liquidity of Simonds' shares for the period pre the announcement of the Scheme.

7.8.1 Share price and volume performance

Simonds' share price performance and the volume of shares traded since 17 November 2014 are illustrated below:

Figure 6: Simonds' share price performance



Source: Capital IQ; KPMG Corporate Finance Analysis

In the six month period following listing in November 2014, the Simonds share price traded in the range $1.47 to $1.785, consistently below the float price of $1.78. Strong trading in late May 2015 followed Simonds' announcement to the market that it expected to deliver Prospectus forecasts in FY15. The re-affirmed guidance was attributed to continued growth in housing starts across Simonds' key markets and in enrolled participants in BAA.

The share price continued to weaken, reaching a low of $1.20 in July 2015 before rebounding to $1.48 in August 2015 following Simonds' announcement that its full year results had exceeded Prospectus forecasts. The share price was further supported by Simonds' declaration of a fully franked dividend and an on-market share buy-back of up to 7.5 million shares.

The market responded unfavourably to Simonds' announcement of its strategic review of Madisson in November 2015 following continuing weakening of margins and earnings, as a result of increasing land costs for commercial developers and growing competition in the sectors.

The share price experienced another significant fall in January 2016, after Simonds announced that it expected to deliver a loss after tax for 1H16. The market update also included Simonds's intention to close Madisson, following the completion of the strategic review. The share price closed at $0.51 following the announcement.

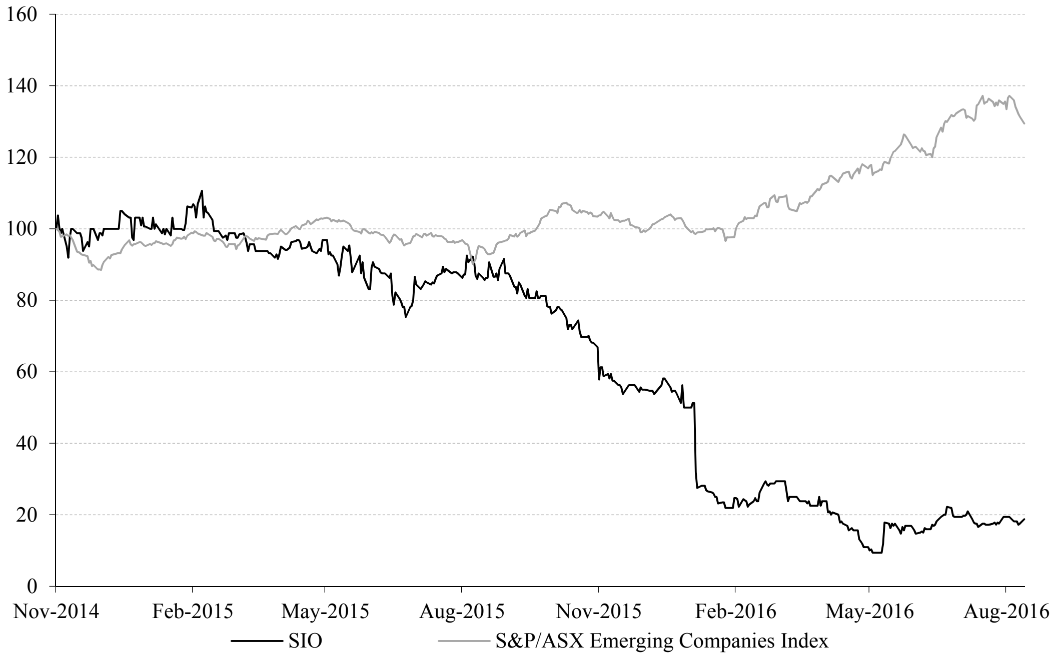
There was positive price support for Simonds shares in May 2016, as the market responded favourably to the appointment of new Managing Director and CEO Matthew Chun and other key management personnel as well as the re-affirmation of guidance on the number of site starts. Strong trading in Simonds shares subsequent to this announcement saw the share price close at $0.285 on 27 May 2016, an increase of 50% from the previous days close.

Since the announcement of the Scheme, the share price has traded in the range $0.375 to $0.525, with a VWAP of $0.413.

7.8.2 Relative performance

Simonds is a member of various indices, including the S&P/ASX All Ordinaries Index and S&P/ASX Emerging Companies Index. The S&P/ASX Emerging Companies Index is an investable benchmark consisting of 200 Australian microcap companies (outside of the S&P/ASX 300) ranked between 350 to 600 by capitalisation at the time of their index inclusion, that have met S&P's liquidity tests. The Simonds share price broadly tracked the S&P/ASX Emerging Companies Index from November 2014 to August 2015 but then underperformed as a result of operational performance and profitability issues in BAA and SHA described above.

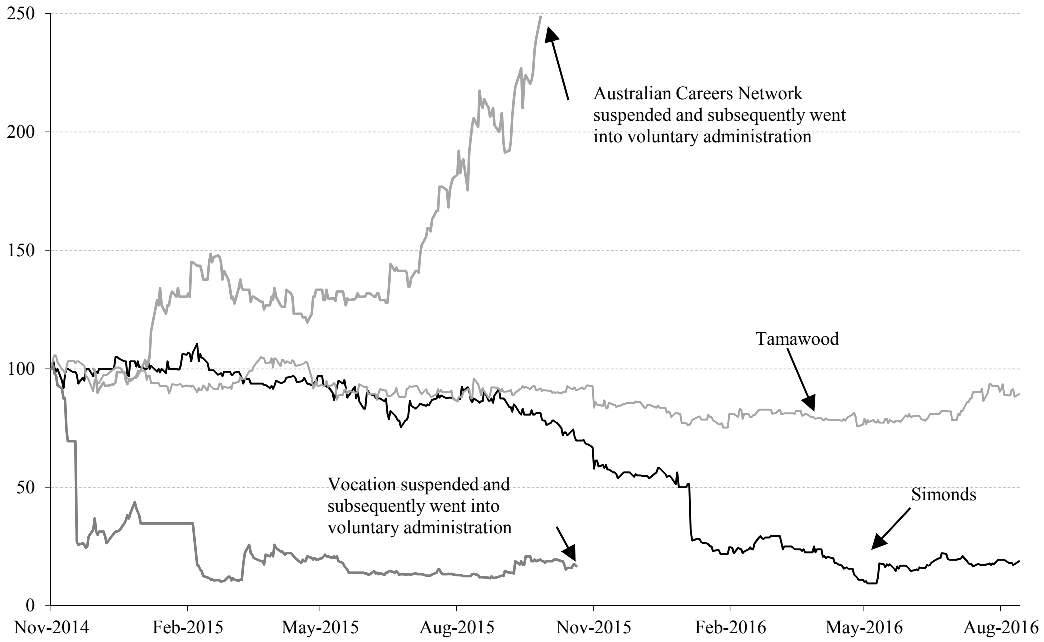
Figure 7: Simonds' relative share price performance (rebased to 100 at the Company's IPO)



Source: Capital IQ; KPMG Corporate Finance Analysis

The underperformance of the share price of Simonds against comparable home construction and VET companies is evident in the chart below.

Figure 8: Share prices of Simonds and Australian home construction and VET companies (rebased to 100 at the Company's IPO)



Source: Capital IQ; KPMG Corporate Finance Analysis

Amongst Simonds' comparable companies, Australian Careers Network Limited and Vocation Limited halted trading in October and November 2015 respectively and subsequently entered into voluntary administration. Vocation's problems arose following government audits resulting in two of its colleges having their registration and consequent government funding withdrawn due to breach of quality standards. Shares for Australian Careers Network went into trading halt after two of its subsidiaries were found non-compliant with its funding contracts and concerns arose about questionable practices being employed while incentivising students to enrol in their courses. Simonds share price has underperformed in comparison to Tamawood which is predominantly a QLD based home builder.

7.8.3 Liquidity

The table below summarises the liquidity of Simonds shares pre and post the announcement of the Proposal.

Table 10: VWAP and liquidity analysis

Period	Price (low) $	Price (high) $	Price VWAP $	Cumulative value $m	Cumulative volume m	% of issued capital
Period ended 30 August 2016 (pre-announcement)						
5-day	0.28	0.30	0.283	0.1	0.5	0.3%
30-day	0.27	0.34	0.281	2.6	9.3	6.5%
60-day	0.24	0.36	0.280	3.8	13.7	9.5%
90-day	0.15	0.36	0.218	12.7	58.1	40.4%
12 month	0.15	1.47	0.443	41.2	93.0	64.6%
Period ended 25 October 2016 (post-announcement)						
Since announcement	0.375	0.525	0.413	15.3	37.0	25.7%

Source: IRESS
Note: Price Low and Price High are based on closing day prices

Trading in Simonds shares was moderate in the six months to mid-2015, reflecting the small cap nature of the stock and sentiment towards the VET industry.

On announcement of the Scheme, the Simonds share price increased, closing at $0.385 on 31 August 2016.

Between the announcement of the Scheme on 31 August 2016 and 25 October 2016, Simonds shares have traded between $0.375 and $0.525 per Share, with a VWAP over this period of $0.413 per Share (Source: IRESS). As noted in Section 7.7, there have been several changes to the share register since the announcement of the Proposal.

It is unusual for shares to trade at a premium to an offer price and potentially reflects speculative activity of existing shareholders or new shareholders coming onto the register. In addition, we are not aware of an increased or alternative offer to the Proposal, or the intentions of the parties who have increased their interests.

8 Valuation of Simonds

8.1 Valuation summary

We have valued 100% of the equity in Simonds in the range of $55.1 million to $69.6 million, which corresponds to a range in value of $0.385 to $0.485 per share (with a mid-point $0.435).

Our valuation assumes 100% ownership of Simonds and therefore incorporates a control premium. We would expect our valuation to be in excess of the value of Simonds implied by its trading price in the absence of a takeover offer.

The assessed value of equity reflects the estimated market value for Simonds business operations (SHA, BAA and SLD), plus net non operational assets and liabilities, less net borrowings. Our valuation of Simonds is summarised below and detailed in the remainder of this section.

Table 11: Valuation summary

$'000s (unless otherwise stated)	Section reference	Value Low	Value High
Value of Simonds business operations	8.3	80,608.0	95,108.0
Plus: net non operating assets and liabilities	8.5	(42.0)	(42.0)
Less: net debt	8.7	(25,423.0)	(25,423.0)
Value of equity		**55,143.0**	**69,643.0**
Fully diluted shares on issue	8.8	143,854.4	143,854.4
Value per Simonds share ($ per share, rounded)		**0.385**	**0.485**

Source: KPMG Corporate Finance analysis
Note: Table may not sum due to rounding

The valuation takes into consideration:

- Simonds' recent financial performance and outlook
- a control premium, to reflect Simonds' relatively high operating cost structure and related opportunities for cost savings and synergies available to a number of acquirers
- execution risk associated with SHA strategy, ongoing exposure to warranty risk from Madisson (for which provisions have been recorded) and ongoing regulatory and execution risks associated with BAA
- recent changes regarding the way the Company invoices certain customers and the resultant negative effect on EBITDA (in FY16 and FY17) and working capital requirements (and therefore, net debt) (refer Section 8.3.2 for further discussion)
- dilution of shares through the vesting of performance and service rights under the Scheme.

The value range derived from the capitalised earnings methodology has been cross checked by analysing recent trading in Simonds shares and a high level DCF (Section 8.8 of this report).

8.2 Valuation methodology

8.2.1 Overview

Our valuation of Simonds has been prepared on the basis of market value. The generally accepted definition of market value (and that applied by us in forming our opinion) is the value agreed in a hypothetical transaction between a knowledgeable, willing, but not anxious buyer and a knowledgeable, willing, but not anxious seller, acting at arm's length.

Market value excludes 'special value', which is the value over and above market value that a particular buyer, who can achieve synergistic or other benefits from the acquisition, may be prepared to pay.

Our valuation has had regard to the additional value resulting from cost savings associated with the elimination of incremental costs of being a publicly listed company, and other costs savings that would generally be available to a pool of purchasers, both financial and trade. It does not include any other strategic or operational synergies that may be unique to the Consortium. Accordingly, our range of values has been prepared independent of the specific circumstances of any potential bidder.

Market value is commonly derived by applying one or more of the following valuation methodologies:

- the capitalisation of a sustainable level of earnings (capitalised earnings)
- the discounting of expected future cash flows to present value (DCF)
- the estimation of the net proceeds from an orderly realisation of assets (net assets)
- trading prices for the company's shares on ASX.

These methodologies are discussed in greater detail in Appendix 4. Ultimately, the methodologies adopted are dependent on the nature of the underlying businesses and the availability of suitably robust information. A secondary methodology is typically adopted as a cross-check to ensure reasonableness of outcome, with the valuation conclusion ultimately being a judgement derived through an iterative process.

For profitable businesses, methodologies such as capitalised earnings and DCF are commonly used as they reflect 'going concern' values which typically incorporate some element of goodwill over and above the value of the underlying assets. For businesses that are either non-profitable, non-tradable or asset rich, a net assets approach is typically adopted as there tends to be minimal goodwill, if any.

8.2.2 Selection of methodologies

As Simonds operates a number of businesses and projects, we have adopted a sum-of-the-parts approach to valuing the Company. We have assessed the value of Simonds by aggregating the estimated market value of SHA, BAA and SLD with the realisable value of any other separately valued assets and liabilities, and deducting net debt.

For the valuation of Simonds' business operations, we have:

- adopted capitalised earnings as a primary valuation methodology for SHA and BAA as they are profitable. Long term cash flow forecasts with suitable reliability are not available. As such a DCF cannot be used as a primary methodology
- adopted a net asset methodology for SLD as the business is currently not profitable, however it is asset rich. We have made sufficient enquiries to satisfy ourselves that the respective book values are reasonable proxies for market value.

The value of the business operations of Simonds has been determined through an iterative process, ensuring the value derived from our primary valuation methodology is consistent with the outcomes of our secondary valuation methodologies, including analysis of Simonds' share price performance and a high level DCF analysis.

8.2.3 Selection of earnings metric

A capitalised earnings methodology can be applied to a number of different earnings or cash flow measures, including, but not limited to, EBITDA, EBIT and net profit after tax. EBITDA and EBIT multiples are commonly used in the context of control transactions where the capital structure is in the hands of the acquirer. Price earnings multiples are more commonly used in the context of sharemarket trading.

We have selected EBITDA as the appropriate earnings metric for SHA and BAA based on the nature of the businesses. Adopting EBITDA also assists to eliminate the impact of differences in capital structures and depreciation and amortisation accounting policies.

8.2.4 Control premium considerations

Multiples applied in a capitalised earnings methodology are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for listed comparable companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100%) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

Consistent with the requirements of RG 111, in valuing Simonds we have assumed 100% ownership, and therefore included a premium for control when assessing the multiples implied by the trading prices for listed comparable companies.

Observations from transaction evidence indicate that takeover premiums generally range from 20 to 35% for completed takeovers depending on the individual circumstances. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premium was frequently estimated to be towards the high end of this range or greater. Takeover premiums can vary significantly between individual transactions as the final price paid will reflect to varying degrees:

- pure control premium in respect of the acquirer's ability to utilise full control over the strategy and cash flows of the target entity
- the level of synergies available to all acquirers, such as the removal of costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- the expected costs to integrate and the uncertainties associated with timing of realising the targeted synergies
- synergistic or special value that may be unique to a specific acquirer
- the nature of the bidder i.e. financial investor vs trade participant
- the stake acquired in the transaction and the bidder's pre-existing shareholding in the target
- the stage of the market cycle and the prevailing conditions of the economy and capital markets at the time of the transaction
- desire (or anxiety) for the acquirer to complete the transaction
- whether the acquisition is competitive
- the extent the target company's share price already reflects a degree of takeover speculation.

8.3 Value of business operations

8.3.1 Summary

KPMG Corporate Finance has valued the operating business of Simonds to be in the range of $80.6m to $95.1m as summarised below.

Table 12: Valuation of business operations

$'000s (unless otherwise stated)	Section reference	Value Low	Value High
SHA			
Maintainable EBITDA	8.3.2	14,000.0	15,000.0
EBITDA multiple (times)	8.3.3	5.0	5.5
Value of SHA		**70,000.0**	**82,500.0**
BAA			
Maintainable EBITDA	8.3.2	2,000.0	2,000.0
EBITDA multiple (times)	8.3.3	2.5	3.5
Value of BAA		**5,000.0**	**7,000.0**
Land Developments			
Net assets	8.4	5,608.0	5,608.0
Value of SLD		**5,608.0**	**5,608.0**
Total value of Simonds business operations		**80,608.0**	**95,108.0**

Source: KPMG Corporate Finance analysis
Note: Table may not sum due to rounding

The valuation of SHA and BAA was determined using a capitalised earnings methodology, based on future maintainable EBITDA and a forward capitalisation multiple of 5.0 to 5.5 times and 2.5 to 3.5 times, respectively. SLD was determined using an asset based methodology. The basis for each of these assumptions is discussed in the sections below.

8.3.2 Maintainable earnings

Maintainable earnings represents the level of earnings that the business can sustainably generate in the future. We have selected future maintainable EBITDA for each of SHA and BAA as outlined below:

SHA

Based on our analysis and judgement we consider a range of **$14.0m to $15.0m** as the future maintainable earnings of SHA to be appropriate. In determining future maintainable earnings we have considered:

FY16 pro forma EBITDA is a better representation than FY14 and FY15 of current earnings potential

SHA achieved a pro forma EBITDA (as outlined in Section 7.4) of approximately $11.9m in FY16, generating approximately $5.7m in the first half and approximately $6.2m in the second half. This was a significant reduction over pro forma EBITDA achieved in FY14 and FY15 of approximately $20.0m and $27.6m, respectively.

We consider the FY16 pro forma results to be a better representation of the current and future earnings potential of the business than FY14 and FY15. During FY14 and FY15, SHA operated in an unsustainable manner with a focus on expansion and revenue growth. The flow on impact to FY16 resulted in the closure of Madisson as mispricing of jobs caused costs to exceed revenue, margin reduction in NSW/QLD, due to inefficiencies of the expansion and lower than expected revenue and overall margin deterioration through mispricing of jobs (e.g. variations). Restructuring measures in FY16 to reduce overheads and improve margin on revenue give support to pro forma FY16 EBITDA being a better representation of earnings potential.

Management expectations for FY17

The Company has not provided earnings guidance for FY17 and there is very limited broker analysis or consensus views available. We have had regard to Management expectations for FY17, with short term performance expected to be relatively stable given a largely consistent number of house starts expected between FY16 (2,545) and FY17 (2,522). Management are targeting an improvement in margins from those achieved in the FY16 pro forma, however do not expect margins to reach the levels achieved in FY14 and FY15 for several years. In this regard, FY17 expected EBITDA (adjusted for invoicing method) is higher than the selected range of future maintainable earnings.

The temporary negative impact on both pro forma FY16 and expected FY17 EBITDA for changes in invoicing method

There is a temporary negative impact on both pro forma FY16 and expected FY17 EBITDA for changes in invoicing method (changing from Method 2 to Method 1 and delaying the invoicing of the fix stage) which delays invoicing milestones of projects in Victoria and Queensland (discussed within Section 4.1 of the Scheme Booklet and within Section 8.7 below). The change in invoicing results in a one-off period of time delay in cash collections compared to the previous method.

At 30 June 2016 the majority of jobs on site in Victoria and a portion of jobs in Queensland had been affected by the change which will continue progressively to completion in FY17. The change in the invoicing method results in a delay in revenue and EBITDA estimated as follows:

- FY16: $7.2m revenue, $0.9m to $1.3m EBITDA, based on assumed margins of 13% to 18% (being gross margin at the high end and an allowance for variable costs such as commissions at the low end). In this regard, FY16 pro forma EBITDA, adjusted for the invoicing delay increases from $11.9m to a range of $12.8m to $13.2m
- FY17: $15.2m revenue, $2.0 to $2.7m EBITDA based on the same margins as above. Similarly, expected EBITDA in FY17 would increase by $2.0 to $2.7m.

Accordingly, to estimate the future maintainable earnings we consider it appropriate to adjust for these temporary negative impacts that impact FY16 and FY17 earnings (but will not affect earnings thereafter).

House start profitability analysis

Given the volatility of historic earnings and the temporary impact of changes to invoicing method on FY16 and expected FY17 earnings, we also considered house start profitability analysis (which considers site starts, average price and maintainable margin). This analysis has the benefit of being a clean indicator of earnings as it "looks through" variability in earnings caused by accounting and one-off adjustments. This analysis fully supports future maintainable earnings of $14.0m (low end of the range) as discussed below.

The table below shows house start profitability historically and based on different assumed EBITDA margins.

Table 13: House start profitability analysis

	FY14	FY15	FY16 (pro forma)	FY16 (adjusted for invoicing)	@ 2.5% margin	@ 3.0% margin	@ 4.0% margin
SHA site starts	2,211	2,471	2,545	2,545	2,522	2,522	2,522
EBITDA (000's)	19,972	27,643	11,957	13,057	14,249	17,099	22,799
EBITDA margin	*4.3%*	*5.1%*	*2.0%*	*2.2%*	*2.5%*	*3.0%*	*4.0%*

Source: KPMG Corporate Finance analysis
Note: 2,522 house starts (FY17 pipeline). $222,166 per house (average FY16 sale price)

The future maintainable earnings range of $14.0m to $15.0m implies EBITDA margins of 2.5% to 2.7%. These are higher than both the FY16 pro-forma EBITDA margin (2.0%) and the FY16 pro-forma EBITDA margin adjusted for the impact of the change in invoicing (2.2%). However, they fall below the FY14 and FY15 EBITDA margins of 4.3% and 5.1%, respectively.

Whilst management consider an aspirational long term target EBITDA margin to be closer to 4.0%, we consider 2.5% to be a reasonable current and near term EBITDA margin.

Accordingly, in our view the maintainable earnings range of $14.0m to $15.0m continues to appropriately reflect the fundamentals of the business and the benefit of the turn-around of the business which will take place over time.

Other considerations

In selecting the future maintainable earnings we also considered:

- the nature of the challenges affecting SHA (as outlined in Section 7.4), namely title delays, display home openings and trade shortages, inefficiencies in the expansion into NSW and QLD, and higher overhead costs
- cost initiatives undertaken (including $5.0m of savings from restructuring the management team and $2.5m of cost control measures reducing annual controllable overhead costs which are expected to be permanent improvements)
- the benefits of the expansion into QLD and NSW markets are expected to be moderated by lower volumes in VIC

- management's strategic plans to rebalance the business towards profitable growth and the lead time required to effect such a change in strategic direction, including the time required for the business to make changes to simplify designs, display home specifications, locations and product mix
- the construction industry is cyclical and, therefore, difficult to predict in the long term. The volatility in SHA earnings over the past three years has been largely due to SHA specific factors rather than cyclicality of the industry. Consequently, we have not sought to adjust the future maintainable earnings to reflect cyclicality in the industry, rather this risk is reflected in the multiple.

Accordingly, the estimated future maintainable earnings of $14.0m to $15.0m is higher than FY16 pro forma EBITDA of $13.0m (mid-point adjusted for invoicing method) which was an historic low point in earnings but lower than expected FY17 EBITDA (once adjusted for invoicing method). The selection takes into consideration both opportunities for profitable growth balanced by the challenges in the current environment.

The selection of future maintainable earnings largely reflects the current and short term expectations of SHA, as we consider this to be the best indicator of earnings. Given the cyclical nature of the construction industry, determining future maintainable earnings based on short term expectations is inherently risky and subject to volatility.

The selected future maintainable earnings range assumes an improvement in EBITDA margins from the FY16 pro forma results, which is largely in line with the short term expectations of management. We considered it appropriate to adopt a range on future maintainable earnings given the inherent uncertainty and volatility in performance. The selection of the range in EBITDA reflects the various considerations above, including additional information concerning the impact of the delay in invoicing on pro forma FY16 EBITDA and expected FY17 EBITDA. The low end of the range ($14.0m) is fully supported by site start profitability analysis. However, to cater for both volatility and potential upside in earnings, we have selected a range of future maintainable earnings instead of a mid-point estimate. In addition we chose a narrower rather than wider range to ensure a reasonable interpretation of the overall valuation result.

The potential upside and associated risks of longer term improvements in margins and the performance of SHA are captured within the EBITDA multiple of 5.0 to 5.5 times (refer to Section 8.3.3 for further details). The range of future maintainable earnings reflects that there is potential volatility to the future earnings as a result of the initiatives underway and therefore a level of judgement is required to select future maintainable earnings.

We illustrate the sensitivity of the maintainable earnings range to the conclusions below.

The ability of SHA to achieve or surpass the assumed maintainable earnings will be impacted by the nature of the above mentioned challenges affecting SHA (as outlined in Section 7.4), and the lead time required to effect such a change in strategic direction, including the time required for the business to make changes to simplify designs, display home specifications, locations and product mix.

BAA

Based on our judgement and analysis we consider a range of $1.5m to $2.5m as the future maintainable earnings of BAA to be appropriate having regard to its historical pro forma financial performance, recent changes in the industry and trading history, levels of active students and discussions with management regarding future expectations for the business. To allow for a reasonable interpretation of the results we have adopted the mid-point of **$2.0m** for the purposes of the valuation.

BAA generated approximately $4.0m of pro forma EBITDA in the first half of FY16, and approximately $0.1m in the second half of FY16 driven by a reduction in the number of active students, increased voluntary repayments and higher operating costs. The number of active students decreased from 4,155 as at 30 June 2015 to 2,232 as at 30 June 2016, however increased to 2,501 as at 30 September 2016. The decrease in active student is partly due to FY15 students being commonly enrolled into two courses from their initial enrolment. In FY16, due to a change in enrolment practices, students are commonly enrolling into their second qualification only when near the completion of their first.

The maintainable earnings range is lower than pro forma EBITDA achieved in FY16 and has been determined having regard to this trend, operational challenges facing the business and the potential volatility of those earnings.

We have also taken into account:

- **Industry factors:** the VET industry is currently subject to heightened regulatory scrutiny which may impact the availability of funding
- **Non recurring items:** pro forma EBITDA in historical periods excludes the impact of one-off significant items such as impairments and restructuring costs. Further detail in relation to Simonds' significant items is included in Section 7.4 of this report
- **Discontinued and loss making operations**: the pro forma earnings of SHA and BAA excludes the impact of losses derived by Madisson (however Simonds will remain liable for any warranty payments arising from these projects for a number of years, for which provisions have been recorded)
- **Other factors:** there are a number of factors that indicate the potential for upside and downside risks to future profitability, (such as financing risk, reputation risk, supply chain risk, etc), which have been captured in our selection of the appropriate multiple
- As discussed further within Section 6.3, KPMG Corporate Finance has relied upon forward looking financial information prepared by the management of Simonds. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions, however we have made sufficient enquiries to satisfy ourselves that such information has been prepared on a reasonable basis
- Whilst we have had regard to management expectations for FY17, management has confirmed that despite their positions as directors, Gary Simonds and Rhett Simonds did not have any influence on the preparation of the information that we were provided.

We have not adjusted maintainable earnings for the cost savings (including costs of being a publicly listed company) available to any acquirer of 100% of a company, as these types of general synergies are commonly subsumed within a premium for control that is reflected in our selection of the appropriate multiple.

Sensitivities

Set out below are sensitivities of our valuation to changes in maintainable earnings ranges.

Table 14: Maintainable earnings sensitivity analysis

$m	Low	Selected	High
SHA EBITDA	13.0 to 14.0	14.0 to 15.0	15.0 to 16.0
BAA EBITDA	1.5	2.0	2.5
EBITDA multiple	5.0x SHA, 2.5x BAA	5.25x SHA, 3.0x BAA	5.5x SHA, 3.5x BAA
Value per Simonds share ($ per share, rounded)	0.340 to 0.435	0.385 to 0.485	0.425 to 0.535

Source: KPMG Corporate Finance Analysis
Note: all other valuation assumptions remain unchanged

The above illustrate that the valuation range is particularly sensitive to changes in the maintainable earnings assumption. Increasing the SHA and BAA EBITDA by $1m and $0.5m respectively, results in the valuation range increasing to $0.425 to $0.535 per share.

Furthermore, a modest increase in the maintainable earnings of $0.6m for SHA, or $1.2m for BAA, would result in the low end of the value per share increasing from $0.385 to $0.405 per share.

8.3.3 EBITDA multiples

The multiple applied in a capitalised earnings methodology should reflect the return expected by an investor in the business. Returns are dependent on various factors including a business' operational risks, growth profile, profitability, size and external environment, amongst others.

In selecting the multiple range to be applied, consideration is generally given to market evidence derived from listed comparable companies and recent transactions involving comparable businesses/assets, with an appropriate adjustment to reflect the specific characteristics of the business being valued.

Sharemarket evidence

There are a number of listed companies with exposure to the home building and vocational training industries in Australia. However, none of these companies are directly comparable to SHA or BAA and in particular the majority are far larger in size.

Size is typically a substantial advantage for a number of reasons. Larger companies are likely to have a broader range of services and a stronger market presence. Larger companies are better able to benefit from efficiencies that can be gained from achieving economies of scale and advantageous financing terms. Larger companies also have greater capacity to absorb losses on specific projects. They typically achieve greater diversity of services and clients, which reduces earnings volatility.

The implied trading EBITDA multiples of the broadly comparable companies are summarised in the table below:

Table 15: Sharemarket evidence

	Market capitalisation ($m)	Enterprise value ($m)	Revenue growth FY16	EBITDA growth FY16	EBITDA margin FY16	EBITDA multiple FY16	EBITDA multiple FY17
Home Builders							
Tamawood Limited	100	97	6.7%	13.9%	11.5%	8.8	7.8
Real Estate Developers							
Villa World Limited	264	384	20.4%	21.1%	13.5%	6.8	6.3
Devine Limited	71	105	-11.7%	-477.8%	n/a	nmf	n/a
Sunland Group Limited	246	427	-10.9%	0.8%	14.1%	9.3	6.7
AVJennings Limited	231	363	32.7%	24.3%	17.2%	5.1	4.9
Cedar Woods Properties Ltd.	356	406	-1.9%	41.6%	31.6%	6.1	6.0
Peet Limited	461	752	-24.4%	-2.7%	28.6%	8.4	8.7
Building Supplies							
Coventry Group Ltd.	35	31	-7.3%	-44.7%	n/a	15.5	n/a
GWA Group Limited	763	851	3.2%	-0.8%	18.9%	11.0	10.0
CSR Limited	1,867	1,929	13.6%	21.9%	15.0%	6.3	5.5
Reece Limited	4,315	4,355	9.2%	17.8%	14.9%	13.1	11.8
Fletcher Building Ltd.	6,401	8,028	4.0%	3.7%	10.3%	9.0	8.6
Vocational Training Providers[2]							
Intueri Education Group Limited	7	79	40.0%	21.1%	13.8%	6.7	5.1
Ashley Services Group Limited	20	18	-7.6%	-135.1%	3.2%	nmf	2.0
The Citadel Group Limited	248	218	14.3%	105.5%	25.5%	11.5	7.5

Source: S&P Capital IQ (data as at 24 October 2016); KPMG Corporate Finance analysis
Note 1: EBITDA multiples defined as Enterprise Value (the gross capitalisation comprising the sum of the market capitalisation adjusted for outside equity interests, preferred equity, plus borrowings less cash) divided by EBITDA.
Note 2: Vocation Limited and Australian Careers Network Limited entered voluntary administration in 2015 and 2016, respectively and have been delisted from the ASX.

A detailed description of these comparable companies is set out in Appendix 5. In assessing the comparability of the companies detailed above, we note the following:

- the multiples derived for listed comparable companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing
- the sole home builder, Tamawood is trading on a forward multiple of approximately 7.8 times forecast EBITDA, however Tamawood also receives franchise fees through its Dixon Homes network and renewable energy certificates from its solar powerrex business. Tamawood generates an EBITDA margin of 11.5% and has consistently paid a dividend of approximately 21 to 25 cents per share from 2007 to 2016, which equated to a dividend yield of approximately 6.4% as at 24 October 2016. SHA has some similarities, but differs with higher volumes but lower margins and inconsistent profitability

- the high end of the range is represented by the building suppliers Reece and GWA. These companies are significantly larger than SHA and service the broader home building industry (new build and renovation, single storey and medium to high density projects). Their multiples are 11.8 and 10.0 times forecast EBITDA, respectively
- the low end of the range is represented by AV Jennings and Ashley Services Group (which provides human resources and employment training). Their multiples are 4.9 and 2.0 times forecast EBITDA respectively
- Intueri Education Group Limited (Intueri) provides physical and online private training tuition in New Zealand and Australia. On 27 September 2016, Intueri provided a trading update to shareholders strongly cautioning investors seeking to trade in Intueri's shares, and especially any investor seeking to acquire shares, to take full account of the information provided and consider delaying trading until further information is available, following an announcement on 23 September 2016 that they had received a notice from the ASQA. ASQA advised they were considering either cancelling the registration or imposing sanctions of lesser severity on Intueri's two Australian RTOs, which were expected to generate approximately two-thirds of Intueri's 2016 earnings guidance. Intueri has until 21 October 2016 to challenge the ASQA audit findings and has been advised ASQA will make a decision two to four weeks thereafter
- Australian Careers Network and Vocation provided VET courses in Australia however both have been delisted from the ASX after entering voluntary administration during CY2015. The Citadel Group is an ITC company which also provides training services to government departments and private clients.

Transaction evidence

The price paid in transactions is widely considered to represent the market value of a controlling interest in the target company. The difference between the value of a controlling interest and a minority interest (as implied by the share price) is referred to as a premium for control which vary dependent on the specific circumstances of each transaction.

The table below sets out the historical and forecast EBITDA multiples implied by recent transactions involving companies operating in the home building and vocational education industries for which sufficient financial data is available.

Table 16: Transaction evidence

Announcement date	Target	Acquirer	% acquired	Transaction Value (AUDm)	EBITDA multiple LTM	EBITDA multiple NTM
Home Builders						
Nov 2014	Simonds Limited	IPO	60%	247.1	11.4	7.3
April 2013	CIC Australia Limited	Peet Limited	87%	117.2	17.9	na
Vocational Training Providers						
Mar 2015	Endeavour College of Natural Health	Study Group Pty Ltd	100%	73.8	na	na
Mar 2015	Wizard Corporate Training	Australian Careers Network	100%	1.0	2.5	na
Jan 2015	Phoenix Institute of Australia	Australian Careers Network	100%	2.3	na	3.9[1]
Jan 2015	Australian Careers Network	IPO	38%	130.6	8.3	5.1
Jun 2014	Endeavour College of Natural Health	Vocation Limited	100%	84.0	na	6.5
Nov 2013	Vocation Limited	IPO	67%	366.5	28.4	10.2

Source: Company financial statements and announcements; S&P Capital IQ; KPMG Corporate Finance analysis
Note 1: EBIT multiple disclosed, the EBITDA would have been expected to be lower than that set out above. Excludes earn-out of up to $2.25m payable over 3 years on the achievement of profit forecasts of $0.57m in year 1, $0.84m in year 2 and $0.84m in year 3.
Note 2: the implied enterprise value used to estimate the EBITDA multiples has not been adjusted for the seasonality of cash flows and only reflects the target's net debt position at the transaction announcement date.

Whilst the services provided by the target companies are broadly comparable to SHA and BAA's business operations, in assessing the comparability of the implied multiples it is necessary to consider the particular attributes of the target companies and the specific circumstances surrounding each transaction, including:

- there is relatively little transaction activity in the pure play home building industry. We note there is relatively more transaction activity for developers, where a significant parcel of land is also included as part of the transaction
- Peet's acquisition of CIC Australia occurred at 17.9 times trailing EBITDA and 0.8x book value, reflecting the large asset backing of the company and low profitability
- Simonds IPO in November 2014 equated to 11.4 times historical pro forma EBITDA, 7.3 times pro forma forecast EBITDA and 25.4 times pro forma book value. The IPO pricing and multiples achieved reflected the earnings expectations and growth expectations of the broader VET industry at the time

- the most recent vocational training provider transactions were completed by Australian Careers Network and Vocation Limited prior to their entering into voluntary administration. Vocation Limited purchased Endeavour College of Natural Health in June 2014 for $84m which represented 6.5 times forecast EBITDA and sold the business in March 2015 to Study Group Pty Ltd for $73.8m including an earn out of $10m.

Control premium considerations

When valuing Simonds on a controlling basis using market information, it is necessary to consider an appropriate control premium to apply. We consider an appropriate control premium to be within the range of 20 to 35% (on an equity value basis) which is consistent with that typically observed in successful takeovers in Australia.

There are a number of home building and land development companies that are of sufficient scale to fund an acquisition of Simonds. In addition, synergies may be available to complementary businesses in the supply chain, such as land developers or building products suppliers.

There are risks associated with fully realising synergistic benefits, the timing thereof and implementation costs (e.g. redundancy). However, it is common practice not to ascribe the full value of estimated synergies in the valuation as, in a competitive bidding situation, a potential acquirer may not pay away the full benefit of synergies due to the risks associated with fully realising such benefits. Accordingly, we have reflected the risk adjusted potential future benefit of these cost savings and synergies available to a typical acquirer in the control premium when selecting the multiple.

Selected multiple range

Based on our analysis of the implied multiples of comparable companies and transactions as outlined above, we have selected the following forward multiple ranges:

- SHA: 5.0 to 5.5 times
- BAA: 2.5 to 3.5 times.

In particular we note:

- SHA's market leading position in Victoria, with a pipeline of site starts already commenced in FY17, and potential profitable growth from the turnaround against a backdrop of a disappointing financial performance in FY16 (particularly in QLD and NSW) and the execution risks and uncertainty of achieving the turnaround
- the 10% range of our SHA multiple allows for a reasonable interpretation of the valuation results and does not seek to reflect the broad range of possible outcomes
- the highly competitive and fragmented nature of the home building industry, together with the low level of directly comparable transactions indicating limited demand for growth by acquisition in the industry
- an expectation that investor sentiment towards BAA and its financial performance will continue to be negatively impacted by the ongoing regulatory risk within the vocational education sector and potential for adverse outcomes following audits

- an equity control premium to reflect the synergies and costs savings available to an acquirer of a controlling interest and delisting from the ASX.

8.4 SLD net assets

The section below summaries the net assets of SLD that are not attributable to SHA and BAA. SLD has been valued based on net assets on the basis that either:

- the asset or liability was recently acquired, valued or represents the face value
- their values could be referenced to observable pricing of comparable assets recently transacted
- their values were insignificant to the overall value of Simonds.

SLD net assets were $5.6m based on the audited accounts as at 30 June 2016 and include the following:

- the Bendigo land parcel which is partially developed and considered non-core to SHA. The net asset value is based on a range of offers from third parties who have expressed an interest in the parcel
- the Portland land parcel which contains 30 lots and is expected to settle by the end of FY17. The net asset value is based on the value of the asset in its current condition, costs incurred to date, status of the project and expected completion dates
- Units in Mernda & Officer Land Fund. During FY16 Simonds purchased 20% of the units in the Mernda & Officer Land Fund. The net asset value has been derived from the most recent unitholder statement from the trustee, which, given the short timeframe since the initial investment, was consistent with the original cost of the units
- CPA which was acquired on 8 April 2016 for $0.5m. In our view, based on discussions with management regarding the operations of the business and given CPA was acquired recently, the market value is unlikely to have changed significantly since acquisition.

8.5 Net non operating assets and liabilities

Surplus assets and liabilities are those assets and liabilities not required to sustain the adopted level of maintainable earnings of SHA and BAA or net assets of SLD. Non operating liabilities have been valued at net rounded $0.1m and comprise the net liabilities attributable to Madisson of $5.6m, offset by deferred consideration receivable of $1.2m from the sale of the Bridgeman Downs project and a tax refund of $4.3m.

8.6 Franking credits

Simonds has a franking credit balance of $10.7 million at 30 June 2016. The value of franking credits depends on the ability of the Company to distribute franked dividends from available cash and the utilisation rate of the individual shareholders. The timing and quantum of future dividend distributions is uncertain. Accordingly, we have not ascribed an explicit value to the available franking credits.

8.7 Net debt

Simonds' net debt fluctuates because of working capital requirements. KPMG Corporate Finance has assessed a normalised level of net borrowings to be $25.4m. In making this assessment, KPMG Corporate Finance has considered:

- cash on hand and external borrowings totalling $8.1m as at 30 June 2016 and $17.4m at 30 September 2016
- Simonds' working capital requirements. Working capital forms part of the business assets acquired by a bidder. Working capital levels fluctuates over time for reasons including seasonality, changes in customer demand, changes in payment terms and geographic expansion. It is necessary to determine a normal level of working capital that ensures sufficient working capital is available to support the business and generate earnings. This mitigates the need to invest additional money into the business soon after acquisition where acquired net working capital is below normal levels
- at 30 June 2016, Simonds net working capital was approximately negative $2.0m.. This net working capital balance was approximately $16.0 million below the historical average of $14.0m, due largely to measures taken by management to improve cash flows in the last quarter of FY16. These measures included the accelerated sale of a significant volume of display homes and other inventories, as well as stretching creditor payment terms. The impact of these measures can be seen by the significant change in working capital between April 2016 and June 2016 in the figure below.

Figure 9: Simonds historic working capital (Post IPO)

Source: KPMG Corporate Finance Analysis, Simonds

- to estimate a normal level of working capital we have primarily had regard to Managements forecast working capital position at 30 June 2017. We had limited regard to historic levels because these had been impacted by the significant growth and decline of the BAA business, the impact of Madisson and changes in inventory levels. Furthermore, changes to the invoicing method throughout FY16 and FY17 (discussed below), limit the relevance of the historical position. We consider FY17 expectations to be a more reasonable basis for a normalised debt level, as working capital assumptions reflect the full impact of the reduction in trade and other payables and change in the invoicing method which will have flowed through the balance sheet
- net working capital is expected to increase during FY17 for the following key reasons:
  1. **change in invoicing method** - the change in invoicing method relate to SHA contracts in Victoria and Queensland, arising from (discussed in Section 4.1 of the Scheme Booklet):
     - a shift in invoicing schedule from Method 2 to Method 1, which accounts for approximately 20% of the estimated impact
     - a delay in the invoicing of the fix stage by approximately four weeks, which accounts for 80% of the estimated impact. The fix stage invoicing represents approximately 25% of the overall contract value

     Changes to the timing of when the Company invoices certain customers (commenced in FY16) are expected to continue to impact the Company progressively throughout FY17 which is anticipated to result in a corresponding increase in the Company's normalised drawn debt levels. Due to a change in the invoicing method, invoicing milestones have been delayed, such that the quantum of the invoices are more weighted to the end of construction. Whilst expenses will continue to be incurred unchanged, the receipt of cash is delayed, and therefore the additional cash required to pay creditors is financed via the debt facility
  2. **change in creditor payment terms assumptions leading to a reduction in trade and other payables** - within the last quarter of FY16, in order to improve cash flows a number of measures were taken such as the accelerated sale of a significant volume of display homes, non-core land and construction holdings and other inventories, as well as stretching creditor payment terms. Within the forecast working capital position at 30 June 2017 there is an expectation of a reduction in trade and other payables. The creditor and debtor assumptions are expected to revert from the short-term strategy adopted in FY16 of stretching creditor's payment terms, to be in line with contractual terms. However, these terms are less favourable than current operational levels and assumes creditors are paid approximately 5.5 days earlier than achieved at 30 June 2016. The company has been and will continue to work with its key suppliers to align payments to contract terms in the short to medium term, thus unwinding the short-term strategy adopted in FY16 of stretching creditor's payment terms
  3. **SHA will operate with lower levels of inventory** - inventory at 30 June 2016 was lower than historical levels due to the sales of display homes and exiting of Madisson. The lower level of inventory is expected to be maintained going forward, and marginally declines over the course of FY17. Consequently, it is not the reversion of inventory to historical levels that causes the increase in working capital requirements, rather it is a reduction in trade and other payables

- we have estimated the aggregate permanent increase in working capital that is required based on discussions with management and having analysed the working capital, requirements at 30 June 2016 and those expected at 30 June 2017. We have estimated the impact to be approximately $17.3m by comparing the balance sheet as at 30 June 2016 with the forecast balance sheet as at 30 June 2017. This deficit is likely to be funded through the use of the Company's existing banking facility. However, the actual impact may differ to this estimate
- we have calculated the net debt required to fund the changes in working capital by taking the forecast net debt at 30 June 2017 ($17.6m) and adjusting for the collection of surplus assets ($7.85m) that we have valued separately in Section 8.5

Table 17: Net debt adjustment

Net debt adjustment	
Net debt as at 30 June 2016	**8,112**
Forecast movement in net debt	9,460
Forecast net debt 30 June 2017	**17,572**
Remove assets in cash flow valued separately[7]	7,850
Normalised net debt	**25,422**
Net debt adjustment to 30 June 2016 book value required	17,311

Source: KPMG Corporate Finance Analysis, Simonds

- we note that the resultant $25.4m estimate of normalised net debt is significantly higher than historical net debt balances for the Company
- the forecast net debt position at 30 June 2017 is approximately $7.85m lower than it would otherwise have been but for the receipt of cash flows during the course of FY17 from the sale of assets and receipt of operating cash flows. For example, the forecast 30 June 2017 balance sheet includes the cash associated with the sale of Bridgeman Downs SLD assets for $1.2m, reducing the observable net debt. Bridgeman Downs has been valued separately on a net asset basis, therefore it is necessary to deduct the assumed cash from the forecast balance sheet to obtain a net debt position excluding this cash and avoid double counting
- of the $17.3m adjustment, approximately $15m to $18m is a result of the change in invoicing method and approximately $8m is due to changes in creditor days. These increases in the required level of working capital are offset by a $6m reduction in inventory levels and other minor adjustments
- the estimate of the normalised working capital is based on a forecast position and therefore dependent on the reasonableness of the key assumptions and inherently subject to risk. There is potential volatility to the key assumptions such as, assumed inventory levels, number of debtor and creditor days, and the impact of the change in invoicing method

[7] Assets in cash flow valued separately includes $1.2m proceeds from Bridgeman Downs SLD assets, $3.0m proceeds of a tax refund, $5.9m of net cash inflows from operations less capex (FY17), partially offset by $2.2m cash outflow associated with Madisson. Bridgeman Downs SLD, the tax refund and Madisson have been separately valued in Section 8.5, whilst the cash flows from operations form part of the Enterprise Value.

- we have included a sensitivity analysis below to illustrate how a change in the assumed level of net debt would impact the value of a Simonds share

Table 18: Sensitivity analysis

	$000s impact	$ per share impact	Value per Simonds share
Valuation			0.385 to 0.485
Creditor days sensitivities			
Paid 1 day later than contractual terms	1,397	0.010	0.395 to 0.495
Paid in-line with position at 30 June 2016	7,905	0.055	0.440 to 0.540
Inventory sensitivities			
+ 5% higher than budget	(2,152)	(0.015)	0.370 to 0.470
- 5% less than budget	2,152	0.015	0.400 to 0.500
Invoicing sensitivities			
+ 2 days (longer delay)	(1,341)	(0.009)	0.376 to 0.476
- 2 days (shorter delay)	1,341	0.009	0.394 to 0.494

Source: KPMG Corporate Finance Analysis

The analysis above illustrates that the value per share is highly sensitive to changes in the assumed level of normalised working capital

- Simonds consider an increase in debt using existing facilities to be the most appropriate method of catering for the change in working capital requirements. Alternatives would have been to adjust the scale of operations to function with the existing working capital levels or identify alternative options to fund the working capital. Having regard to the nature of the Simonds business, in particular the long lead times of contracts, minimal variable costs and the consequential impacts of breaking contracts, the Company consider it preferable to continue with its current operations and utilise its debt facility that is already available to them to fund its working capital requirements
- The net debt adjustment does not reflect an immediate need to invest $17.3m into the business, which will occur over the course of FY17 and could in part be funded by other sources (e.g. operational cash flows)
- in the quarter to 30 September 2016, Simonds' net working capital increased by $8.4 million. Over the same period, net debt increased by $9.3m to $17.4m. The quarterly results support the assumption that the 30 June 2016 was an abnormally low working capital position and reflect the partial impact of the various changes expected to occur throughout FY17.

8.8 Number of shares on issue

Simonds has 143,841,655 ordinary shares on issue and 519,003 performance and service rights over unissued ordinary shares. 12,725 of the performance and service rights will vest through the issue of new shares as a result of the transaction. On a fully diluted basis, the number of shares on issue is 143,854,380.

8.9 Valuation cross checks

8.9.1 Analysis of trading price of Simonds shares cross check

We have cross checked the primary valuation methodology by analysing recent trading prices of Simonds shares. The consensus view of a well traded, fully informed market is likely to be a reliable estimate of the value of a portfolio interest in the underlying company that is assumed to exclude a premium for control. Trading prices usually incorporate the influence of all publicly available information on an entity's prospects, future earnings potential and risks.

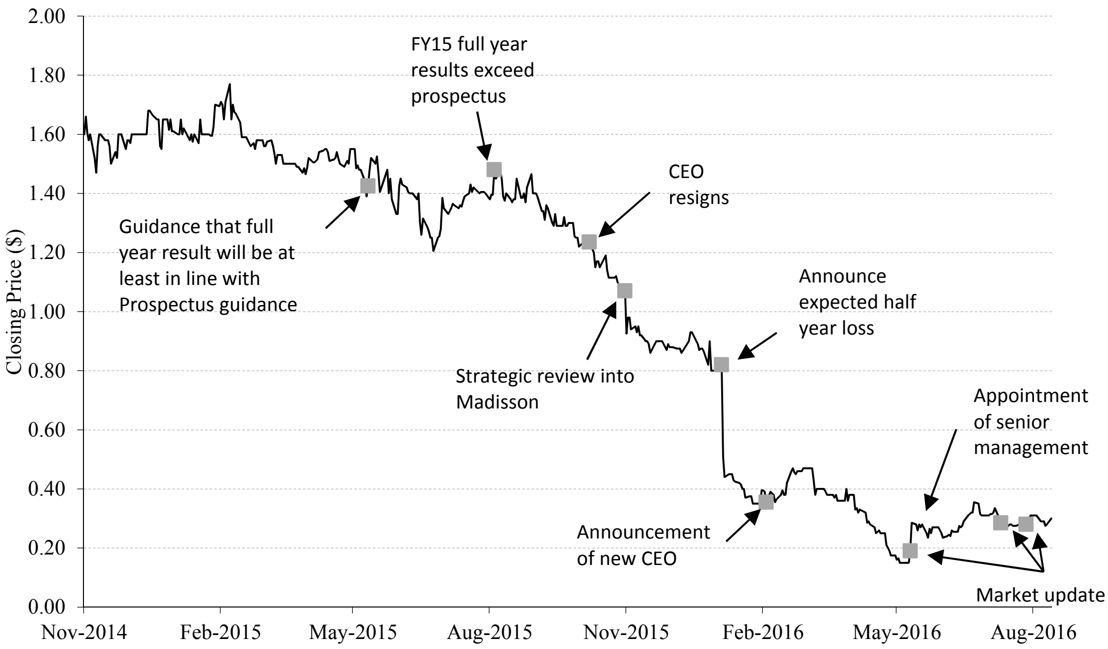
Therefore, on the premise that the trading price is reflective of market value, we have added a control premium to the share price analysis and compared the outcome to our valuation determined by our primary methodology.

We have considered if there is any reason why the trading price may not be an indicator of the market value of a Simonds share on a minority basis. To address this point, we have:

- analysed the recent trading in Simonds shares
- considered the frequency of release of material information from Simonds to the market
- analysed the historic trading volumes in Simonds shares to, *inter alia*, consider the liquidity of the Simonds shares.

Analysis of recent trading in Simonds shares

Figure 10: Simonds share price performance since IPO



Source: Capital IQ; KPMG Corporate Finance Analysis

Simonds share price has declined significantly since listing in November 2014, suffering its greatest decline following the announcement of expected half year losses in January 2016. Since the appointment of the new Managing Director and CEO and senior management team, the share price has somewhat stabilised and since June 2016 has been trading in a band between $0.24 to $0.36 (daily close low and high). The analysis above illustrates that the share price has reacted to disclosures from the Company.

Non-public information

Under ASX Listing Rules (LR 3.1 and 3.1A), Simonds is required to keep the market informed of events and developments in a timely manner as they occur. Were Simonds to become aware of any information that a reasonable person would expect to have a material effect on the price or value of its shares, it must inform the market of that information.

As shown within the share price analysis, between the appointment of Matthew Chun as CEO from 1 April 2016, and the announcement of full year result on 30 August 2016, Simonds had provided three market updates. Prior to entering a trading halt shortly after 1.30pm on 30 August 2016 (for the announcement of the Proposal) and subsequent to Simonds releasing its FY16 full year results there was no significant movement in the share price.

The implementation of changes to the invoicing method adopted by the Company (which is, by law, relevant to all Victorian and Queensland domestic builders) impacted reported FY16 revenue and earnings (and as discussed in Section 8.7, will have a consequential impact on the Company's working capital requirements). Given the general application of the requirements and the minimal impact on earnings, the implementation was not the subject of any disclosure. Whilst these developments could potentially have offsetting impacts on the share price the actual impact is not known.

Share trading liquidity

The table below compares the liquidity of Simonds shares prior to the announcement of the Proposal against that of the ASX 200 and ASX 300.

Table 19: VWAP and liquidity analysis

Period	Cumulative volume m	% of issued capital	Median Trading volume ASX 200	Median Trading volume ASX 300
Period ended 30 August 2016 (pre-announcement)				
5-day	0.5	0.3%	1.4%	1.3%
30-day	9.3	6.5%	8.1%	7.4%
60-day	13.7	9.5%	17.2%	15.6%
90-day	58.1	40.4%	26.4%	23.9%
12 month	93.0	64.6%	69.4%	62.4%
Period ended 25 October 2016 (post-announcement)				
Since announcement	37.0	25.7%	-	-

Source: IRESS
Note: Price Low and Price High are based on closing day prices

Associates of SFO hold 39.04% of the shares which reduces the free float available to trade.

Over the 90 days and 12 month period prior to the announcement, the volume of shares traded as a percentage of the issued share capital was greater than the median trading volume of the companies comprising the ASX 300 of 23.9% and 62.4%, respectively. More recently however, over the 5 day and 30 day periods the total shares traded is below the median volumes of the ASX 300.

Consequently, we consider there to be a sufficient level of trading to provide a reference point for the trading of a minority interest.

Conclusion

Based on the analysis above we consider the trading price is an indicator of the market value of a Simonds share on a minority basis. We note that the impact upon the share price of the change in invoicing method and additional working capital requirement is not known, and therefore the results were considered with caution and used as a high level cross check only.

Therefore, as a high level cross check, we have we have added a control premium to the share price analysis which resulted in the following valuation range.

Table 20: High level valuation cross check based on share price analysis

Company	Low	High
Last close share price ($)	0.29	0.29
Control premium	20%	35%
Value of Simonds share price on a controlling basis ($)	**0.35**	**0.39**

Source: S&P Capital IQ, KPMG Corporate Finance Analysis

The implied value of a Simonds share including a control premium overlaps the range derived from our primary capitalised earnings methodology ($0.385 to $0.485) at the low end and supports a position that we have not undervalued the Company. Therefore, we consider that this analysis supports our valuation of Simonds as being appropriate.

8.9.2 High level DCF

High level DCF analysis

We have also cross checked our primary capitalised earning valuation of Simonds to that determined adopting a high level DCF analysis. The DCF methodology assumes that the underlying investors in a business have full control over the company and therefore over the distribution of its future cash flows. As a result, the value of Simonds using the DCF method reflects a controlling value.

Our high level DCF analysis indicated a per share value for Simonds in the range of $0.385 to $0.490 (on a control basis). This range overlaps and therefore supports our valuation of Simonds on a capitalisation of earnings basis. Further information on assumptions is discussed below.

Table 21: High level valuation cross check based on DCF analysis

$'000s (unless otherwise stated)	Report Section	Value Low	Value High
Assumptions			
EBITDA of SHA and BAA	8.3.2	16,000.0	17,000.0
Depreciation / capex		4,663.0	4,663.0
Tax		30%	30%
Growth		2.5%	2.5%
Discount rate	Appendix 6	13.0%	12.0%
Enterprise value of SHA and BAA		**75,281.0**	**90,266.5**
SLD	8.4	5,608.0	5,608.0
Total enterprise value on a control basis		**80,889.0**	**95,874.5**
Plus: net non operating assets and liabilities	8.5	(42.0)	(42.0)
Less: net debt	8.7	(25,423.0)	(25,423.0)
Value of equity		**55,424.0**	**70,411.6**
Fully diluted shares on issue	8.8	143,854.4	143,854.4
Value per Simonds share ($ per share, rounded)		**$0.385**	**$0.490**

Source: KPMG Corporate Finance analysis

Assumptions

The key assumptions adopted by KPMG Corporate Finance do not represent forecasts/projections by KPMG Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of a similar business. The assumptions adopted are inherently uncertain and valuation outcomes will vary based on changes in certain key assumptions. The key assumptions are:

- **EBITDA** – in the absence of market guidance provided by Simonds or broker consensus forecasts, in our application of the high level DCF analysis we have relied on our assessment of the future maintainable EBITDA calculated for each of SHA and BAA in Section 8.3.2 of $14.0m to $15.0m and $2.0m, respectively. We have adjusted EBITDA for normalised depreciation and amortisation to derive a future maintainable free cash flow (FCFF) for the business
- **capital expenditure** – is assumed to be equal to depreciation, which is not inconsistent with Simonds historical levels of capital expenditure, excluding one-off non-recurring capital expenditure
- **tax rate** – income tax has been calculated by applying the Australian statutory company tax rate of 30% to the notional taxable income
- **changes in working capital** – perpetual $0.5m per annum to support the terminal growth rate (changes to the way the Company invoices certain customers has been reflected in the net debt calculation to arrive at equity value)
- **long term growth rate** – for the purpose of our valuation, we have assumed a long term growth rate of 2.5% broadly in line with Australian inflation expectations and Australian GDP estimates
- **discount rate** – we have applied a discount rate based on weighted average cost of capital principles of 12% to 13% (details contained in Appendix 6).

The DCF analysis assumes that the business operates “as is”, with no major changes to competition within the Australian landscape.

The resultant value under our high-level DCF analysis overlaps per share value of Simonds of $0.385 to $0.485 determined on a capitalisation of earnings methodology. Accordingly, the high-level DCF supports our assessed valuation of Simonds derived from the capitalised earnings methodology and therefore we consider our valuation of Simonds to be appropriate.

Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Ian Jedlin and Adele Thomas. Adele is a member of the Institute of Chartered Accountants in Australia and holds Bachelor of Commerce and Bachelor of Accounting degrees. Ian is an Associate of the Institute of Chartered Accountants in Australia and a Senior Fellow of the Financial Securities Institute of Australasia and holds a Master of Commerce from the University of NSW. Each has a significant number of years of experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of independent expert reports.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Proposal is in the best interests of Simonds shareholders. KPMG Corporate Finance expressly disclaims any liability to any Simonds shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Scheme Booklet or any other document prepared in respect of the Proposal. Accordingly, we take no responsibility for the content of the Scheme Booklet as a whole or other documents prepared in respect of the Proposal.

We note that the forward-looking financial information prepared by the Company does not include estimates as to the potential impact of any future changes in taxation legislation in Australia. Future taxation changes are unable to be reliably determined at this time.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of Simonds for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Scheme Booklet to be issued to the shareholders of Simonds. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information:

- various ASX company announcements
- various broker and analyst reports
- various press and media articles
- various reports published by IBISWorld Pty Ltd
- financial information from S&P Capital IQ, IRESS, Thomson Reuters and Connect 4.

Non-public information:

- FY17 management budgets and other confidential documents, presentations and work papers.

In addition, we have had discussions with, and obtained information from, senior management of Simonds, its advisors, and Macquarie Capital.

Appendix 3 - Industry overview

House construction industry

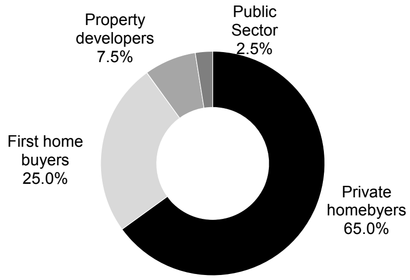
The Australian house construction industry predominantly consists of new and existing dwellings across single-unit houses and multi-unit apartments and townhouses.

In 2015-16, the industry is expected to generate $40.6 billion in revenue and is expected to grow by 1.2% between 2016 to 2021, at which point revenue is forecast to reach approximately $43.0 billion[8].

Products

More than half of the industry's revenues are derived from new single unit dwellings, while a quarter comprise alterations and additions to existing dwellings, as illustrated below.

Figure 11: Product segmentation



Source: IBIS World Industry Report – House Construction in Australia (June 2016)

Market

Following the closure of Madisson, Simonds' principally focuses on the single unit housing market.

Of the single unit housing market, private homebuyers (as opposed to property developers and the public sector) account for approximately 90% of demand (by revenue), and can be further categorised into the following:

- **First homebuyers** represent 25% of investment in the market, and typically invest in outer suburban locations where land prices are lower and houses are constructed on new subdivisions[7]
- **Private homebuyers** represent approximately two-thirds of investment and consist of second, third and fourth time home buyers, whom often prefer larger homes on larger land allotments or in more desirable locations.[7]

Geographically, VIC accounts for the largest share of Australian housing construction, followed by NSW and Western Australia. The strong growth in housing construction in VIC can be attributed to the state's strong economic growth, available land, net interstate and international migration as well the strong preference for traditional single-unit dwellings.

[8] IBIS World Industry Report – House Construction in Australia (June 2016)

Figure 12: Market segmentation by revenue

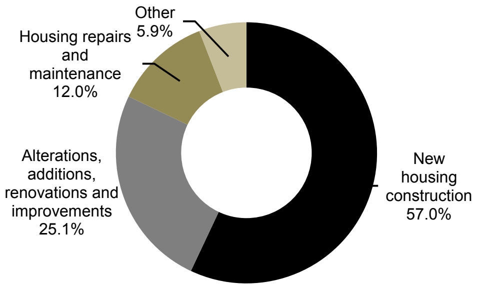
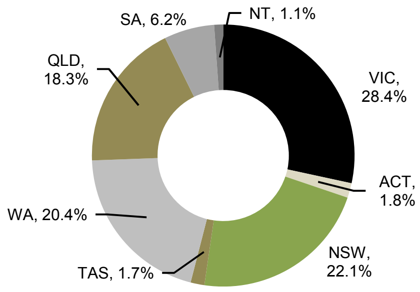


Figure 13: Market segmentation by geography

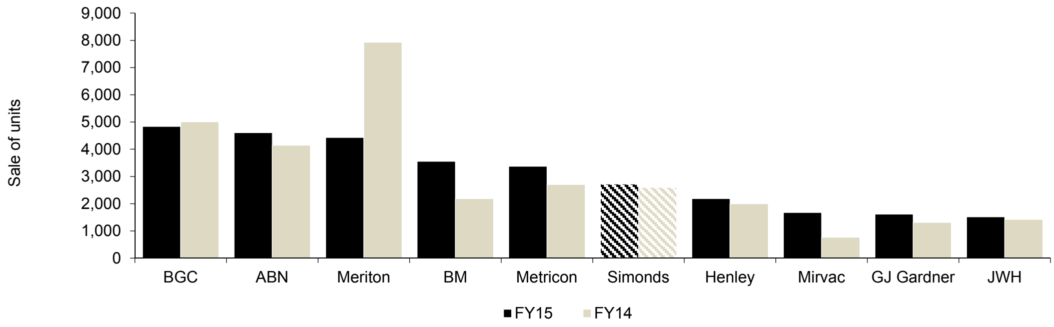


Source: IBIS World Industry Report – House Construction in Australia June 2016

Competitive landscape

The housing construction industry in Australia is highly competitive and fragmented, with the largest 100 house builders accounting for approximately 40% of the market. Within VIC, the largest home builders are Simonds, followed by Metricon Homes and Porter Davis[8]. Recently, barriers to entry of new competitors have increased due to state based legislation governing owner-builders who are required to register with industry associations to verify competency as well as requirements of adequate warranty insurance. While qualified tradespeople with appropriate state based registrations will continue to have relatively easy access to the industry, a new entrant's ability to compete on a large scale has been restricted due to the competitive advantages held by the existing builders, lack of proven experience and insurance constraints.

Figure 14 – Largest 10 house builders in Australia



Note: BGC: BGC Australia, ABN: Alcock Brown-Neaves Group, BM: Brookfield Multiplex, JWH:JWH Group
Source: HIA Housing 100 Report (2014/2015)

Key external drivers affecting the housing construction industry

Housing construction is impacted by a number of factors, many of which are beyond the control of Simonds. The key economic drivers include:

- **Mortgage affordability** has improved over the past five years in Australia due to a combination of historic low interest rates and slight increases in household income[8]. However, while mortgage affordability remained stable in FY 15-16, rising house and land prices are expected to negatively impact mortgage affordability in the short term[9]
- **Residential housing loan rates** are at historically low levels providing a stimulus to housing demand, which in turn triggers housing construction activity. The official cash rate has decreased by over 100 basis points over the last 2 years and is currently at 1.50%
- **The unemployment rate** is currently at 5.7%[10], which is lower than the OECD average of 8.8%. A low unemployment rate provides enhanced financial stability for the general population, which has a positive impact on housing demand and consequently housing construction.

Other external drivers affecting the housing industry include:

- **Population growth** directly affects long term demand for housing construction. An increase in population growth triggers an increased demand for housing, which in turn leads to expansion of the housing construction industry. While the Australian overall population grew by 1.4% in FY15, the Australian Bureau of Statistics (ABS) forecast long term population growth to be approximately 1.0% in Australia[11]

  One of the main reasons supporting population growth in Australia has been net migration which accounts for approximately half of Australia's population growth. This trend is expected to continue in the near future with increasing immigration expected from countries such as China and India. Amongst the various states, NSW and VIC are expected to continue to be the main beneficiaries of positive net migration
- **Dwelling commencements** trends provide an indicator of demand for new housing. The number of new dwelling commencements have increased over the last five years principally due to a surge in construction of multi-unit apartments and townhouses. However, new dwelling commencements are expected to decline in 2015-16, posing short term concerns over the industry's growth. While demand for single-unit dwellings are expected to remain strong in VIC, multi-unit dwellings are expected to attract stronger demand in NSW owing to high prices of land and houses, as well as a preference of homebuyers for central locations. These trends are expected to be reflected in housing construction activity

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[9] Article "Mark Steinert Lays out the challenge of housing affordability", Australian Financial Review, reported on 28 August 2016, http://www.afr.com/real-estate/mark-steinert-lays-out-the-challenge-of-housing-affordability-20160828-gr2vaq
[10] Australian Bureau of Statistics, Labour Force Australia, July 2016, - http://www.abs.gov.au/ausstats/abs@.nsf/0/F756C48F25016833CA25753E00135FD9?Opendocument
[11] Australian Bureau of Statistics, Population Projections, Australia 2012 (base) to 2101 http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/3222.0Main%20Features52012%20(base)%20to%202101?opendocument&tabname=Summary&prodno=3222.0&issue=2012%20(base)%20to%202101&num=&view=

- **Government policies** that provide assistance to the housing construction industry such as first home owner grants, negative gearing allowances and stamp duty concessions on new houses, provide stimulus to the housing construction industry. Any withdrawal of these policies is expected to have a detrimental effect on the housing construction industry.

Land development industry

The land development industry involves companies preparing, subdividing and amalgamating land for subsequent sale. Preparation of the land would typically involve excavation works to install roads, streetscapes and access to utilities. The industry derives approximately 60.0% of its income from development of land for single-unit housing and housing estate developments with the remainder relating to apartments and other residential, commercial and industrial developments[12]. A large number of key drivers of land developments are consistent with those that impact house constructions. Currently, SLD constitutes a relatively small portion of the group.

Vocational education and training industry

Overview

The Australian VET industry represents 7.5% of Australia's $119.2 billion education industry[13] and primarily comprises TAFE institutions and private RTOs. In 2015, 4.5 million students participated in VET, including 26.8% of the Australian population aged between 15 to 64 years (23.3% participation rate in 2014)[14]. The Australian VET industry is forecast to grow at 1.2% per annum between FY16 to FY21 reaching $9.5 billion in FY21[15].

Course offerings

The VET industry typically provides courses that are shorter in duration and more practical with a specific industry focus compared to traditional university degrees. Industry courses can be segmented into the following categories:

- Certificate I is the lowest tertiary education qualification available which allows graduates to undertake routine tasks and identify simple problems
- Certificate II is the second lowest complex tertiary education qualification which allows graduates to undertake defined tasks and provide simple solutions to straightforward problems
- Certificate III courses account for the largest share of industry revenue and equip graduates to work autonomously while taking on limited responsibilities
- Certificate IV courses allow graduates with sufficient knowledge to undertake non-routine tasks while being able to provide solutions for complex problems and take on limited responsibilities

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[12] IBIS World Industry Report – Land Development and Subdivision in Australia (June 2016).
[13] IBIS World Industry Report – Education and Training in Australia (June 2016)
[14] National Centre for Vocational Education Research, Total VET students and courses, 2015, Infographic, https://www.ncver.edu.au/data/data/infographics/total-vet-students-and-courses-2015-infographic
[15] IBIS World Industry Report – Technical and Vocational Education and Training in Australia (June 2016)

- Diploma and above include qualifications such as a diploma, associate degree, advanced diploma, graduate certificate and graduate diploma. This segment of courses has seen increased enrolments over the past five years reflecting the shift towards higher qualification requirements for workers in various industries
- Other VET courses include training programs that do not directly lead to a qualification. These include non-award courses and subject-only enrolments.

Simonds delivers courses related to building and construction across Certificate II, III, IV and Diploma qualifications, with the largest portion being Certificate IV which accounted for 32% of courses in FY16.

The proportions of industry revenue by product segment are shown below:

Figure 15: Industry revenue by course type

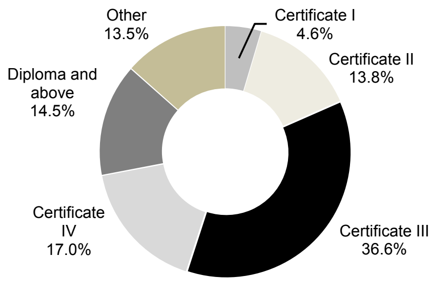
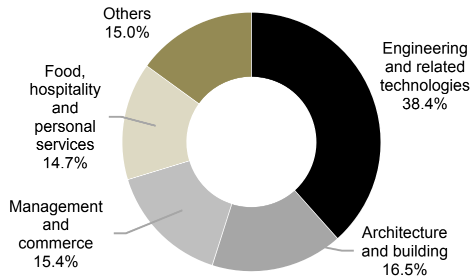


Figure 16: Enrolments by industry



Source: IBIS World Industry Report – Education and Training in Australia, Jun 2016
National Centre for Vocational Education Research, Government funded students and courses 2015: Australia

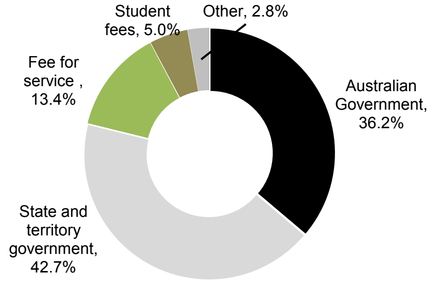
VET courses and qualifications in trades such as engineering and architecture and building are the most popular amongst students and account for almost 55% of all VET courses. This is consistent with the government preferences to produce skilled individuals who are able to contribute to economic growth and prosperity and VET courses which deliver 'hard skills' where there are substantial skills shortages rather than other areas where skills shortages are relatively modest[16].

[16] Simonds Group – Go to the top of the class – Implications from VIC VET Review – Moelis & Company 20 July 2015

Government funding and recent turmoil

Government funding supports the Australian VET industry and represents the largest proportion of revenue.

Figure 17: Sources of VET funding



Source: National Centre for Vocational Education Research, Financial Information 2014

From 2010 to 2014, government funding to the VET industry increased at a CAGR of approximately 6.2%, primarily due to a large increase in funding by the Federal Government. This increase occurred primarily due to:

- Federal Government provided additional funding to the State Governments as part of the National Partnership Agreement on Skills Reform where funding was provided on condition that several targets including reduction of costs for students were met
- additional funding was provided to the State Governments if they encouraged competition with an aim for a demand driven market model to help address the skills shortage in Australia
- Federal Government extended the Higher Education Loan Program (FEE-HELP) to include VET courses.

Changes to the government policies and funding structures along with an increase in student demand caused a large increase in the number of private VET providers. Subsidies provided by the Federal Government created budget overruns, due to certain 'rogue' educators inducing students to enrol in courses by providing cash, meals, prizes and laptops. Following several allegations of misconduct in the VET industry, several VET providers who pursued IPOs such as Australian Careers Network and Vocation Limited went into voluntary administration after withdrawal of government funding while other companies such as Ashley Services Group and Intueri Education Group faced significant losses. As at June 2016, there were 10 vocational education providers being investigated by the Australian Competition and Consumer Commission (ACCC)[14] for allegations of misconduct.

Competitive landscape

The Australian VET industry consists of approximately 4,277 training providers including TAFE colleges, private RTOs, community education providers, schools and universities. While the demand driven market dynamics which were encouraged by the Federal Government have reduced costs and regulatory barriers to entry, legal proceedings, investigations and tougher standards are expected to result in consolidation of the industry in the future. Apart from competition with other VET providers, the industry is expected to face competition from other education providers such as universities as students seek higher qualifications and university degrees.

Key external drivers affecting the VET industry

The key industry drivers can be categorised as follows:

- **Government funding** reduces fees for students and is the primary driver of revenue for VET providers like Simonds. A change to government funding policy, either positively or negatively, would have a direct impact on the availability of enrolment places for students and the subsidies for providing the courses and facilities for the providers
- **Unemployment rate** affects industry demand and revenue as workers look to update their skills or retrain to improve employment prospects
- **Skills shortages** determine the number of people who are suitably skilled to fill vacancies in the economy. Where a skill shortage is identified it provides an incentive for workers to upgrade their skills and provides a stimulus for VET providers. The Department of Employment has identified that there are significantly more suitable applicants for professional vacancies than for technicians or trade vacancies. Consequently, construction trades experienced the fewest applicants for vacancies, 4.6 applicants per vacancy compared to engineering professionals (distinct from engineering trades) at 48.2 applicants per vacancy[17]
- **Foreign exchange rates** influence demand from international students for VET courses. An appreciation of the Australian dollar increases costs for international students in Australia in comparison to other countries and thus has a negative impact on the VET industry.

[17] Department of Education, Skills shortages – Statistical Summary, 2015-16, https://docs.employment.gov.au/system/files/doc/other/statisticalsummary_0.pdf

Appendix 4 - Valuation methodologies

Capitalisation of earnings

An earnings based approach estimates a sustainable level of future earnings for a business ('maintainable earnings') and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and NPAT.

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on security prices reflective of the trades of small parcels of shares. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100%) we would also reference the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used to provide a market cross-check to the conclusions reached under a theoretical discounted cash flow methodology or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the discounted cash flow methodology.

Discounted cash flow

Under a discounted cash flow methodology, forecast cash flows are discounted back to the Valuation Date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the Valuation Date to give an overall value for the business.

In a discounted cash flow analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted (the Discount Rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a discounted cash flow to produce a sensible valuation figure, the importance of the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the Weighted Average Cost of Capital (WACC), reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an Enterprise Value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

Net assets or cost based

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the company's balance sheet to current market values. A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

Appendix 5 – Market evidence

Description of comparable companies

A brief description of the selected comparable companies is provided below:

Tamawood Limited

Tamawood Limited (Tamawood) is an ASX listed residential home builder with a market capitalisation of $100 million at 24 October 2016. Tamawood provides home design, construction and project management services in Queensland (QLD) and New South Wales (NSW) and franchising and licensing operations in regional QLD, NSW, ACT and New Zealand. Tamawood operates through four segments: Construction NSW, Construction QLD, Franchising and Renewable Energy. The Construction QLD segment accounted for approximately 84.3 percent of total segment revenue in FY16. In June 2016, Tamawood provided a trading update that revised the FY16 profit forecast upwards approximately 20 to 25 percent compared to the same prior corresponding period, as a result of favourable conditions with council and finance approvals. Tamawood was founded in 1989 and is headquartered in Rocklea, Australia.

Villa World Limited

Villa World Limited (Villa World) is an ASX listed residential property developer with a market capitalisation of $264 million at 24 October 2016. Villa World operates through two segments, Property Development and Construction QLD and NSW, and Property Development and Construction Victoria. Both segments are engaged in the development and sale of residential land and the development, construction and sale of house and land packages. Villa World generated revenue of approximately $387.0 million from continuing operations in FY16, with approximately 85.4 percent generated from the QLD and NSW segment. The land acquisition strategy implemented by Villa World is focused on proven growth corridors, diversified across the east coast of Australia. Villa World Limited was founded in 1986 and is headquartered in Broadbeach, Australia.

Devine Limited

Devine Limited (Devine) is an ASX listed real estate developer with a market capitalisation of $71 million at 24 October 2016. Devine undertakes land development, home building, construction, and property development activities in Australia. This includes the development and sale of various real estate properties, including housing, residential land, residential units, and retail/commercial office developments, as well as medium density and high-rise developments. Devine operates in Queensland, Victoria and South Australia. The residential property development pipeline at 31 December 2015 included the equivalent of approximately 9,650 future dwellings. In February 2016, Devine provided an update to the market that revised the expected full year pre-tax profit for the year ended 31 December 2015 downwards to a loss position, predominantly due to the deterioration in construction activities. The company was founded in 1983 and is based in Hamilton, Australia. Devine Limited is a subsidiary of CIMIC Group Limited.

Sunland Group Limited

Sunland Group Limited (Sunland) is an ASX listed real estate developer with a market capitalisation of $246 million at 24 October 2016. Sunland operates through two segments, Residential Housing and Urban Development, and Multi-Storey segments. The Residential Housing and Urban Development segment is involved in land subdivision and medium density integrated housing developments. The Multi-Storey segment develops and sells medium-rise projects between 5 and 15 storeys, and high-rise developments above 15 storeys. The delivery of Sunland's projects are completed by in-house teams that specialise in land acquisition and project feasibility analysis, design, project management, construction, and sales and marketing. Sunland was founded in 1983 and is based in Brisbane, Australia.

AVJennings Limited

AVJennings Limited (AVJennings) is an ASX listed residential developer with a market capitalisation of $231 million at 24 October 2016. AVJennings undertakes land development, integrated housing and apartment development activities in New South Wales, Victoria, Queensland, South Australia and New Zealand. AVJennings operates five segments based on the aforementioned jurisdictions, with New South Wales generating approximately 39.5 percent of FY16 segments revenue. Total revenue increased approximately 32.7 percent in FY16, predominately due to strong growth in demand in affordable apartments and dwellings outside CBD areas. The company was founded in 1932 and is based in Hawthorn, Australia. AVJennings Limited is a subsidiary of SC Global Developments Pte Ltd.

Cedar Woods Properties Ltd.

Cedar Woods Properties Limited (Cedar Woods) is an ASX listed property developer with a market capitalisation of $356 million at 24 October 2016. Cedar Woods principle interests are in urban land subdivision and built form development for residential, commercial and retail purposes. Its portfolio of assets is located in Western Australia, Victoria, Queensland and South Australia. Cedar Woods recorded net profit after tax growth of 2.4 percent in FY16, reflecting strong lot sales from residential communities in Victoria and Western Australia. Cedar Woods Properties Limited was founded in 1987 and is headquartered in West Perth, Australia.

Peet Limited

Peet Limited (Peet) is an ASX listed property developer with a market capitalisation of $461 million at 24 October 2016. Peet acquires, develops, and markets residential land in Australia. The company operates through Funds Management, Company-Owned Projects, and Joint Arrangements segments. The Funds Management segment provides underwriting, capital raising, and asset identification services. The Company-Owned Projects segment acquires parcels of land for residential development purpose, as well as produces non-residential blocks of land. The Joint Arrangements segment undertakes and develops land through Joint arrangements with government, statutory authorities, and private landowners. As of 30 June 2016, Peet managed and marketed a land bank of approximately 48,000 lots. Peet Limited was founded in 1895 and is based in Perth, Australia.

Coventry Group Ltd.

Coventry Group Ltd (Coventry) is an ASX listed company with a market capitalisation of $35 million at 24 October 2016. The company operates through three segments, Trade Distribution; Fluids; and Fasteners. The Trade Distribution segment imports, distributes and markets hardware and industrial fasteners and associated products. The Fluids segment designs, manufactures, distributes, installs, and maintains lubrication and hydraulic fluid systems and hoses. The Gaskets segment manufactures and distributes automotive and industrial gaskets. Coventry operates in Australia and New Zealand. Coventry was incorporated in 1936 and is headquartered in Redcliffe, Australia.

GWA Group Limited

GWA Group Limited (GWA) is an ASX listed building products supplier with a market capitalisation of $763 million at 24 October 2016. GWA engages in the research, design, manufacture, import, marketing, and distribution of building fixtures and fittings to residential and commercial premises in Australia, New Zealand, and international markets. It operates through two segments, Bathrooms & Kitchens; and Door & Access Systems. The Bathrooms & Kitchens segment offers vitreous china toilet suites, basins, plastic cisterns, tapware, baths, kitchen sinks, laundry tubs, and bathroom accessories. The Door & Access Systems segment provides door locks and levers and maintenance of commercial door systems. GWA is headquartered in Eagle Farm, Australia.

CSR Limited

CSR Limited (CSR) is an ASX listed construction materials manufacturer with a market capitalisation of $1,867 million at 24 October 2016. CSR manufactures and supplies building products for residential and commercial construction in Australia and New Zealand. The company operates through Building Products, Glass, Aluminium, and Property segments. The Building Products segment offers lightweight systems, such as Gyprock plasterboard, insulation and ventilation products and systems, as well as bricks and roofing products. The Glass segment provides architectural glass, float glass, and hard coated performance products. The Aluminium segment relates to the company's 70 percent interest in Gove Aluminium Finance Limited. The Property segment is involved in the sale of the former operating sites by advancing the sites through various stages of the development cycle. CSR was incorporated in 1887 and is headquartered in North Ryde, Australia.

Reece Limited

Reece Limited (Reece) is an ASX listed company with a market capitalisation of $4,315 million at 24 October 2016. Reece engages in importing, wholesaling, distribution, marketing, and retailing plumbing, bathroom, heating, ventilation, air-conditioning, and refrigeration products in Australia and New Zealand. Reece serves customers in the trade, retail, professional, and commercial markets through its approximately 450 stores. Reece was founded in 1919 and is based in Burwood, Australia.

Fletcher Building Ltd.

Fletcher Building Limited (Fletcher) is an ASX listed construction materials manufacturer with a market capitalisation of $6,401 million at 24 October 2016. Fletcher manufactures and distributes building and construction products in New Zealand, Australia, and internationally. Its Building Products segment offers concrete pipes and products; cement and aggregates; building materials (such as doors, windows and facades) and plastic pipes. The International segment provides laminate and surface products for commercial and residential spaces; decorative wood panels and laminates, particle boards; and pressed metal roof tiles. The Trade Distribution segment offers plumbing and bathroom products and solutions; roll-formed steel building products; pre-painted steel and aluminium roofing; and reinforcing steel and mesh. The Residential and Land Development segment builds master-planned residential communities; and is involved in the residential and commercial land development for sale to third parties. Its Construction segment manages the repair process of residential homes; and constructs commercial, retail, health, hospitality, education, and government buildings.

Intueri Education Group Limited

Intueri Education Group Limited (Intueri) is an ASX listed education services provider with a market capitalisation of $7 million at 24 October 2016. Intueri provides physical and online private training tuition in New Zealand and Australia. The company operates through two segments, Online Vocational Training and In-Class Vocational Training. It offers vocational education, from foundation courses through to certificate, diploma, bachelor's degree, and graduate diploma level qualifications across a range of industries. The company also operates several private training academies, including hairdressing, information technology and hospitality. Intueri Education Group Limited was founded in 2012 and is based in Auckland, New Zealand.

Ashley Services Group Limited

Ashley Services Group Limited (Ashley) is an ASX listed human resources and employment services provider with a market capitalisation of $20.0 million at 24 October 2016. Ashley provides training, recruitment, and labour hire services in Australia. This includes workplace based training programs in the areas of pre-employment/introduction to industry, operational/production, supervision, and executive/management. Ashely provides its training services to various sectors, such as aged care/health services, marketing and human resources, civil construction, transport and logistics, hospitality, retail operations and commercial cookery/bakery. It also offers recruitment services comprising temporary, casual, and fixed term contract services; permanent recruitment services; and executive search services. Ashley was founded in 1968 and is headquartered in Sydney, Australia.

The Citadel Group Limited

The Citadel Group Limited (Citadel) is an ASX listed company with a market capitalisation of $248 million at 24 October 2016. Citadel provides professional and managed services in the technology and education sectors throughout Australia. Citadel operates through two segments, Technology and Education. The Technology segment sells professional and managed services to government agencies and private enterprises. Its services include strategic advice, program management, acquisition support, and quality assurance services through consulting, contracting, and placement mechanisms; technology and integration services; and software solutions, products, and managed services for digital health, diagnostic laboratories, and clinical applications. The Education segment delivers a range of nationally-accredited business qualifications that enable students to articulate into second year university or to gain practical skills for employment. Citadel is based in Symonston, Australia.

Appendix 6 – Selection of discount rate

Our assessed discount rate for Simonds (applied in our high level DCF cross-check) is outlined in the table below.

Table 22: Discount rate

	WACC		
Inputs	**Low**	**High**	**Notes**
Risk free rate	3.9%	3.9%	Blended risk free rate (of the spot Australian government bond yield and long term forecast rate)
Unlevered beta	0.7	0.8	Based on our analysis of the comparable companies
Tax rate	30.0%	30.0%	Australian corporate tax rate
Relevered beta	0.8	0.9	Relevered beta based on the unlevered beta, tax rate and gearing assumptions
Market risk premium	6.0%	6.0%	Appropriate market risk premium for investments in Australia
Company specific risk premium	5.0%	5.0%	Forecasting and size risk premium
Cost of equity (post-tax)	**13.6%**	**14.3%**	
Cost of debt (pre-tax)	6.1%	6.6%	2.2% to 2.7% margin on the base risk free rate to reflect an investment grade corporate borrower
Equity to enterprise value	85.0%	85.0%	
Debt to enterprise value	15.0%	15.0%	Having regard to the gearing of comparable companies
WACC (post tax)	**12.2%**	**12.8%**	
Selected WACC	**12.0%**	**13.0%**	

Source: KPMG Corporate Finance analysis

The discount rate represents an estimate of the WACC which is applied to forecast nominal unlevered after-tax cash flows. In relation to the assessed WACC rates outlined above, we note:

- the assessed blended WACC is applicable to Simonds combined SHA and BAA divisions
- a degree of subjectivity is involved in estimating some of the inputs outlined above. These limitations mean that any estimate of the WACC must necessarily be regarded as indicative rather than as an absolute measure. Furthermore, because the WACC is a market-determined measure, changes in market conditions over time will affect its calculation
- the individual variables should not be considered in isolation but rather be viewed as components appropriate for the construction of a discount rate as a whole, applicable to Simonds. Consideration of these components in isolation may result in an inappropriate discount rate being determined.

The table below outlines the beta analysis of the selected comparable companies.

Table 23: Beta analysis of comparable companies

Beta analysis						
Company name	**Levered beta 2-year weekly**	**Unlevered beta 2-year weekly**	**Debt to value 2-year avg**	**Levered beta 5-year monthly**	**Unlevered beta 5-year monthly**	**Debt to value 5-year avg**
Tamawood Limited	0.36	0.36	0%	0.76	0.76	0%
Villa World Limited	0.69	0.54	29%	n/a	n/a	n/a
Devine Limited	-0.16	-0.12	30%	0.91	0.60	42%
Sunland Group Limited	0.33	0.24	36%	0.58	0.45	29%
AVJennings Limited	0.33	0.24	35%	0.81	0.56	38%
Cedar Woods Properties Ltd.	0.57	0.50	15%	0.74	0.66	15%
Peet Limited	0.36	0.26	35%	0.75	0.53	38%
Coventry Group Ltd.	0.51	0.51	0%	0.64	0.64	0%
GWA Group Limited	1.07	0.98	11%	0.81	0.72	15%
CSR Limited	1.23	1.23	0%	0.91	0.91	0%
Reece Limited	0.49	0.48	2%	0.38	0.38	0%
Fletcher Building Ltd.	1.27	1.05	22%	1.51	1.23	24%
Intueri Education Group Limited	0.45	0.37	25%	n/a	n/a	n/a
Ashley Services Group Limited	0.72	0.72	0%	n/a	n/a	n/a
The Citadel Group Limited	n/a	n/a	n/a	n/a	n/a	n/a
Mean	**0.59**	**0.53**	**17%**	**0.80**	**0.68**	**18%**
Median	**0.50**	**0.49**	**19%**	**0.76**	**0.64**	**15%**

Source: S&P Capital IQ (downloaded on 26 October 2016, data as at 24 October 2016), KPMG Corporate Finance Analysis

Appendix 7 – Glossary

Abbreviation	Description
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
Announcement Date	Transaction was announced on 29 August 2016
APESB	Accounting Professional & Ethical Standards Board
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ASQA	Australian Skills Quality Authority
AUD or $	Australian dollars
BAA	Builders Academy Australia
CEO	Chief Executive Officer
Company, the	Simonds Group Limited
Consideration	Cash consideration of $0.4 per share
Consortium, the	SR Residential Pty Ltd, which is jointly owned by entities associated with Roche Holdings Pty Ltd (Roche) and the Simonds Family Office Pty Ltd (SFO)
Corporations Act or the Act	Corporations Act 2001 (Cth)
CPA	Chun Property Advisory
CY	Calender Year being the 12 months ended 31 December
CWBTS	City-Wide Building and Training Services Pty Ltd
DCF	Discounted Cash Flow
DETV	Department of Education and Training Victoria
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EPS	Earnings Per Share
ESS	Employee Share Scheme
Excluded Shareholders	Excluded Shareholders are each of , Simonds Custodians Pty Ltd ATF Gary Simonds Family Trusts, No. 1, No. 2 and No. 3, Madisson Constructions Pty Ltd ATF Madisson Homes Trust, Simonds Construction Pty Ltd ATF Simonds Homes Discretionary Trust, Gary Simonds and Rhett Simonds
FEE-HELP	Higher Education Loan Program
FCFF	Free Cash Flow to the Firm
FSG	Financial Services Guide
FYXX	Financial Year being the 12 months ended 30 June
GST	Goods and Services Tax
IER	Independent Expert Report
Independent Directors	Ms Susan Oliver and Mr Matthew Chun both of whom are regarded by the Board as independent directors for the purposes of the Scheme, as they have no relationship with, or connection to, the Consortium members
IPO	Initial Public Offering
KPMG Corporate Finance	A division of KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215, Australian Financial Services License Number 246901
m	Millions
Madisson	Madisson Projects
NPAT	Net Profit After Tax
NSW	New South Wales
NWC	Net Working Capital
Proposal, the	The proposed acquisition by way of the Scheme
Pa	Per Annum
QLD	Queensland

Abbreviation	Description
Report, the	This Independent Expert Report
Roche	Roche Holdings Pty Ltd
RGs	ASIC's Regulatory Guides
RTO	Registered Training Organisation
SA	South Australia
Scheme	Scheme of arrangement between the Company and the Scheme Shareholders
Scheme Booklet	Notice of meeting and Explanatory statement
Scheme Consideration	$0.40 per share
Scheme Shareholders	Each person who holds shares, other than the Excluded Shareholders
SFO	Simonds Family Office Pty Ltd
SHA	Simonds Homes Australia
Simonds	Simonds Group Limited
SIA	Scheme Implementation Agreement
SLD	Simonds Land Developments
the Act	the Corporations Act 2001
VET	Vocational Education Training
VIC	Victoria
VWAP	Volume Weighted Average Price
WACC	Weighted Average Cost of Capital

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PART TWO – FINANCIAL SERVICES GUIDE

Dated 26 October 2016

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) **(KPMG Corporate Finance)** and Adele Thomas as an authorised representative of KPMG Corporate Finance, authorised representative number 404180 and Ian Jedlin as an authorised representative of KPMG Corporate Finance, authorised representative number 404177 **(Authorised Representative)**.

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance.
This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representative are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representative's responsibility to you

KPMG Corporate Finance has been engaged by Simonds Group Limited (Client) to provide general financial product advice in the form of a Report to be included in the Scheme Booklet (Document) prepared by the Client in relation to the scheme of arrangement to acquire all of the shares in Simonds Group Limited not already held (Transaction).
You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representative are acting for any person other than the Client.
KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.
You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.
You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance $120,000 for preparing the Report. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership).

KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Corporate Finance nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities has not provided services to the Client or the Consortium for which professional fees were received over the past two years.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address:	Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001
Telephone:	1800 367 287
Facsimile:	(03) 9613 6399 Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

KPMG Corporate Finance
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
10 Shelley St
Sydney NSW 2000

PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

Ian Jedlin
Adele Thomas
C/O KPMG
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7000

Annexure B

Scheme

Scheme of arrangement

Simonds Group Limited

Scheme Shareholders

101 Collins Street Melbourne Vic 3000 Australia
GPO Box 128A Melbourne Vic 3001 Australia

T +61 3 9288 1234 **F** +61 3 9288 1567
herbertsmithfreehills.com DX 240 Melbourne

Scheme of arrangement

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth)

Between the parties

Target	**Simonds Group Limited** ACN 143 841 801 of Level 1, 570 St Kilda Road, Melbourne VIC 3004 (**Target**)
Scheme Shareholders	Each person who holds Scheme Shares, other than the Excluded Shareholders (**Scheme Shareholders**)

1 Definitions and interpretation

1.1 Definitions

The meanings of the terms used in this Scheme are set out below.

Term	Meaning
ASIC	the Australian Securities and Investments Commission.
ASX	ASX Limited ACN 008 624 691 and, where the context requires, the financial market that it operates.
Bidder	SR Residential Pty Ltd ACN 614 474 949.
Business Day	a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally in Victoria, Australia.
CHESS	the Clearing House Electronic Subregister System operated by ASX Settlement Pty Ltd and ASX Clear Pty Limited.

Term	Meaning
Corporations Act	the *Corporations Act 2001* (Cth).
Corporations Regulations	the *Corporations Regulations 2001* (Cth).
Court	the Supreme Court of Victoria, or such other court of competent jurisdiction as agreed to in writing by the Target and the Bidder.
Deed Poll	the deed poll executed by the Bidder and each Guarantor on 25 September 2016 under which the Bidder and each Guarantors covenant in favour of the Scheme Shareholders to perform the obligations attributed to the Bidder and the Guarantors under this Scheme.
Direction	a written direction given by the Bidder to the Target no later than 14 days prior to the Implementation Date specifying the number of Scheme Shares to be transferred by the Target to each Nominee on the Implementation Date.
Effective	when used in relation to this Scheme, the coming into effect, under subsection 411(10) of the Corporations Act, of the Court order made under paragraph 411(4)(b) of the Corporations Act in relation to this Scheme.
Effective Date	the date on which this Scheme becomes Effective.
End Date	18 November 2016 or such other date agreed in writing between the Target and the Bidder.
Excluded Shareholders	each of Simonds Custodians Pty Ltd ATF Gary Simonds No.1 Family Trust, Simonds Custodians Pty Ltd ATF Gary Simonds No.2 Family Trust, Simonds Custodians Pty Ltd ATF Gary Simonds No.3 Family Trust, Madisson Constructions Pty Ltd ATF Madisson Homes Trust, Simonds Construction Pty Ltd ATF Simonds Homes Discretionary Trust, Gary Simonds and Rhett Simonds.
Government Agency	any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state, or any other federal, state, provincial, local or other government, whether foreign or Australian.

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Term	Meaning
Guarantors	each of SFO and Roche.
Implementation Agreement	the scheme implementation agreement dated 30 August 2016 (as amended on 25 September 2016) between the Target, the Bidder, SFO and Roche relating to the implementation of this Scheme.
Implementation Date	18 November 2016 or such later date which is 2 Business Days after the Scheme Record Date.
Nominee	each related entity of the Bidder nominated by the Bidder to the Target in writing to receive Scheme Shares in accordance with a Direction.
Operating Rules	the official operating rules of ASX.
Registered Address	in relation to a Target Shareholder, the address shown in the Share Register as at the Scheme Record Date.
Roche	Roche Holdings Pty Ltd ACN 007 046 040.
Scheme	this scheme of arrangement under Part 5.1 of the Corporations Act between the Target and the Scheme Shareholders subject to any alterations or conditions made or required by the Court under subsection 411(6) of the Corporations Act and agreed to by the Target and the Bidder.
Scheme Consideration	the amount in cash to be provided by the Bidder in consideration for the transfer of each Scheme Share held by a Scheme Shareholder to the Bidder or its Nominees, being, in respect of each Scheme Share, $0.40.
Scheme Meeting	the meeting to be convened by the Court in relation to the Scheme pursuant to subsection 411(1) of the Corporations Act.
Scheme Record Date	7.00pm on the date which is 3 Business Days after the Effective Date.
Scheme Shareholder	each person who holds Scheme Shares, other than the Excluded Shareholders.

Term	Meaning
Scheme Share	a Target Share on issue on the Scheme Record Date.
Scheme Transfer	a duly completed and executed proper instrument of transfer in respect of the Scheme Shares for the purposes of section 1071B of the Corporations Act, in favour of the Bidder or its Nominees as transferee or transferees, which may be a master transfer of all or part of the Scheme Shares.
Second Court Date	the first day of the hearing of an application made to the Court for an order pursuant to paragraph 411(4)(b) of the Corporations Act approving this Scheme or, if the hearing of such application is adjourned for any reason, the first day of the adjourned hearing.
SFO	Simonds Family Office Pty Ltd ACN 602 022 140.
Share Register	the register of members of the Target maintained by or on behalf of the Target in accordance with section 168(1) of the Corporations Act.
Target	Simonds Group Limited ACN 143 841 801.
Target Registry	Boardroom Pty Limited ACN 003 209 836.
Target Share	a fully paid ordinary share in the capital of the Target.
Target Shareholder	each person who is registered as the holder of a Target Share in the Share Register.

1.2 Interpretation

In this Scheme:

(a) headings and bold type are for convenience only and do not affect the interpretation of this Scheme;

(b) the singular includes the plural and the plural includes the singular;

(c) words of any gender include all genders;

(d) other parts of speech and grammatical forms of a word or phrase defined in this Scheme have a corresponding meaning;

(e) a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any Government Agency as well as an individual;

(f) a reference to a clause, party, schedule, attachment or exhibit is a reference to a clause of, and a party, schedule, attachment or exhibit to, this Scheme;

(g) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or reenactments of any of them (whether passed by the same or another Government Agency with legal power to do so);

(h) a reference to a document (including this Scheme) includes all amendments or supplements to, or replacements or novations of, that document;

(i) the word 'includes' in any form is not a word of limitation;

(j) a reference to '$', 'A$' or 'dollar' is to Australian currency;

(k) a reference to any time is, unless otherwise indicated, a reference to that time in Melbourne, Australia;

(l) a term defined in or for the purposes of the Corporations Act has the same meaning when used in this Scheme;

(m) a reference to a party to a document includes that party's successors and permitted assignees;

(n) no provision of this Scheme will be construed adversely to a party because that party was responsible for the preparation of this Scheme or that provision; and

(o) a reference to a body, other than a party to this Scheme (including an institute, association or authority), whether statutory or not:

  (1) which ceases to exist; or

  (2) whose powers or functions are transferred to another body,

  is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

1.3 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

2 Preliminary matters

(a) The Target is a public company limited by shares, incorporated in Australia, and has been admitted to the official list of the ASX.

(b) As at the date of the Implementation Agreement, there were on issue:

  (1) 143,841,655 Target Shares, which are quoted for trading on the ASX; and

  (2) no more than 507,768 performance rights and no more than 28,087 service rights, in each case which are not quoted for trading on any stock exchange.

(c) SFO is a company limited by shares registered in Victoria.

(d) Roche is a company limited by shares registered in Victoria.

(e) The Bidder, a company that is jointly-owned by associates of SFO and Roche, is a company limited by shares registered in Victoria.

(f) If this Scheme becomes Effective:

(1) the Bidder must provide, and the Guarantors must procure that the Bidder provides, the Scheme Consideration to the Scheme Shareholders in accordance with the terms of this Scheme and the Deed Poll; and

(2) all the Scheme Shares, and all the rights and entitlements attaching to them as at the Implementation Date, must be transferred to the Bidder or, if applicable, its Nominees. and the Target will enter the name of the Bidder or, if applicable, its Nominees in the Share Register in respect of the Scheme Shares on the Implementation Date.

(g) The Target and the Bidder have agreed, subject to the terms and conditions of the Implementation Agreement, to implement this Scheme.

(h) This Scheme attributes actions to the Guarantors and the Bidder but does not itself impose an obligation on them to perform those actions. Each Guarantor and the Bidder have agreed, by executing the Deed Poll, to perform the actions attributed to them under this Scheme, including the provision or procuring the provision of the Scheme Consideration to the Scheme Shareholders.

3 Conditions

3.1 Conditions precedent

This Scheme is conditional on and will have no force or effect until, the satisfaction of each of the following conditions precedent:

(a) all the conditions in clause 3.1 of the Implementation Agreement (other than the condition in the Implementation Agreement relating to Court approval of this Scheme) having been satisfied or waived in accordance with the terms of the Implementation Agreement by 8.00am on the Second Court Date;

(b) neither the Implementation Agreement nor the Deed Poll having been terminated in accordance with their terms before 8.00am on the Second Court Date;

(c) approval of this Scheme by the Court under paragraph 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under subsection 411(6) of the Corporations Act and agreed to by the Bidder and the Target;

(d) such other conditions made or required by the Court under subsection 411(6) of the Corporations Act in relation to this Scheme and agreed to by the Bidder and the Target having been satisfied or waived; and

(e) the orders of the Court made under paragraph 411(4)(b) (and, if applicable, subsection 411(6)) of the Corporations Act approving this Scheme coming into effect, pursuant to subsection 411(10) of the Corporations Act on or before the End Date (or any later date the Target and the Bidder agree in writing).

3.2 Certificate

(a) The Target and the Bidder will provide to the Court on the Second Court Date a certificate, or such other evidence as the Court requests, confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent in clauses 3.1(a) and 3.1(b) have been satisfied or waived.

(b) The certificate referred to in clause 3.2(a) constitutes conclusive evidence that such conditions precedent were satisfied, waived or taken to be waived.

4 Implementation of this Scheme

4.1 Lodgement of Court orders with ASIC

The Target must lodge with ASIC, in accordance with subsection 411(10) of the Corporations Act, an office copy of the Court order approving this Scheme as soon as possible after the Court approves this Scheme and in any event by 5.00pm on the first Business Day after the day on which the Court approves this Scheme.

4.2 Transfer of Scheme Shares

On the Implementation Date:

(a) subject to the provision of the Scheme Consideration in the manner contemplated by clause 5, the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, must be transferred to the Bidder or, if applicable, to its Nominees, without the need for any further act by any Scheme Shareholder (other than acts performed by the Target as attorney and agent for Scheme Shareholders under clause 8.5), by:

  (1) the Target delivering to the Bidder a duly completed Scheme Transfer, executed on behalf of the Scheme Shareholders by the Target, for registration; and

  (2) the Bidder or, if applicable, its Nominees duly executing the Scheme Transfer, attending to the stamping of the Scheme Transfer (if required) and delivering it to the Target for registration; and

(b) immediately following receipt of the Scheme Transfer in accordance with clause 4.2(a)(2), but subject to the stamping of the Scheme Transfer (if required), the Target must enter, or procure the entry of, the name of the Bidder or, if applicable, its Nominees, in the Share Register in respect of all the Scheme Shares transferred to the Bidder in accordance with this Scheme.

5 Scheme Consideration

5.1 Provision of Scheme Consideration

(a) The Bidder must, and the Guarantors must procure that the Bidder does, by no later than the Business Day before the Implementation Date, deposit in cleared funds an amount equal to the aggregate amount of the Scheme Consideration payable to each Scheme Shareholder, in an Australian dollar denominated trust account operated by the Target as trustee for the Scheme Shareholders and notified to the Bidder at least 3 Business Days prior to the Implementation Date, (provided that any interest on the amounts deposited (less bank fees and other charges) will be credited to the Bidder's account).

(b) On the Implementation Date, subject to funds having been deposited in accordance with clause 5.1(a), the Target must pay or procure the payment from the trust account referred to in clause 5.1(a) of the Scheme Consideration to each Scheme Shareholder based on the number of Scheme Shares held by such Scheme Shareholder as set out in the Share Register on the Scheme Record Date.

(c) The obligations of the Target under clause 5.1(b) will be satisfied by the Target (in its absolute discretion):

(1) where a Scheme Shareholder has, before the Scheme Record Date, made a valid election in accordance with the requirements of the Target Registry to receive dividend payments from the Target by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount in Australian currency by electronic means in accordance with that election; or

(2) otherwise, whether or not the Scheme Shareholder has made an election referred to in clause 5.1(c)(1), dispatching, or procuring the dispatch of, a cheque for the relevant amount in Australian currency to the Scheme Shareholder by prepaid post to their Registered Address (as at the Scheme Record Date), such cheque being drawn in the name of the Scheme Shareholder (or in the case of joint holders, in accordance with the procedures set out in clause 5.2).

(d) To the extent that, following satisfaction of the Target's obligations under clause 5.1(b), there is a surplus in the amount held by the Target as trustee for the Scheme Shareholders in the trust account referred to in that clause, that surplus shall be paid by the Target to the Bidder.

5.2 Joint holders

In the case of Scheme Shares held in joint names:

(a) subject to clause 5.1(c), the Scheme Consideration is payable to the joint holders and any cheque required to be sent under this Scheme will be made payable to the joint holders and sent to either, at the sole discretion of the Target, the holder whose name appears first in the Share Register as at the Scheme Record Date or to the joint holders; and

(b) any other document required to be sent under this Scheme, will be forwarded to either, at the sole discretion of the Target, the holder whose name appears first in the Share Register as at the Scheme Record Date or to the joint holders.

5.3 Unclaimed monies

(a) The Target may cancel a cheque issued under this clause 5 if the cheque:

(1) is returned to the Target; or

(2) has not been presented for payment within six months after the date on which the cheque was sent.

(b) During the period of one year commencing on the Implementation Date, on request in writing from a Scheme Shareholder to the Target (or the Target Registry) (which request may not be made until the date which is 10 Business Days after the Implementation Date), the Target must reissue a cheque that was previously cancelled under this clause 5.3.

(c) The *Unclaimed Money Act* 2008 (Vic) will apply in relation to any Scheme Consideration which becomes 'unclaimed money' (as defined in section 3 of the *Unclaimed Money Act* 2008 (Vic)).

5.4 Orders of a court or Government Agency

If written notice is given to the Target (or the Target Registry) of an order or direction made by a court of competent jurisdiction or by another Government Agency that:

(a) requires consideration to be provided to a third party (either through payment of a sum or the issuance of a security) in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable or required to be issued to that Scheme Shareholder by the Target in accordance with this clause 5, then the Target shall be entitled to procure that provision of that consideration is made in accordance with that order or direction; or

(b) prevents the Target from providing consideration to any particular Scheme Shareholder in accordance with this clause 5, or the payment or issuance of such consideration is otherwise prohibited by an applicable law, the Target shall be entitled to (as applicable) retain an amount, in Australian dollars, equal to the number of Scheme Shares held by that Scheme Shareholder multiplied by the Scheme Consideration until such time as provision of the Scheme Consideration in accordance with this clause 5 is permitted by that order or direction or otherwise by law.

6 Dealings in Target Shares

6.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in Target Shares or other alterations to the Share Register will only be recognised if:

(a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Share Register as the holder of the relevant Target Shares on or before the Scheme Record Date; and

(b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received on or before the Scheme Record Date at the place where the Share Register is kept,

and the Target must not accept for registration, nor recognise for any purpose (except a transfer to the Bidder or, if applicable, its Nominees, pursuant to this Scheme and any subsequent transfer by the Bidder or its successors in title), any transfer or transmission application or other request received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

6.2 Register

(a) The Target must register registrable transmission applications or transfers of the Scheme Shares in accordance with clause 6.1(b) before the Scheme Record Date provided that, for the avoidance of doubt, nothing in this clause 6.2(a) requires the Target to register a transfer that would result in a Target Shareholder holding a parcel of Target Shares that is less than a 'marketable parcel' (for the purposes of this clause 6.2(a) 'marketable parcel' has the meaning given in the Operating Rules).

(b) If this Scheme becomes Effective, a holder of Scheme Shares (and any person claiming through that holder) must not dispose of, or purport or agree to dispose of, any Scheme Shares or any interest in them on or after the Scheme Record Date otherwise than pursuant to this Scheme, and any attempt to do so will have no effect and the Target shall be entitled to disregard any such disposal.

(c) For the purpose of determining entitlements to the Scheme Consideration, the Target must maintain the Share Register in accordance with the provisions of this clause 6.2 until the Scheme Consideration has been paid to the Scheme Shareholders. The Share Register in this form will solely determine entitlements to the Scheme Consideration.

(d) All statements of holding for Target Shares (other than statements of holding in favour of any Excluded Shareholder) will cease to have effect after the Scheme Record Date as documents of title in respect of those shares and, as from that date, each entry current at that date on the Share Register (other than entries on the Share Register in respect of any Excluded Shareholder) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Target Shares relating to that entry.

(e) As soon as possible on or after the Scheme Record Date, and in any event within one Business Day after the Scheme Record Date, the Target will ensure that details of the names, Registered Addresses and holdings of the Target Shares for each Scheme Shareholder as shown in the Share Register are available to the Bidder in the form the Bidder reasonably requires.

7 Quotation of Target Shares

(a) The Target must apply to ASX to suspend trading on the ASX in Target Shares with effect from the close of trading on the Effective Date.

(b) On a date after the Implementation Date to be determined by the Bidder, the Target must apply:

  (1) for termination of the official quotation of Target Shares on the ASX; and

  (2) to have itself removed from the official list of the ASX.

8 General Scheme provisions

8.1 Consent to amendments to this Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions:

(a) the Target may by its counsel consent on behalf of all persons concerned to those alterations or conditions to which the Bidder has consented in writing; and

(b) each Scheme Shareholder agrees to any such alterations or conditions which counsel for the Target has consented to.

8.2 Scheme Shareholders' agreements and warranties

(a) Each Scheme Shareholder:

(1) agrees to the transfer of their Target Shares together with all rights and entitlements attaching to those Target Shares in accordance with this Scheme;

(2) agrees to the variation, cancellation or modification of the rights attached to their Target Shares constituted by or resulting from this Scheme;

(3) agrees to, on the direction of the Bidder, destroy any holding statements or share certificates relating to their Target Shares; and

(4) acknowledges and agrees that this Scheme binds the Target and all Scheme Shareholders (including those who do not attend the Scheme Meeting and those who do not vote, or vote against this Scheme, at the Scheme Meeting).

(b) Each Scheme Shareholder is taken to have warranted to the Target and the Bidder on the Implementation Date, and appointed and authorised the Target as its attorney and agent to warrant to the Bidder on the Implementation Date, that all their Target Shares (including any rights and entitlements attaching to those shares) which are transferred under this Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to transfer their Target Shares to the Bidder together with any rights and entitlements attaching to those shares. The Target undertakes that it will provide such warranty to the Bidder as agent and attorney of each Scheme Shareholder.

8.3 Title to and rights in Scheme Shares

(a) To the extent permitted by law, the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme to the Bidder or, if applicable, its Nominees, will, at the time of transfer of them to the Bidder or, if applicable, its Nominees, vest in the Bidder or, if applicable, its Nominees, free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise and free from any restrictions on transfer of any kind.

(b) Immediately upon the provision of the Scheme Consideration to each Scheme Shareholder in the manner contemplated by clause 5, the Bidder or, if applicable, its Nominees, will be beneficially entitled to the Scheme Shares to be transferred to it under this Scheme pending registration by the Target of the Bidder or, if applicable, its Nominees, in the Share Register as the holder of the Scheme Shares.

8.4 Appointment of sole proxy

Immediately upon the provision of the Scheme Consideration to each Scheme Shareholder in the manner contemplated by clause 5, and until the Target registers the Bidder or, if applicable, its Nominees, as the holder of all Scheme Shares in the Share Register, each Scheme Shareholder:

(a) is deemed to have appointed the Bidder as attorney and agent (and directed the Bidder in each such capacity) to appoint any director, officer, secretary or agent nominated by the Bidder as its sole proxy and, where applicable or appropriate, corporate representative to attend shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any shareholders' resolution;

(b) must not attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to clause 8.4(a));

(c) must take all other actions in the capacity of a registered holder of Scheme Shares as the Bidder reasonably directs; and

(d) acknowledges and agrees that in exercising the powers referred to in clause 8.4(a), the Bidder and any director, officer, secretary or agent nominated by the Bidder under clause 8.4(a) may act in the best interests of the Bidder as the intended registered holder of the Scheme Shares.

8.5 Authority given to Target

Each Scheme Shareholder, without the need for any further act:

(a) on the Effective Date, irrevocably appoints the Target and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of enforcing the Deed Poll against each Guarantor and the Bidder, and the Target undertakes in favour of each Scheme Shareholder that it will enforce the Deed Poll against each Guarantor and the Bidder on behalf of and as agent and attorney for each Scheme Shareholder; and

(b) on the Implementation Date, irrevocably appoints the Target and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of executing any document or doing or taking any other act necessary, desirable or expedient to give effect to this Scheme and the transactions contemplated by it, including (without limitation) executing the Scheme Transfer,

and the Target accepts each such appointment. The Target as attorney and agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 8.5 to all or any of its directors, officers, secretaries or employees (jointly, severally or jointly and severally).

8.6 Binding effect of Scheme

This Scheme binds the Target and all of the Scheme Shareholders (including those who did not attend the Scheme Meeting to vote on this Scheme, did not vote at the Scheme Meeting, or voted against this Scheme at the Scheme Meeting) and, to the extent of any inconsistency, overrides the constitution of the Target.

9 General

9.1 Stamp duty

The Bidder will, and the Guarantors must procure that the Bidder does:

(a) pay all stamp duty and any related fines and penalties in respect of this Scheme and the Deed Poll, the performance of the Deed Poll and each transaction effected by or made under this Scheme and the Deed Poll; and

(b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 9.1(a).

9.2 Consent

Each of the Scheme Shareholders consents to the Target doing all things necessary or incidental to, or to give effect to, the implementation of this Scheme, whether on behalf of the Scheme Shareholders, the Target or otherwise.

9.3 Notices

(a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to the Target, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at the Target's registered office or at the office of the Target Registry.

(b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by a Target Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

9.4 Governing law

(a) This Scheme is governed by the laws in force in Victoria, Australia.

(b) The parties irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in Victoria, Australia and courts of appeal from them in respect of any proceedings arising out of or in connection with this Scheme. The parties irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

9.5 Further action

The Target must do all things and execute all documents necessary to give full effect to this Scheme and the transactions contemplated by it.

9.6 No liability when acting in good faith

Each Scheme Shareholder agrees that neither the Target, the Bidder, nor the Guarantors, nor any director, officer, secretary or employee of the Target, the Bidder or the Guarantors shall be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

Annexure C

Deed Poll

HERBERT
SMITH
FREEHILLS

Deed

Deed poll

SR Residential Pty Ltd

Simonds Family Office Pty Ltd

Roche Holdings Pty Ltd

101 Collins Street Melbourne Vic 3000 Australia
GPO Box 128A Melbourne Vic 3001 Australia

T +61 3 9288 1234 **F** +61 3 9288 1567
herbertsmithfreehills.com DX 240 Melbourne

HERBERT
SMITH
FREEHILLS

Deed poll

Date ► 25 September 2016

This deed poll is made

By	**SR Residential Pty Ltd** ACN 614 474 949 of Level 3, 51 Stephenson Street, Cremorne VIC 3121 (**Bidder**)
	Simonds Family Office Pty Ltd ACN 602 022 140 of Level 5, 570 St Kilda Road, Melbourne VIC 3004 (**SFO**)
	Roche Holdings Pty Ltd ACN 007 046 040 of Level 3, 51 Stephenson Street, Cremorne VIC 3121 (**Roche**)
in favour of	each person registered as a holder of fully paid ordinary shares in Simonds Group Limited ACN 143 841 801 (**Target**) in the Target Share Register as at the Scheme Record Date (other than the Excluded Shareholders).
Recitals	1 The Target, the Bidder, SFO and Roche entered into the Implementation Agreement. 2 In the Implementation Agreement, each Guarantor and the Bidder agreed to make this deed poll. 3 The Guarantors and the Bidder are making this deed poll for the purpose of covenanting in favour of the Scheme Shareholders to perform their obligations under the Implementation Agreement and the Scheme.

This deed poll provides as follows:

HERBERT
SMITH
FREEHILLS

1 Definitions and interpretation

1.1 Definitions

(a) The meanings of the terms used in this deed poll are set out below.

Term	Meaning
First Court Date	the first day of the hearing of an application made to the Court for an order pursuant to subsection 411(1) of the Corporations Act convening the Scheme Meeting or, if the hearing of such application is adjourned for any reason, the first day of the adjourned hearing.
Implementation Agreement	the scheme implementation agreement entered into between the Target, the Bidder, SFO and Roche dated 30 August 2016 (as amended on 25 September 2016).
Scheme	the scheme of arrangement under Part 5.1 of the Corporations Act between the Target and the Scheme Shareholders, the form of which is set out in Attachment 1 to this deed poll, subject to any alterations or conditions made or required by the Court under subsection 411(6) of the Corporations Act and agreed to by the Bidder and the Target.

(b) Unless the context otherwise requires, terms defined in the Scheme have the same meaning when used in this deed poll.

1.2 Interpretation

Sections 1.2 and 1.3 of the Scheme apply to the interpretation of this deed poll, except that references to 'this Scheme' are to be read as references to 'this deed poll'.

1.3 Nature of deed poll

Each Guarantor and the Bidder acknowledge that:

(a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it; and

(b) under the Scheme, each Scheme Shareholder irrevocably appoints the Target and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney to enforce this deed poll against the Guarantors and the Bidder.

2 Conditions to obligations

2.1 Conditions

This deed poll and the obligations of the Guarantors and the Bidder under this deed poll are subject to the Scheme becoming Effective.

2.2 Termination

The obligations of the Guarantors and the Bidder under this deed poll to the Scheme Shareholders will automatically terminate and the terms of this deed poll will be of no force or effect if:

(a) the Implementation Agreement is terminated in accordance with its terms; or

(b) the Scheme is not Effective on or before the End Date,

unless the Guarantors, the Bidder and the Target otherwise agree in writing.

2.3 Consequences of termination

If this deed poll terminates under clause 2.2, in addition and without prejudice to any other rights, powers or remedies available to it:

(a) each Guarantor and the Bidder are released from their obligations to further perform this deed poll, except those obligations under clause 7.1; and

(b) each Scheme Shareholder retains the rights they have against the Guarantors and the Bidder in respect of any breach of this deed poll which occurred before it was terminated.

3 Scheme Consideration

Subject to clause 2, the Bidder undertakes, and the Guarantors undertake to procure the Bidder, in favour of each Scheme Shareholder to:

(a) deposit, in cleared funds, by no later than the Business Day before the Implementation Date, an amount equal to the aggregate amount of the Scheme Consideration payable to all Scheme Shareholders under the Scheme into an Australian dollar denominated trust account operated by the Target as trustee for the Scheme Shareholders, except that any interest on the amounts deposited (less bank fees and other charges) will be credited to the Bidder's account; and

(b) undertake all other actions attributed to it under the Scheme,

subject to and in accordance with the terms of the Scheme.

4 Warranties

Each of the Guarantors and the Bidder represent and warrant in favour of each Scheme Shareholder, in respect of itself, that:

(a) it is a corporation validly existing under the laws of its place of registration;

(b) it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;

(c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll;

(d) this deed poll is valid and binding on it and enforceable against it in accordance with its terms; and

(e) this deed poll does not conflict with, or result in the breach of or default under, any provision of its constitution, or any writ, order or injunction, judgment, law, rule or regulation to which it is a party or subject or by which it is bound.

5 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

(a) each Guarantor and the Bidder have fully performed their obligations under this deed poll; or

(b) the earlier termination of this deed poll under clause 2.

6 Notices

6.1 Form of Notice

A notice or other communication in respect of this deed poll (**Notice**) must be:

(a) in writing and in English and signed by or on behalf of the sending party; and

(b) addressed to each Guarantor and the Bidder in accordance with the details set out below (or any alternative details nominated by the Guarantors or the Bidder by Notice).

Attention	Mr James Roche *Copy to: Mr Piers O'Brien*
Address	Level 3, 51 Stephenson Street, Cremorne VIC 3121 *Copy to: Level 5, 570 St Kilda Road, Melbourne VIC 3004*
Email address	c/- smorrissy@claytonutz.com *Copy to: pobrien@simondsfamily.com.au*

6.2 How Notice must be given and when Notice is received

(a) A Notice must be given by one of the methods set out in the table below.

(b) A Notice is regarded as given and received at the time set out in the table below.

However, if this means the Notice would be regarded as given and received outside the period between 9.00am and 5.00pm (addressee's time) on a Business Day (**business hours period**), then the Notice will instead be regarded as given and received at the start of the following business hours period.

Method of giving Notice	When Notice is regarded as given and received
By hand to the nominated address	When delivered to the nominated address
By pre-paid post to the nominated address	At 9.00am (addressee's time) on the second Business Day after the date of posting
By email to the nominated email address	When the email (including any attachment) comes to the attention of the recipient party or a person acting on its behalf.

6.3 Notice must not be given by electronic communication

A Notice must not be given by electronic means of communication (other than email as permitted in clause 6.2).

7 General

7.1 Stamp duty

The Guarantors and the Bidder:

(a) will pay all stamp duty and any related fines and penalties in respect of the Scheme and this deed poll, the performance of this deed poll and each transaction effected by or made under the Scheme and this deed poll; and

(b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 7.1(a).

7.2 Governing law and jurisdiction

(a) This deed poll is governed by the law in force in Victoria, Australia.

(b) Each Guarantor and the Bidder irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in Victoria and courts of appeal from them in respect of any proceedings arising out of or in connection with this deed poll. Each Guarantor and the Bidder irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

7.3 Waiver

(a) Each Guarantor and the Bidder may not rely on the words or conduct of any Scheme Shareholder as a waiver of any right unless the waiver is in writing and signed by the Scheme Shareholder granting the waiver.

(b) The meanings of the terms used in this clause 7.3 are set out below.

Term	Meaning
conduct	includes delay in the exercise of a right.
right	any right arising under or in connection with this deed poll and includes the right to rely on this clause.
waiver	includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

7.4 Variation

A provision of this deed poll may not be varied unless the variation is agreed by each Guarantor and the Bidder and:

(a) if before the First Court Date, the variation is agreed to by the Target; or

(b) if on or after the First Court Date, the variation is agreed to by the Target and the Court indicates that the variation would not of itself preclude approval of the Scheme,

in which event the Guarantors and the Bidder will enter into a further deed poll in favour of the Scheme Shareholders giving effect to the variation.

7.5 Cumulative rights

The rights, powers and remedies of the Guarantors, the Bidder and the Scheme Shareholders under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

7.6 Assignment

(a) The rights created by this deed poll are personal to each Guarantor, the Bidder and each Scheme Shareholder and must not be dealt with at law or in equity without the prior written consent of each Guarantor and the Bidder.

(b) Any purported dealing in contravention of clause 7.6(a) is invalid.

7.7 Joint and several obligations

The obligations of each Guarantor under this deed poll are joint and several.

7.8 Further action

Each Guarantor and the Bidder must, at their own expense, do all things and execute all documents necessary to give full effect to this deed poll and the transactions contemplated by it.

HERBERT
SMITH
FREEHILLS

Signing page

Executed as a deed poll

Bidder

Signed sealed and delivered by
SR Residential Pty Ltd
by

sign here ►		*sign here* ►	
	Company Secretary/Director		Director
print name	JAMES ROCHE	*print name*	PAUL SANTORO

Guarantor

Signed sealed and delivered by
Simonds Family Office Pty Ltd
by

sign here ►		*sign here* ►	
	Company Secretary~~/Director~~		Director
print name	PIERS O'BRIEN	*print name*	MARK SIMONDS

Guarantor

Signed sealed and delivered by
Roche Holdings Pty Ltd
by

sign here ►		*sign here* ►	
	Company Secretary/Director		Director
print name	JAMES ROCHE	*print name*	K. J. ROCHE

Attachment 1

Scheme of arrangement

See Annexure B of this Scheme Booklet

Notice of Meeting

Simonds Group Limited ACN 143 841 801 (Company)

Notice of meeting

Notice is hereby given, that by an order of the Supreme Court of Victoria pursuant to section 411(1) of the *Corporations Act 2001* (Cth), a meeting of Shareholders (other than Excluded Shareholders) will be held at the Pullman Hotel (Park Room), 65 Queens Road, Albert Park, Victoria 3004 on Tuesday, 29 November 2016 at 10.00am (Melbourne time).

Business of meeting

The purpose of the Scheme Meeting is to consider and, if thought fit, to agree to a Scheme of Arrangement (with or without modification) to be made between the Company and its Shareholders (other than Excluded Shareholders).

Resolution

The Scheme Meeting will be asked to consider, and, if thought fit, to pass the following resolution:

"That, pursuant to and in accordance with section 411 of the Corporations Act, the Scheme of Arrangement (the terms of which are described in the Scheme Booklet of which the notice convening this meeting forms part) is agreed to (with or without modification as approved by the Supreme Court of Victoria)."

By order of the IBC.

Ms Elizabeth Hourigan
Company Secretary
Dated 26 October 2016

Explanatory notes

Material accompanying this notice

This notice of meeting and the Scheme Resolution should be read in conjunction with the booklet of which this notice forms part (**Scheme Booklet**). Terms used in this notice, unless otherwise defined, have the same meaning as set out in the Glossary in section 9 of the Scheme Booklet.

A Proxy Form also accompanies this notice.

Voting

The Independent Directors recommend that you vote in favour of the Scheme Resolution. They each intend to vote all Shares held by them in favour of the Scheme Resolution.

Quorum

A quorum for a meeting of Shareholders is two or more members present at the meeting and entitled to vote on a resolution at the meeting.

Majorities required

In accordance with section 411(4)(a) of the Corporations Act, for the Scheme of Arrangement to be approved by Shareholders, the Scheme Resolution must be passed by:

- unless the court orders otherwise, a majority in number of Shareholders present and voting (either in person or by proxy); and
- at least 75% of the votes cast on the resolution by Shareholders.

Court approval

In accordance with section 411(4)(b) of the Corporations Act, to become Effective, the Scheme of Arrangement must be approved by the order of the Court. If the Scheme Resolution set out in this notice is agreed to by the required majorities set out above and the conditions set out in the Scheme of Arrangement are satisfied or waived (where capable of waiver), the Company will apply to the Court for the necessary orders to give effect to the Scheme of Arrangement.

Determination of entitlement to attend and vote

Pursuant to regulation 7.11.37 of the Corporations Regulations, on 24 October 2016, it was determined that for the purposes of the Scheme Meeting, Shares will be taken to be held by the persons who are registered as members at 7.00pm on Sunday, 27 November 2016. Accordingly, registrable transmission applications to transfers registered after this time will be disregarded in determining entitlements to vote at the Scheme Meeting.

How to vote

If you are a Shareholder entitled to attend and vote at the Scheme Meeting, you may vote by:

- attending the Scheme Meeting in person;
- appointing a proxy to attend on your behalf;
- appointing an attorney to vote on your behalf; or
- in the case of a corporation which is a Shareholder, by appointing an authorised corporate representative to attend on its behalf.

Voting at the Scheme Meeting will occur by poll

All persons attending the Scheme Meeting are asked to arrive at least 30 minutes prior to the time the Scheme Meeting is to commence, so that either their shareholding may be checked against the Register, their power of attorney or appointment as corporate representative can be verified (as the case may be), and their attendance noted.

Jointly held securities

If the Shares are jointly held, each of the joint shareholders is entitled to vote. However, if more than one shareholder votes in respect of jointly held Shares, only the vote of the shareholder whose name appears first on the Register will be counted.

Voting in person

To vote in person at the Scheme Meeting, you must attend the Scheme Meeting to be held at the Pullman Hotel (Park Room), 65 Queens Road, Albert Park, Victoria 3004 on Tuesday, 29 November 2016. The meeting will commence at 10.00am.

A Shareholder who wishes to attend and vote at the Scheme Meeting in person will be admitted to the Scheme Meeting and given a voting card on disclosure at the point of entry to the Scheme Meeting of their name and address.

Voting by proxy

A Shareholder entitled to attend and vote at the meeting is also entitled to appoint a proxy to vote on their behalf. The Proxy Form is enclosed with this Scheme Booklet. You may appoint not more than two proxies to attend and act for you at the Scheme Meeting. A proxy need not be a Shareholder. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes.

If you do not instruct your proxy on how to vote, your proxy may vote as he or she sees fit at the Scheme Meeting.

A proxy will be admitted to the Scheme Meeting and given a voting card on providing, at the point of entry to the Scheme Meeting, their name and address.

The sending of a Proxy Form will not preclude a Shareholder from attending in person and voting at the Scheme Meeting if the Shareholder is entitled to attend and vote.

For the appointment of a proxy to be effective, the Proxy Form enclosed with this Notice of Meeting must be completed and:

- lodged online at www.votingonline.com.au/simondsgm2016 (see below);
- deposited at the Registry, Boardroom Pty Limited, located at Level 12, 225 George, Sydney NSW 2000, Australia;
- sent by post to Boardroom Pty Limited at GPO Box 3993, Sydney NSW 2001, Australia; or
- sent by facsimile to the Registry on +61 2 9290 9655.

An authority under which the Proxy Form is executed, or a certified copy of that authority, must be deposited at the Registry or sent by post to the address above (and received) before the cut-off time.

Please note that Proxy Forms must be received by the Registry by no later than 10.00am (Melbourne time) on Sunday, 27 November 2016.

Shareholders wishing to lodge electronic proxies online may do so by accessing the Investor Vote system on the Registry's website at www.votingonline.com.au/simondsgm2016 and then inputting the shareholder's secure access information to commence voting. Shareholders must lodge electronic proxies online no later than 10.00am (Melbourne time) on Sunday, 27 November 2016.

Voting by attorney

For the appointment of an attorney to be effective, the instrument appointing the attorney and the power of attorney under which it was executed, or a certified copy of that power, must be deposited or sent by post in the manner and within the time period set out above.

An attorney will be admitted to the Scheme Meeting and given a voting card on providing at the point of entry of the Scheme Meeting evidence of their appointment, their name and address and the identity of their appointer.

The sending of a power of attorney will not preclude a Shareholder from attending in person and voting at the Scheme Meeting if the Shareholder is entitled to attend and vote.

Voting by corporate representative

To vote at the Scheme Meeting (other than by proxy or by attorney), a corporation that is a Shareholder must appoint a person (either by name or position and whether a Shareholder or not) to act as its representative. The appointment must comply with section 250D of the Corporations Act.

An authorised corporate representative will be admitted to the Scheme Meeting and given a voting card on providing at the point of entry to the Scheme Meeting evidence of their appointment including any authority under which it is signed, their name and address and the identity of their appointer.

Corporate Directory

Simonds Group Limited

Level 1, 570 St Kilda Road
Melbourne VIC 3004
Australia

Financial Adviser

Macquarie Capital (Australia) Limited
Level 23, 101 Collins Street
Melbourne, Victoria 3000
Australia

Legal Adviser

Herbert Smith Freehills
Level 42, 101 Collins Street
Melbourne, Victoria 3000
Australia

Share Registry

Boardroom Pty Limited
Level 12, 225 George Street
Sydney NSW 2000
Australia
Telephone: 1300 737 760 (investors within Australia) +61 2 9290 9600 (investors outside Australia)
Fax: +61 2 9290 9655

Shareholder Information Line

1300 737 760 (within Australia)
+61 2 9290 9600 (outside Australia)

Simonds Group

Simonds Group Limited
ACN 143 841 801

All Correspondence to:

By Mail	Boardroom Pty Limited GPO Box 3993 Sydney NSW 2001 Australia
By Fax:	+61 2 9290 9655
Online:	www.boardroomlimited.com.au
By Phone:	(within Australia) 1300 737 760 (outside Australia) +61 2 9290 9600

YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded **before 10:00am (Melbourne time) on Sunday, 27 November 2016.**

TO VOTE ONLINE

STEP 1: VISIT www.votingonline.com.au/simondsgm2016

STEP 2: Enter your Postcode OR Country of Residence (if outside Australia)

STEP 3: Enter your Voting Access Code (VAC):

.

BY SMARTPHONE

Scan QR Code using smartphone QR Reader App

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chair of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chair of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chair of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the company's securities registry or you may copy this form.

To appoint a second proxy you must:

(a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.

(b) return both forms together in the same envelope.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative can be obtained from Boardroom or online at http://www.boardroomlimited.com.au/Forms.html.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your securities your vote on that item will be invalid.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: Where the holding is in more than one name, all the securityholders should sign.

Power of Attorney: To sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: This form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting, therefore by **10:00am (Melbourne time) on Sunday, 27 November 2016.** Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

Online	www.votingonline.com.au/simondsgm2016
By Fax	+ 61 2 9290 9655
By Mail	Boardroom Pty Limited GPO Box 3993, Sydney NSW 2001 Australia
In Person	Boardroom Pty Limited Level 12, 225 George Street, Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

If a representative of a corporate securityholder is to attend the meeting you will need to provide the appropriate "Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Boardroom or online at http://www.boardroomlimited.com.au/Forms.html.

Simonds Group Limited
ACN 143 841 801

☐ **Your Address**
This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Securityholders sponsored by a broker should advise their broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

PROXY FORM

STEP 1 APPOINT A PROXY

I/We being a member/s of **Simonds Group Limited** (Company) and entitled to attend and vote hereby appoint:

☐ the **Chair of the Meeting (mark box)**

OR if you are **NOT** appointing the Chair of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the Meeting as my/our proxy at the Scheme Meeting of the Company to be held at **Pullman Hotel (Park Room), 65 Queens Road, Albert Park, Victoria 3004** on **Tuesday, 29 November 2016 at 10:00am (Melbourne time)** and at any adjournment of that Scheme Meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

The Chair of the Meeting intends to vote undirected proxies in favour of each of the items of business.

STEP 2 VOTING DIRECTIONS

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority if a poll is called.

		For	**Against**	**Abstain***
Resolution 1	"That, pursuant to and in accordance with section 411 of the Corporations Act, the Scheme of Arrangement (the terms of which are described in the Scheme Booklet of which the notice convening this meeting forms part) is agreed to (with or without modification as approved by the Supreme Court of Victoria)."	☐	☐	☐

STEP 3 SIGNATURE OF SHAREHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director / Company Secretary

Contact Name…………………………………………….... Contact Daytime Telephone……………………............................... Date / / 2016