Simonds Group

Annual Report
2016

Simonds Group

Contents

CHAIRMAN'S WELCOME

Dear Shareholders,

Welcome to the Simonds Group Ltd (Group or Company) 2016 Annual Report. This report provides shareholders with insights into the activities of the business and detailed financial results for the year to 30 June 2016, as well as an overview on the outlook for the 2017 financial year.

The 2016 financial year saw good revenue growth for the Group; however, the business has faced a number of operational challenges, higher costs, and one-time charges that have impacted the Company's profitability for the year.

Whilst we are disappointed in the 2016 financial results, we remain very confident that the fundamentals of our two key businesses, Simonds Homes Australia (SHA) and Builders Academy Australia (BAA), remain strong. SHA remains "The Great Australian Builder" and achieved strong revenue growth from a record number of house site starts as we expanded the business into the New South Wales and Queensland markets. BAA continues to provide education and qualification opportunities for people employed in the construction sector. The year also saw the extension of BAA into New South Wales and Queensland, which will enable the business to diversify and grow into these markets.

During the year our Managing Director and CEO, Paul McMahon, retired as did a number of other senior executives. Paul led the Simonds Group for over seven years including the evolution from a primarily Victorian-based private company to expand into the South Australian, New South Wales and Queensland markets, and its IPO in November 2014.

As a key part of board succession, Rhett Simonds joined the Board in April 2016. Rhett, my grandson, has worked in various roles within the business since 2005 and it is wonderful to have my family involvement extend to a third generation, both from a succession and experience perspective.

Richard Colless retired in April 2016 and I would like to thank Richard for his work in helping establish our inaugural Board to enable the Company to list in November 2014.

In April 2016 we welcomed Matthew Chun as our Group CEO and Managing Director. Matthew has significant experience both in the property sector and as a CEO of an ASX listed company. Matthew previously served as a Non-Executive Director on the Simonds Group Board. His experience in the industry, financial acumen and leadership skills are precisely what the business requires and we look forward to working with him in his new capacity.

On 31 August 2016, the Company announced that it has entered into a Scheme Implementation Agreement with SR Residential, an entity jointly owned by my family and the Roche family. Given my association with the bidding entity, I have excused myself from deliberations in relation to this proposal and an Independent Board Committee, chaired by Susan Oliver (Deputy Chair of the Board), has been established to respond on behalf of shareholders.

Whilst there is still much work to be done, I look forward to a successful year in 2017 as we return the business to profitable growth. I would like to thank our staff for their dedication, passion and commitment, and all shareholders for their support during what has been an extremely challenging year.

"During the 2016 financial year the Simonds Group has been faced with a number of challenges, and as a consequence has undergone significant changes, resetting Simonds for the years ahead."

Gary Simonds

Chairman

LETTER FROM THE GROUP CEO & MANAGING DIRECTOR

Matthew Chun

Group CEO & Managing Director

Dear Shareholders,

The Simonds Group has faced a number of challenges that adversely impacted financial results during the 2016 year.

Whilst the Group revenue grew $34.1 million to $662.9 million, statutory earnings were significantly impacted by $28.6 million of one-off losses, costs and impairments. The major component of the losses related to the orderly closure of the loss-making Madisson business that was announced in January 2016. Statutory EBITDA was a loss of $13.5 million, and statutory NPAT was a loss of $14.9 million.

Adjusting for discontinued operations and the significant one-off items, Simonds Group's pro forma revenue was $628.5 million for the year – reflecting 8.9% growth over the prior period. Pro forma EBITDA was $15.1 million, and pro forma NPAT was $5.3 million.

Simonds Homes Australia (SHA) remained the key driver of Simonds Group's results for the year, delivering 11% revenue growth and a record 2,545 house site starts – up 3% on the prior year. New housing demand remains strong along with the business fundamentals; however, revenue growth was offset by a number of factors that contributed to a reduction in operating margins. Whilst site start numbers were higher than the previous year they were lower than had been planned which led to higher overheads per house start. Customisation of house designs helped secure sales but at reduced margins and increased costs were incurred due to inefficiencies related to the expansion into New South Wales and Queensland.

Revenue for Builders Academy Australia (BAA) declined during the year as the number of active students reduced and the time taken to deliver courses increased as we reset our delivery model in response to regulatory changes. In addition, BAA has made a significant investment in governance, management systems and processes with a continued focus on embedding a quality framework across all operations.

As a consequence of the financial results the Directors have determined that no dividend will be paid in relation to the 2016 financial year.

Resetting the business for profitable growth

The second half of the 2016 financial year has seen a significant resetting of the Group with a management restructure, a shift in strategic focus and the discontinuation of underperforming businesses.

Since commencing as Group CEO and Managing Director on 1 April 2016, I have conducted a full review of all business operations from top-to-bottom, including physical and financial due diligence, and have identified a number of areas that required immediate attention. The key areas of focus included the simplification of organisational structure, improving cash flows and reducing debt, reducing corporate overheads, enhancing operating margins, and simplifying both the product range and location of operations for SHA and BAA course delivery.

The review has led to a number of immediate steps that are already having a significant impact on both financial and operational performance. Our organisation structure has been simplified and a new executive team has been appointed, bringing a wealth of senior management experience. The senior management changes and other efficiencies already initiated have reduced annual overhead costs by approximately $7.5 million, debt has been reduced by over $10 million since March 2016 and the simplification of product range and location of operations is well underway.

Positive 2017 Outlook

Simonds Group enters the 2017 financial year with significant visibility into the SHA sales pipeline and BAA student enrolments.

The Victorian and South Australian operations of SHA continue to perform well, whilst our expansion into New South Wales and Queensland requires more work to deliver the same returns that are being generated in VIC and SA. With greater focus on building and strengthening strategic relationships in partnership with land developers, the location of display homes in key growth zones and the consolidation of our product range, we expect to improve our market penetration, sales at sustainable margins, and ultimately site starts in the 2017 financial year and beyond.

BAA continues to focus on delivering high quality trade qualifications that meet the needs of the Australian construction workforce. Through diversifying funding sources, delivery modes and market segments, including expanded delivery in New South Wales and Queensland, BAA continues to prepare graduates to realise sustainable career outcomes. The business is focusing on responding to the increased demands that have been placed on it from the ever-changing regulatory environment in this sector, which continues to be a major risk as well as an opportunity for Simonds Group.

The recently completed management and operational restructures will drive the business forward and lead to a reduction in costs with a stronger focus on a flexible overhead, and the ability to better respond to changes in our key markets.

On 31 August 2016, the Company announced that it has entered into a Scheme Implementation Agreement with SR Residential, an entity jointly owned by entities associated with the Roche and Simonds families in relation to a proposed scheme of arrangement. Should the scheme be successful, shareholders would receive $0.40 cash in exchange for each share they hold.

The scheme proposal was evaluated by an Independent Board Committee. This committee comprised directors not associated with the Simonds family, being Susan Oliver (Deputy Chair of the Company and Chair of the Independent Board Committee) and myself (as CEO and Managing Director) as well as independent adviser Dimitri Kiriacoulacos (an experienced executive and corporate lawyer with no association with the bidders). The committee determined it was in the interests of shareholders to submit the scheme for consideration and engaged an independent expert, KMPG Corporate Finance, who have determined that the scheme is fair and reasonable and, therefore, in the best interests of shareholders.

As a result the non-associated directors recommend that shareholders approve 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.

Safety

The Simonds Group has continued to strengthen our safety systems over the last reporting year. The main objective in our safety program is to ensure that safety is a core value that results in a positive safety culture, as well as a healthy, engaged workforce. To achieve this we have reviewed our safety management system to ensure that it remains highly visible in our company and continues to meet and reflect current legislation. We remain committed to safety in the home building sector, and we have a voice in industry through our involvement in the Volume Builders Safety Alliances in each state, and our participation in industry programs around the country with the regulators.

We recognise our moral obligations to safety in the community and we believe that our system reflects "best practice" and legal compliance. We aim to make our people leaders in safety and strive to become role models for safety behaviours. We want to effectively target hazards and remove them so as to eliminate preventable injuries. We do this by initiating the following programs in our company:

- Risk assessment in our designs
- Systems management training programs
- Company Safety Standards developed in consultation with our trade partners
- Continuous improvement in our reporting and actions

We are committed to our ultimate goal of an injury and illness free work environment, and believe that our staff, trades and other stakeholders have joined us on our safety journey.

Acknowledgements and thanks

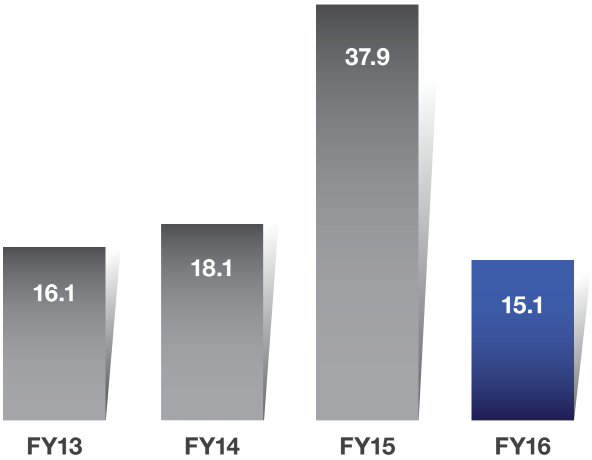
On a personal note, I would like to thank my board colleagues, our loyal and talented staff, trades, suppliers, trainers, industry partners and customers. I would also like to thank you for your loyalty as shareholders.

I am confident in the strategy we are executing and that Simonds Group is well placed to deliver profitable growth FY17 and beyond.

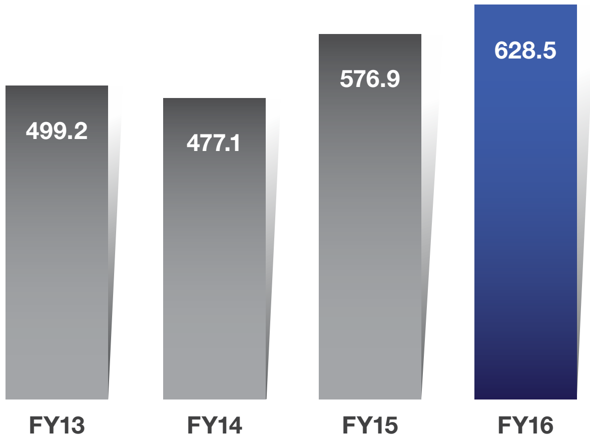
Shareholder Information

FINANCIAL HIGHLIGHTS

Pro forma EBITDA ($m)



Pro forma revenue ($m)



Note: Pro forma revenue and EBITDA for the period FY13 – FY16 have been adjusted to exclude The Madisson Project.

Pro forma Historical				
$M	**FY13**	**FY14**	**FY15**	**FY16**
Revenue	499.2	477.1	576.9	628.5
Gross Profit	104.8	109.6	138.2	131.7
	21.0%	23.0%	24.0%	21.0%
EBITDA	**16.1**	**18.1**	**37.9**	**15.1**
EPS (cents)			15.64	3.52
DPS (cents)			5.3	Nil
Div Payout Ratio			65%	Nil

Statutory reconciliation ($m)	EBITDA	NPAT
Pro forma Result	**15.1**	**5.3**
Impairment of IT project costs	(3.7)	(3.7)
Impairment of non-core development land	(1.7)	(1.7)
Accelerated impairment of display and speculative homes inventory	(2.7)	(2.7)
Management restructure costs	(2.6)	(2.6)
Madisson Operating loss	(17.9)	(17.9)
Tax adjustment	–	8.4
Statutory Result	**(13.5)**	**(14.9)**

Shareholder Information

Pro forma Results

- EBITDA result of $15.1m
- NPAT result of $5.3m

Share Buy-Back and Dividend

Simonds Group completed an on-market share buy-back of 7,570,613 shares between 20 August 2015 and 25 November 2015 at a total cost of $7.9 million. Following cancellation of the shares acquired under the buy-back the Company's issued capital was 143,841,655 shares.

The Directors declared a fully franked final dividend of 5.30 cents per share in relation to the 2015 financial year. The total dividend of $8.0 million was paid to shareholders on 25 September 2015.

The Directors of Simonds Group have determined that no final dividend will be paid in relation to the year ended 30 June 2016.

Balance Sheet

Simonds Net Assets at 30 June 2016 were negative $3.3 million. The key drivers of Net Asset deterioration were the impact of the Madisson Projects losses and capital management initiatives undertaken by the Simonds Group during the year.

Both receivables and payables are similar to the prior period. Inventories reduced significantly during the year due primarily to the disposal of display homes and non-core development land. Approximately $25 million of cash was realised from these disposals during the June quarter of the 2016 financial year.

Maintaining a strong liquidity position will remain a key focus for FY17. Simonds Group had $24.3 million of committed undrawn facilities at 30 June 2016. At 30 August 2016 the undrawn facilities were $20.4 million.

Cash Flow

Positive cash flow from operations of $14.9 million was generated in the 2016 financial year. Growth in receipts from customers reflects growth in sales and the $25 million realised from the sale of display homes and non-core development land holdings.

Net cash from financing activities includes funds borrowed under Simonds Group's CBA banking facility and Simonds Homes Display Fund of $7.0 million.

Cash outflows included $8.0 million in relation to the cash payment of the 2015 final dividend and $7.9 million for the share buyback.

Corporate Governance

A copy of our Corporate Governance statement can be found on our website at **www.simondsgroup.com.au/corporateGoverance**

Shareholder Information

Diversified Earnings Strategy

Simonds Group

SHA

- FY16 pro forma EBITDA of $12.5m
- 2,545 site starts
- Operations in Victoria, South Australia, New South Wales & Queensland

BAA

- FY16 pro forma EBITDA of $3.6m
- 2,232 active students & 3,306 graduates
- Operations in Victoria, New South Wales & Queensland

Land development

- Land development division
- 4 current projects
- 292 lots under development

Simonds Group' continues to look for opportunities to diversify the business across locations, sectors and customers. This strategy has seen the Company expand operations in recent years from its home base in Victoria into New South Wales, Queensland and South Australia, broadening its revenue base and leaving it much better placed to deal with the inevitable market cycles.

In the 2016 year Simonds Group has further diversified through the ongoing expansion of Simonds Homes Australia (SHA) into the New South Wales and Queensland markets, Building Academy Australia's (BAA) acquisition of City-Wide Building and Training Services (CWBTS), and the acquisition of Chun Property Advisory by our land development business.

Market growth and SHA's expansion into the New South Wales and Queensland markets contributed to a record number of house site starts during the 2016 financial year. The business continued to increase its revenue growing 11% to $600.7 million; however, EBITDA was down 53% to $12.5 million as a result of higher costs. SHA's expansion into the South Australian market continues to produce exciting results, and as we refine our product range and location of operations in New Sales Wales and Queensland we are confident that those markets will also prove to be strong contributors to the future success of the Company.

Completion of the CWBTS acquisition at the start of the financial year set the platform for the expansion of the BAA brand across Australia. BAA contributed $19.1 million of revenue to the Simonds Group and EBITDA of $3.6 million. These results were below the prior year as BAA evolved its course offerings and delivery models to enhance the student experience, and increased its investment in systems and process to improve governance. Active student numbers at year-end were below the prior year, but graduated enrolments during the year were 46% higher than in the 2015 financial year.

Simonds' land development business commenced in the 2015 financial year and now has 4 projects underway. Land development revenue for the year was $8.7 million and EBITDA was a loss of $1.0 million. The current projects total 292 lots across 4 sites in Victoria. These lots are expected to be delivered in the 2017 and 2018 financial years providing a supply of land for SHA and diversifying earnings for the Company. Potential future land development opportunities continue to be evaluated, typically parcels of land that are too small for the major land vendors or in regional areas not well serviced by other land developers.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LES CHAMPIONS

Simonds Group

FY16
FINANCIAL REPORT
FOR YEAR ENDING 30 JUNE 2016

Contents


LONDON BRIDGE
TRAFALGAR SQUARE
MAIDA VALE ABBEY ROAD
ROYAL ALBERT HALL
KNIGHTSBRIDGE
WATERLOO KINGS CROSS
MARBLE ARCH SOHO
ST. PAUL'S CATHEDRAL
PICCADILLY CIRCUS
WESTMINSTER ABBEY
NOTTING HILL GATE
OXFORD CIRCUS

Directors' Report

The directors of Simonds Group Limited ('the Company") submit herewith the annual financial report of the consolidated entity consisting of the Company and the entities it controlled (the "Group") for the financial year ended 30 June 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about the directors

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

Name	Date Appointed	Current Position
Vallence Gary Simonds	24 May 2010	Chairman
Susan Oliver	6 October 2014	Deputy Chair
Matthew Chun	25 September 2014	Managing Director & Chief Executive Officer
Leon Gorr	25 September 2014	Non-Executive Director
Rhett Simonds	20 April 2016	Non-Executive Director
Paul McMahon(1)	25 September 2014	Former Managing Director & Chief Executive Officer
Richard Colless(2)	25 September 2014	Former Non-Executive Director

The particulars of the directors are as follows:

Name	Experience and Directorships
Vallence Gary Simonds	• Gary established Simonds in 1949 and has had a career spanning more than 65 years within the Australian homebuilding industry • Gary has dedicated his career to Simonds and its growth into one of Australia's leading home builders • Gary holds directorships for a number of private Australian companies
Susan Oliver (FAICD)	• Susan is a director of CNPR Ltd, an independent member of the Investment Committee for Industry Funds Management (IFM) and founding Chair of Scale Investors Ltd • Susan's previous directorships include Coffey International, Transurban Group, Programmed Group, The Just Group, MBF Australia and the restructure Board of Centro Properties Group. Susan was also chair of Fusion Retail Brands, a privately owned retail group comprising Colorado, Jag, Diana Ferrari, Williams and Mathers brands • Susan has contributed significantly to the innovation, IT and arts policy agendas in Australia • Susan was awarded the Prime Minister's Centenary Medal 2003 and was one of Australian Financial Review's top 100 women of influence in 2013 • Susan holds a Bachelor of Property and Construction from the University of Melbourne and a Certificate in Financial Management AIM
Matthew Chun	• Matthew was appointed Managing Director and Chief Executive Officer of the Simonds Group on 1 April 2016. Prior to that, he was a non-executive director of Simonds Group Limited • Matthew has over 24 years senior management and corporate advisory experience and ran a private property development and advisory business based in Melbourne prior to his appointment as CEO of Simonds Group • Matthew was previously an Executive Director and CEO of ASX listed Becton Property Group • Prior to Becton Property Group Matthew held positions at Cbus Super Fund and Coles Myer • Matthew holds a Bachelor of Economics from La Trobe University, a Graduate Diploma in Property, Graduate Diploma in Applied Investment and Finance and is a licenced Estate Agent

1. Paul McMahon resigned 22 January 2016.
2. Richard Colless retired 20 April 2016.

Directors' Report

The particulars of the directors (Cont'd)

Name	Experience and Directorships
Leon Gorr (B.Juris., LLB, M.Admin Monash)	• Leon has over 40 years of experience as a client trusted adviser and has been involved within the house construction industry throughout this period • Leon joined HWL Ebsworth's commercial group in 2011 and acts as an advisor across commercial transactions and investments, domestic and offshore estate and succession planning, tax planning and dispute resolution matters • Leon is currently a director of W.A. Blue Gum Ltd (19 years) and Balanced Securities Limited (16 years) and previously a director of Starpharma Ltd • In 2011 Leon was acknowledged for his contribution to the tax profession being inducted as a "Tax Legend" at the 50th Tax Institute of Victoria State Convention • Leon has been listed in Australian Financial Review's 2016 Best Lawyers in the area of Corporate/ Governance practice
Rhett Simonds	• Rhett is a member of the Simonds family and has been involved with the business since joining the Simonds Group of Companies in 2005 • Rhett has a strong focus on technology-based education and training platforms with job placement outcomes • Appointed to the Simonds board as a non-executive director as part of the board succession plan for Mr. Vallence Gary Simonds
Paul McMahon	• Paul has over 15 years of experience working in the Australian homebuilding industry having initially joined Simonds in 1999 • Paul led the executive team of Simonds Group to January 2016 and has overseen the growth in Simonds Homes site starts, the establishment of Builders Academy Australia, and the Simonds Group's listing on the ASX • Resigned as Managing Director and CEO on 22 January 2016
Richard Colless	• Founded and served as Executive Director of Pacific Mutual Australia Limited, a major Australian and New Zealand real estate fund manager • Member of JP Morgan Australia Advisory Board from 2005 to 2010 • Formerly Consultant to the NSW Premier's Office (1998-1999) and Director of Events NSW (1998-2011) • Non-Executive Director and Chairman of ING Real Estate Management Ltd, from 2004 until September 2010 • Served as Chairman of the Sydney Swans AFL from 1994 to 2014 (the longest serving chairman in the AFL) • Retired from his role as non-executive director on 20 April 2016

Directors' Shareholding

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

Directors	Fully Paid Ordinary shares (Number)	Share options (Number)
V.G Simonds	56,138,895	–
Leon Gorr	461,180	–
Susan Oliver	44,000	–
Rhett Simonds	14,044	–

Directors' Report

Remuneration of key management personnel

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

Company Secretary

On 20 April 2016, Ms Elizabeth Hourigan was appointed as Company Secretary of the Company. Elizabeth was previously Company Secretary at Federation Centres. She holds a Bachelor of Laws from the University of Melbourne and is a fellow of the Governance Institute of Australia and a graduate of the Australian Institute of Company Directors.

Mr. Robert G Stubbs held the position of Company Secretary of the Company from 25 September 2014 until his resignation as Company Secretary on 30 June 2016.

Principal activities

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

Operating and Financial Review

Business Overview

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

With over 67 years of continual operations, Simonds Homes operate 120 display homes across the Australian eastern seaboard and South Australia, and remains one of Australia's largest home builders with in excess of 2,500 homes constructed during the 2016 financial year. The core product of Simonds Homes is single storey detached homes, with a target market being first and second home families in the outer-metropolitan areas of capital and large regional cities.

Builders Academy Australia is a Registered Training Organisation with a focus on offering nationally accredited qualifications in building and construction. During the year, the Group acquired City-Wide Building and Training Services Pty Ltd to diversify its earnings base across the New South Wales and Queensland registered training markets.

The origins of Builders Academy Australia date back more than ten years, when the Simonds Group established its training division. Embedded within one of Australia's leading home builders, Builders Academy Australia is 'builders training builders'. Completion of courses offered by BAA enables successful students to increase their career and employment opportunities; as well as a well-trained network of employees, suppliers and contractors of Simonds Homes.

The Group maintains a relatively small development land portfolio via direct land ownership, and participation in other development land projects via indirect holdings. On 8 April 2016 the Group acquired Chun Property Advisory Unit Trust (a related party of Mr Matthew Chun) to complement the Land segment with project management services.

Directors' Report

Reconciliation of statutory financial statements to pro forma results

Pro forma EBITDA is reported to give information to shareholders that provides a greater understanding of the underlying performance of Simonds Group Limited's operations, particularly in reference to non-recurring impairment and restructure costs impacting continuing operations.

In accordance with ASIC Regulatory Guidance 230, a reconciliation of the 2016 statutory to pro forma results is summarised below as follows:

Year ended 30 June 2016	Sales $m	EBITDA [1] $m	EBIT [2] $m	NPAT $m
FY2016 statutory results	**662.9**	**(13.5)**	**(19.2)**	**(14.9)**
Madisson	(34.4)	17.9	18.1	12.7
Impairment of IT project costs	–	3.7	3.7	2.6
Accelerated impairment of display and speculative homes inventory	–	2.7	2.7	1.9
Impairment of non–core development land		1.7	1.7	1.2
Management restructure costs	–	2.6	2.6	1.8
FY2016 pro forma results	**628.5**	**15.1**	**9.6**	**5.3**

Earnings per share

The directors have elected to present results and Earnings per Share (EPS) on both a statutory and pro forma basis. The calculation of "Statutory EPS" is presented in Note 13. The calculation of "Pro forma EPS" is presented below.

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

- loss after tax attributable to shareholders (Statutory Loss); and
- the weighted average number of ordinary shares outstanding
  during the period ended 30 June 2016, which have been applied retrospectively in calculating EPS for the comparative period.

Pro forma EPS is a non-International Financial Reporting Standards (IFRS) measure which has been calculated on the 2016 financial year based on:

- statutory loss after tax adjusted on a pro forma basis for:
  - the impacts arising from a number of non-recurring items impacting the 2016 financial result, being:
    - > Losses from impairment of intangible assets
    - > Losses incurred as a result of an operational review resulting in the need to accelerate the sale of a significant volume of display homes, non-core land and construction holdings and other inventories;
    - > Management restructure costs; and
    - > Losses from discontinuing operations, specifically the Madisson business unit
  - the related income tax effect of the above adjustments
- the weighted average number of ordinary shares outstanding during the period ended 30 June 2016:
  - Basic: 146,834,376

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

Statutory EPS		30 June 2016	30 June 2015
	Note	cents per share	cents per share 3
Basic	13	(10.14)	(7.40)

Pro Froma EPS		30 June 2016	30 June 2015
	Note	cents per share	cents per share 3
Basic		3.52	15.64

1. Pro forma EBITDA is Net Loss after Tax ($14.891m) before financing items ($2.100m), tax benefit ($6.422m), depreciation and amortisation ($5.762m); and other significant items ($10.643m).
2. Pro forma EBIT is Net Loss after Tax ($14.891m) before financing items ($2.100m), tax benefit ($6.422m) and other significant items ($10.643m).
3. Restated. (Refer to Note 3.4 of the financial statements).

Directors' Report

Balance sheet

During the 2016 financial year the Group encountered a number of challenges that adversely impacted the performance of its Residential and Education segments that has led to a deterioration of the balance sheet. In November 2015 the Group announced an independent review would be conducted in relation to its Madisson business, which ultimately led to the decision announced on 21 January 2016 to close the Madisson business. The Madisson business has realised $18.058m losses ($12.641m after tax losses) for the 2016 financial year, and together with lower than anticipated results in the Residential and Education segments have necessitated the accelerated sale of a significant volume of display homes, non-core land and construction holdings and other inventories.

As a result of the organisational review initiated by the new CEO, the operating structure and organisational structure has been restructured to focus on the business' core strengths of:

- volume home building at sustainable margins;
- a strong and compliant registered training provider; and
- a niche provider of land and project management services.

Operating cash flows

The operating cash flows of the Group have increased significantly from the prior year, primarily as a result of the operating review that commenced in April 2016 to accelerate the sale of display homes, non-core development speculative land and construction holdings from inventory.

The Group has reduced cash outflows from its investing activities having ceased a number of IT projects during the 2016 financial year.

During the year the Group paid a cash dividend of $8.030m in respect of the 30 June 2015 financial year, and bought back 7,570,613 shares at a total cash consideration of $7.883m, both of which negatively impacted the cash flows from financing activities.

Outlook

The Victorian and South Australian operations of Simonds Homes Australia (SHA) continue to perform well, while challenges remain with the New South Wales and Queensland businesses. With greater focus on building strategic relationships in partnership with land developers, the location of display homes in key growth zones and the consolidation of our product range we expect to improve our market penetration, sales and ultimately site starts in the 2017 financial year and beyond.

Builders Academy Australia continues to focus on delivering high quality trade qualifications that meet the needs of the Australian workforce. Through diversifying funding sources, delivery modes and market segments including expanded delivery in states other than Victoria, Builders Academy Australia and City-Wide Building and Training Services continue to prepare graduates to realise sustainable career outcomes. The business is focusing on the increased demands that have been placed on it from the ever changing regulatory environment in this sector and that continues to be a major risk and opportunity for the group.

Across the Group, the recently completed management and operational restructures will lead to a reduction in overhead with a stronger focus on a flexible overhead, better able to respond to changes in our key markets.

Directors' Report

Summary of key business risks

The Board remains optimistic about the Group's future trading performance but acknowledges there are certain factors that may pose a risk to the achievement of the Group's business strategies and future performance.

Every business faces risks with the potential to impair its ability to execute its strategy or achieve its objectives. There are a number of key risks, both specific to the Group's home building, provision of training courses, and land and project management services, and external risks, for example the economic environment, over which the Group has no control. The Group's risk management approach is to identify, evaluate, and mitigate or manage its financial, operational and business risks. Our risk assessment approach includes an estimation of the likelihood of risk occurrence and potential impact on the financial results. Risks are assessed across the business and reported to the Audit and Risk Committee and to the Board where required under our risk management framework.

Set out below are the key risks which may materially impact the execution and achievement of the Group's business strategies and prospects for the Group in future financial years. These key risks should not be taken to be a complete or exhaustive list of risks faced by the Group.

Deterioration in economic conditions resulting in a fall in demand:

The Group's revenue and growth is susceptible to a deterioration in the states and regions it operates. There are a number of general economic conditions, such as interest rate movements, overall levels of demand for housing, economic and political stability, and government fiscal and regulatory policies that can impact the level of consumer confidence and demand, thereby affecting revenue from sales to customers and/or fees received from students.

While general economic conditions are outside the Group's control, the Group seeks to reduce its exposure to these risks by monitoring closely both internal and external sources of information that provide insights to changes in demand within the markets and regions in which it operates.

Competition resulting in a loss of market share in the regions and markets in which we operate:

The Group is susceptible to competition for the provision of homes and course offerings in the markets in which we operate.

This risk is mitigated by a large geographically diversified customer and student base reducing the impact of pricing strategies and demands from any one customer or student group.

Economic downturn in the property sector leading to softening in property asset values:

With a significant property portfolio, comprising display homes, speculative land and development land holdings the Group is exposed to potential reductions in property values within the residential property sector.

The Group's policy is to adopt a selective and prudent acquisition and development strategy, which focusses on maintaining the appropriate number of high-quality displays in each market region to minimise our exposure in any one particular segment.

Departure of key personnel leading to loss of industry or corporate knowledge and expertise:

The Group may from time to time be impacted by the departure of key personnel, which may affect adversely the operations of the business until suitable replacements are recruited.

The Group endeavours to ensure that it remains competitive in terms of remuneration and other incentives, and reviews employee incentive arrangements from time to time with a view to aligning management's and employees' interests with those of the Group and its shareholders.

Information Technology ("IT") security and data security breaches:

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 our operating results and potentially damage the reputation of the Simonds or Builders Academy Australia brands, and/or create other liabilities for the Group.

There are a number of key controls either planned or already in place including an ongoing program of cyber security software; the implementation, maintenance and supervision of operational policies intended to preserve the integrity of the physical IT infrastructure; regular independent audit and review of IT security; and the ongoing review, practise and updating of a disaster/crisis management plan relating to IT systems.

Regulatory actions affecting Registered Training Organisations (RTO):

Wholly owned subsidiaries, House of Learning Pty Ltd (trading as Builders Academy Australia, or BAA) and City-Wide Building Training Services Pty Ltd (CWBTS), are nationally accredited RTOs under the Australian Skills Quality Authority (ASQA) and hold funding contracts across multiple states.

Both CWBTS and BAA continue to focus on embedding a quality framework across operations recognising that providers in this sector continue to face major risk due to an ever changing regulatory environment and adaptions to state and federal funding models.

As part of the ongoing accreditation process and approval process for RTO's and for approved delivery under state and federal funding regimes, RTO's 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 the Group's RTO operations, financial performance and financial position.

Both CWBTS and BAA have experienced compliance audits and reviews over the 2016 financial year from both funding bodies and ASQA.

In Victoria, 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 regards to compliance against some sections of the VET Funding

Directors' Report

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.

Once the draft report is finalised, taking into account the objections that BAA has raised in relation to the accuracy of its content, it will be provided to the Department for review. BAA 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.

Loss of Funding Arrangements:

BAA and CWBTS hold various funding contracts in Victorian, New South Wales, Queensland, and the Australian Capital Territory. 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 take out government loans to pay for their training 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 was 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 the Group's operations, financial performance and financial position.

Non-IFRS financial information

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

Changes in the state of affairs

During the 2016 financial year, an independent review of the Madisson business was instigated by the Board as a result of a challenging market and a number of unsuccessful tenders. On 21 January 2016, the Board announced the orderly closure of the division, with all remaining projects to be built out prior to the end of the first half of the 2017 financial year.

The Group booked a $12.641m after tax loss during the 2016 financial year following the decision to discontinue the Madisson business, which includes bringing forward expected future losses from loss making projects.

Subsequent events

There have been no events that have occurred subsequent to the reporting date that have significantly affected or may significantly affect the Group's operations, results or state of affairs in future years.

Dividends

As announced on 30 August 2016, the directors have declared $nil dividend in relation to the 2016 financial year.

Indemnification of officers and auditors

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

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

Directors' Report

Directors meetings

The following table sets out the number of directors meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 15 board meetings, 5 Nomination and Remuneration Committee meetings and 4 Audit and Risk Management Committee meetings were held.

Directors	Board of Directors		Nomination and Remuneration Committee		Audit and Risk Management Committee	
	Held*	Attended	Held*	Attended	Held*	Attended
Vallence Gary Simonds	15	14	–	–	–	–
Susan Oliver	15	15	5	5	4	3
Matthew Chun	15	15	5	5	4	4
Leon Gorr	15	15	5	4	4	4
Rhett Simonds	2	2	–	–	–	–
Richard Colless	12	11	–	–	–	–
Paul McMahon	7	7	–	–	2	2

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

Vallence Gary Simonds was appointed to the Audit and Risk Management Committee on 21 July 2016 and Rhett Simonds was appointed to the Nomination and Remuneration Committee on 22 June 2016.

Non-audit services

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

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

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

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

Remuneration Report

Remuneration report

Introduction

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of key management personnel (KMP) for the year ended 30 June 2016.

The KMP disclosed in this report are listed in the table below:

Current Non-Executive Directors (NED)

Name	Position	Appointment Date [1]
Vallence Gary Simonds	Chairman	25 September 2014
Susan Oliver	Deputy Chairman, Independent Non-executive Director	6 October 2014
Leon Gorr	Independent Non-executive Director	25 September 2014
Rhett Simonds	Non-executive Director	20 April 2016

Former [2] Non-Executive Directors

Name	Position	Appointment Date [1]	Resignation date [3]
Matthew Chun [4]	Independent Non-executive Director	25 September 2014	31 March 2016
Richard Colless	Independent Non-executive Director	25 September 2014	20 April 2016

Current Senior Executives

Name	Position	Appointment Date [1]
Matthew Chun [4]	Group Chief Executive Officer (CEO) & Managing Director	1 April 2016
Mick Myers	Chief Financial Officer (CFO)	30 May 2016
Andrew Shea	Acting Chief Executive Officer, Builders Academy Australia	26 May 2016

Former [2] Senior Executives

Name	Position	Appointment Date [1]	Resignation date [3]
Paul McMahon	Group CEO and Managing Director	25 September 2014	22 January 2016
Robert Stubbs [5]	Chief Financial Officer (CFO)	25 September 2014	30 June 2016
Michael Gerolemou [6]	Chief Human Resources Officer (CHRO)	1 November 2014	30 June 2016
Christopher Troman	Chief Executive Officer, Simonds Homes Australia	1 July 2015	27 May 2016
Gerard Healy	Chief Executive Officer, Builders Academy Australia	1 July 2015	3 June 2016

1. Appointment date is the date commenced in the position.
2. Former Non-executive Directors and Senior Executives resigned from their position during the year ended 30 June 2016.
3. Resignation date is the date of cessation in current position.
4. Prior to Matthew Chun's appointment to the role of Group CEO and Managing Director, he was an Independent Non-executive Director of the Board and Independent Chair of the Audit and Risk Committee. M Chun resigned as Independent Non-executive Director and Chair of the Audit and Risk Committee prior to his appointment as Group CEO and Managing Director.
5. Robert Stubbs was appointed to the position of Chief Financial Officer (CFO) and Company Secretary on 25 September 2014. Subsequently he was appointed to the role of Acting Group CEO and Managing Director on 25 January 2016 and ceased this position on 31 March 2016. Robert Stubbs ceased his role as CFO and Company Secretary 30 June 2016. Mick Myers commenced as CFO on 30 May 2016 to facilitate an orderly transition.
6. Michael Gerolemou was appointed to the positon of Chief Human Resources Officer (CHRO) on 1 November 2014 and ceased employment with the Company on 30 June 2016. Joanne Barber commenced as CHRO post year end on 11 July 2016.

Remuneration Report

Remuneration Policy Summary

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

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

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

Executive Remuneration Principles and Strategy

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

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

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

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

Remuneration Governance in Year Ended 30 June 2016

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

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

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

The Board's Role in Remuneration

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

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

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

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

The Nomination and Remuneration Committee (the Committee)

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

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

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

During the year ended 30 June 2016, the Board approved the engagement of PwC to provide valuation services for Performance Rights issued under the Simonds Group Employee Share Plan. The fees paid to PwC for these services were $12,240 (excluding GST).

Further, during the year ended 30 June 2016, the Committee approved the engagement of Korn/Ferry International Pty Ltd to provide executive recruitment services to the Board, in order to identify suitable candidates for the Board's consideration to replace the CEO and Managing Director, Paul McMahon following his resignation of 22 January 2016. The fees paid to Korn/Ferry were $185,000 (excluding GST).

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

The Committee met five times during the year. The CEO, CFO and any remaining directors are also regularly invited to attend meetings. No individuals are present during any discussions related to their own remuneration arrangements.

During the year ended 30 June 2016, the Committee was at all times comprised of two non-executive directors being Susan Oliver (Chairman) and Leon Gorr. Matthew Chun (Independent Non-executive Director) was a member of the Committee from 1 July 2015 to 31 March 2016, being the date of his resignation as non-executive director (NED). During the executive recruitment search process for the Chief Executive Officer and Managing Director, Matthew Chun stepped aside from his duties as a member of the Committee.

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

Remuneration Report

Non-Executive Director Remuneration

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

During the year ended 30 June 2016, fees paid to non-executive directors totalled $621,549 (exclusive of superannuation).

Shareholdings of non-executive directors are set out on page 16 of the directors' report.

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

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

Remuneration tables for non-executive directors for the year ended 30 June 2016 are set out commencing on page 29 of this remuneration report.

KMP Remuneration Framework

The KMP remuneration framework comprises three principal elements:

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

The Group's mix of fixed and at risk components for each of the KMP disclosed in this report, as a percentage of total target annual remuneration for financial year 2016, is as follows:

KMP Remuneration Components

TEC overview

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

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

STI overview

The Group STI Plan ensures that a proportion of remuneration is tied to Group performance measured annually in line with the financial year. Executives can only realise their STI at-risk component if challenging pre-determined objectives are achieved.

This aligns executive interests with shareholder interests and focuses executive performance.

The STI payment is made in cash or in shares at the Board's discretion (inclusive of any superannuation components) as part of the annual remuneration review after finalisation of the Group's audited results.

LTI overview

The Group's LTI Plan ensures that a proportion of remuneration is tied to Group performance over the long term and measured annually in line with the financial year. Executives can only realise their LTI at-risk component if challenging pre-determined objectives are achieved.

This aligns executive interests with shareholder interests and focuses executive performance on sound business decisions resulting in sustainable shareholder wealth. LTI consists of the granting of Performance Rights that vest after a three year period, subject to Group and individual financial and non-financial performance hurdles. Vesting conditions may be waived at the absolute discretion of the Board.

Remuneration Report

Long term Incentive Key Features

Award Structure	FY2016 Performance Rights	
Consideration for the Performance Rights	The Performance Rights will be granted for nil consideration	
Vesting Period	Each tranche has a vesting period of approximately three years.	
Performance Measure	Vesting of Performance Rights is dependent on two discrete performance measures (hurdles):	
	Grant Date	**30 November 2015**
	Tranche 1 Total Share Holder Return (TSR) representing ½ of the Performance Rights Granted.	Up to ½ of the Performance Rights granted will vest if the Group's (TSR) achieves a percentile ranking against the constituent companies within the S&P ASX Small Ordinaries Index (ASX Code XSI), excluding resource companies, over the Measurement Period. Percentile Ranking and percentage vesting rights are outlined below.
	Tranche 2 (CAGR EPS) representing ½ of the Performance Rights Granted	The Measurement Period for the Compound Annual Growth Rate (CAGR) EPS Hurdle is across the three financial years across the period 1 July 2015 to 30 June 2018
TSR Vesting Schedule (Tranche 1)	**Simonds Group Limited Percentile Ranking**	**Percentage of Performance Rights to vest**
	Less than the 50th percentile	None
	Between the 50th and 75th percentile	50% (straight-line interpolation between the 50th and 75th percentile)
	At or above the 75th percentile	100%
CAGR EPS Vesting Schedule (Tranche 2)	**CAGR in EPS**	**Percentage of Performance Rights to vest:**
	Less than 7.5% per annum	None
	Between 7.5% and 10% per annum	Straight line interpolation applies
	At or above 10.0% per annum	100%
Service Vesting Condition	The Service Vesting Condition is continuous employment with the Company from Grant date to 30 June 2018.	

Remuneration Report

Long term Incentive Key Features (Cont'd)

Award Structure	FY2015 Performance Rights	
Consideration for the Performance Rights	The Performance Rights will be granted for nil consideration	
Vesting Period	Each tranche has a vesting period of approximately three years.	
Performance Measure	Vesting of Performance Rights is dependent on three discrete performance measures (hurdles):	
	Grant Date	**17 November 2014**
	Tranche 1 Total Share Holder Return (TSR) representing ⅓ of the Performance Rights Granted.	Up to ⅓ of the Performance Rights granted will vest if the Group's (TSR) achieves the following percentile ranking against the constituent companies within the S&P/ASX Small Ordinaries Index (ASX Code XSI), excluding resources, over the Measurement Period
	Tranche 2 (CAGR EPS) representing ⅓ of the Performance Rights Granted.	The Measurement Period for the CAGR EPS Hurdle shall be the three financial years 2015, 2016 and 2017. EPS CAGR will be calculated based on the pro-forma NPAT for the year ended 2015 and not the statutory profit or reported EPS for that year.
	Tranche 3 Prospectus Forecast Earnings representing ⅓ of Performance Rights Granted.	⅓ of the Performance Rights granted will vest if the Group achieves the Prospectus forecast in earnings for the year ended 30 June 2015.
TSR Vesting Schedule (Tranche 1)	**Simonds Group Limited Percentile Ranking**	**Percentage of Performance Rights to vest**
	Less than the 50th percentile	None
	Between the 50th and 75th percentile	50% (straight-line interpolation between the 50th and 75th percentile)
	At or above the 75th percentile	100%
CAGR EPS Vesting Schedule (Tranche 2)	**CAGR in EPS**	**Percentage of Performance Rights to vest:**
	Less than 26.3% per annum	None
	Between 26.3% and 29.0% per annum	50% (straight-line interpolation between 26.3% and 29% per annum)
	At or above 29.0% per annum	100%
Prospectus Forecast Earnings Vesting Condition (Tranche 3)	⅓ of the Performance Rights granted will vest in three years if Simonds Group Limited achieves the Prospectus forecast earnings for the year ended 30 June 2015	

Remuneration Report

Remuneration Structure and Performance/Shareholder Wealth Creation

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

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

	FY2016		FY2015		FY2014
Financial Performance	Pro Forma Actual $m	Statutory Actual $m	Prospectus Pro Forma Forecast $m	Pro Forma Actual $m	Statutory Actual $m
Revenue	628.5	662.9	638.2	634.4	543.8
EBITDA	15.1	(13.5)	34.0	34.8	15.7
NPAT	5.3	(14.9)	20.4	21.1	7.5
Share Price at beginning of period	1.40	1.40	–	–	–
Share Price at end of period	0.28	0.28	1.40	1.40	–
Dividends (cents per share)	–	–	5.3	5.3	–
EPS (cents per share)	3.6	(10.14)	13.47	15.64	–

Remuneration Report

Remuneration Tables – Details of KMP Remuneration

Details of the remuneration of the KMP, including Directors (as defined in AASB 124 Related Party Disclosures) of the Group are set out in the following tables. Comparative information is also included below.

FY2016	Short Term Employee Benefits				Termination Benefits	Post-employment Benefits	Long–term Benefits		Share–based Payments (SBP)	
Name	Directors Fees $	Cash Salary and Fees $	Short Term Incentive $	Non–monetary Benefits $	Termination Payments	Super $	Annual Leave $	Long Service Leave $	Performance Rights $	Total $
V.G Simonds	182,648	–	–	–	–	17,352	–	–	–	200,000
S Oliver	160,221	–	–	–	–	22,422	–	–	–	182,643
L Gorr	86,291	–	–	–	–	8,198	–	–	–	94,489
R Simonds[7]	–	–	–	–	–	–	–	–	–	–
M Chun[8]	90,000	105,228[9]	–	–	–	8,550	–	–	–	203,778
R Colless[10]	102,389	–	–	–	–	9,727	–	–	–	112,116
Total NED	**621,549**	**105,228**	**–**	**–**	**–**	**66,249**	**–**	**–**	**–**	**793,026**
Senior Executive (Current and Former)										
M Chun	–	148,923	–	–	–	4,827	13,143	126	–	167,019
M Myers[11]	–	27,308	–	–	–	2,594	2,410	23	–	32,335
A Shea[12]	–	19,700	–	1,989	–	1,708	1,739	17	–	25,153

7. Fees for the financial year ended 30 June 2016 are nil.
8. Prior to M Chun's appointment to the role of Group CEO and Managing Director, he was an Independent Non-executive Director of the Board and Independent Chair of the Audit and Risk Committee. M Chun resigned as Independent Non-executive Director and Chair of the Audit and Risk Committee on 31 March 2016 prior to his appointment as Group CEO and Managing Director.
9. Amounts paid to M Chun, excluding directors' fees, relate to advisory services provided as part of the normal course of business.
10. R Colless resigned as Independent Non-executive Director on 20 April 2016.
11. M Myers was appointed as CFO on 30 May 2016.
12. A Shea was appointed as Acting CEO of Builders Academy Australia on 26 May 2016.

Remuneration Report

Remuneration Tables – Details of KMP Remuneration (Cont'd)

FY2016	Short Term Employee Benefits				Termination Benefits	Post-employment Benefits	Long-term Benefits		Share-based Payments (SBP)	
Name	Directors Fees $	Cash Salary and Fees $	Short Term Incentive $	Non-monetary Benefits $	Termination Payments	Super $	Annual Leave $	Long Service Leave $	Performance Rights $	Total $
P McMahon[13]	–	306,988	–	19,092	–	13,049	40,639	5,870	(86,002)	299,636
R Stubbs[14]	–	379,475	–	20,000	199,738	19,308	33,490	(7,285)	293,341	938,067
M Gerolemou[15]	–	247,162	–	20,000	133,581	19,308	21,813	4,726	195,562	642,152
C Troman[16]	–	390,933	–	18,205	259,312	19,308	34,501	(5,277)	405,852	1,122,834
G Healy[17]	–	277,975	–	23,205	–	19,308	24,532	(4,793)	(34,401)	305,826
Total Senior Executive	**–**	**1,798,464**	**–**	**102,491**	**592,631**	**99,410**	**172,267**	**(6,593)**	**774,352**	**3,533,022**
TOTAL KMP	**621,549**	**1,903,692**	**–**	**102,491**	**592,631**	**165,659**	**172,267**	**(6,593)**	**774,352**	**4,326,048**

FY2015	Short Term Employee Benefits				Post-employment benefits	Long-term benefits		Share-based Payments (SBP)		
Name	Directors Fees $	Cash Salary and Fees $	Short Term Incentive $	Non-monetary Benefits $	Super $	Annual Leave $	Long Service Leave $	Executive IPO SBP (Restated)[18] $	Performance Rights $	Total $
Non-Executive Directors										
V.G Simonds	111,462	298,874[19]	–	16,266	18,615	13,322	2,900	–	–	461,439
S Oliver	90,000	–	–	–	–	–	–	–	–	90,000
L Gorr	62,907	–	–	–	5,976	–	–	–	–	68,883
M Chun	83,799	20,595[20]	–	–	6,481	–	–	–	–	110,875
R Colless	68,548	–	–	22,849	–	–	–	–	–	91,397
Total NED	**416,716**	**319,469**	**–**	**39,115**	**31,072**	**13,322**	**2,900**	**–**	**–**	**822,594**

13. P McMahon ceased to be Group CEO and Managing Director on 22 January 2016.
14. R Stubbs ceased to be CFO on 30 June 2016. Please refer to page 29 of the directors' report for details in relation to vested performance rights.
15. M Gerolemou ceased to be CHRO on 30 June 2016. Please refer to page 29 of the directors' report for details in relation to vested performance rights.
16. C Troman ceased to be CEO of Simonds Homes Australia on 27 May 2016. Please refer to page 29 of the directors' report for details in relation to vested performance rights.
17. G Healy ceased to be CEO of Builders Academy Australia on 3 June 2016.
18. Prior to the Initial Public Offering, certain executives of Simonds Group agreed to vary their pre-existing contractual entitlements, which included various cash payments from the Group in the event of a sale of the business, including an Initial Public Offering (IPO), and depending on certain key performance indicators being met. The variation of contractual entitlements included the right to subscribe for 6,150,000 shares in Simonds Group Limited from a Vallence Gary Simonds associated entity prior to the IPO and cash payments by a Vallence Gary Simonds associated entity (outside of the Group) upon Completion of the IPO over a period of up to three years from the date of Listing, subject to certain service and other conditions. The aggregate value of these entitlements was determined with reference to the share price of the Company at IPO date. Refer note 30 of the financial statements. This amount has been restated. Refer to Note 3.4 of financial statements.
19. Amounts paid to Vallence Gary Simonds, excluding director's fees, relate to the pre IPO period where Vallence Gary Simonds was an employee of the Company.
20. Amounts paid to Matthew Chun, excluding director's fees, relate to the pre IPO period where Matthew Chun provided consulting services to the Company.

Remuneration Report

Remuneration Tables – Details of KMP Remuneration (Cont'd)

FY2015	Short Term Employee Benefits				Post-employment Benefits	Long-term Benefits		Share-based Payments (SBP)		
Name	Directors Fees $	Cash Salary and Fees $	Short Term Incentive $	Non-monetary Benefits $	Super $	Annual Leave $	Long Service Leave $	Executive IPO SBP (Restated)[18] $	Performance Rights $	Total $
Senior Executive										
P McMahon	–	540,667	600,000	34,000	18,783	72,638	10,491	13,783,288	86,002	15,145,869
R Stubbs	–	343,739	300,000	20,000	18,783	33,621	7,285	334,270	51,601	1,109,299
M Gerolemou	–	247,687	100,000	20,000	18,783	21,868	4,738	–	34,401	447,477
C Troman	–	275,256	300,000	14,487	14,088	24,354	5,277	–	51,601	685,063
G Healy	–	213,333	100,000	20,833	17,515	22,119	4,793	–	34,401	412,994
Total Senior Executive	**–**	**1,620,682**	**1,400,000**	**109,320**	**87,952**	**174,600**	**32,584**	**14,117,558**	**258,006**	**17,800,702**
TOTAL KMP	**416,716**	**1,940,151**	**1,400,000**	**148,435**	**119,024**	**187,922**	**35,484**	**14,117,558**	**258,006**	**18,623,296**

Key terms of the Executive Services Agreement Group Chief Executive Officer (CEO) & Managing Director

The material terms of the Executive Services Agreement between Matthew Chun and the Company for the role of Group Chief Executive Officer (CEO) & Managing Director are as follows:

Term	No fixed term. Ongoing until terminated by either party in accordance with the Agreement (see below).
Total Fixed Annual Remuneration (FAR)	$615,000 per annum including superannuation, reviewed annually.
Short Term Incentive (STI) for FY16/17	Maximum opportunity of $600,000 per annum, subject to performance, pro rata for the period from the Commencement Date to 30 June 2017.
Long Term Incentive (LTI) for FY16/17	Any options and rights offered pursuant to Simonds Group Employee Share Plan as previously released to the market are subject to shareholder approval at the 2016 Annual General Meeting. LTI participation and terms in future years are at the discretion of the Board.
Notice Period / Termination Entitlements	12 months by either party. Employment may be ended immediately in certain circumstances including misconduct, incapacity, and mutual agreement or in the event of a fundamental change in the CEO's role or responsibilities. The Company may elect to pay 12 months FAR in lieu of any unserved notice period.
Post-Employment Restraint	A 6 month unpaid restraint provision applies.

18. Prior to the Initial Public Offering, certain executives of Simonds Group agreed to vary their pre-existing contractual entitlements, which included various cash payments from the Group in the event of a sale of the business, including an Initial Public Offering (IPO), and depending on certain key performance indicators being met. The variation of contractual entitlements included the right to subscribe for 6,150,000 shares in Simonds Group Limited from a Vallence Gary Simonds associated entity prior to the IPO and cash payments by a Vallence Gary Simonds associated entity (outside of the Group) upon Completion of the IPO over a period of up to three years from the date of Listing, subject to certain service and other conditions. The aggregate value of these entitlements was determined with reference to the share price of the Company at IPO date. Refer note 30 of the financial statements. This amount has been restated. Refer to Note 3.4 of financial statements.

Remuneration Report

STI Payments to KMP

Details of KMP STI are set out in the table below. KMP STI may vary based on individual performance and results achieved.

Name	Maximum Potential STI $	Achieved Year Ended 30 June $	% of the Maximum Potential	% Forfeited
FY2016				
M Chun	–	–	0%	0%
M Myers	–	–	0%	0%
A Shea	–	–	0%	0%
P McMahon	600,000	–	0%	100%
R Stubbs	300,000	–	0%	100%
M Gerolemou	100,000	–	0%	100%
C Troman	550,000	–	0%	100%
G Healy	200,000	–	0%	100%

Name	Maximum Potential STI $	Achieved Year Ended 30 June $	% of the Maximum Potential	% Forfeited
FY2015				
P McMahon	600,000	600,000	100%	0%
R Stubbs	300,000	300,000	100%	0%
M Gerolemou	100,000	100,000	100%	0%
C Troman	300,000	300,000	100%	0%
G Healy	100,000	100,000	100%	0%

KMP LTI

The following tables provide the details of performance rights allocated to the KMP pursuant to the LTI Plan.

Number of equity instruments granted, vested and expired/forfeited – performance rights

FY2016					
Name	Performance Rights 1 July 2015	Performance Rights Granted	Performance Rights Vested	Performance Rights Expired / Forfeited	Balance 30 June 2016
M Chun	–	–	–	–	–
M Myers	–	–	–	–	–
A Shea	–	–	–	–	–
P McMahon	280,899	–	–	(280,899)	–
R Stubbs	168,539	212,284	(380,823)	–	–
M Gerolemou	112,360	141,523	(253,883)	–	–
C Troman	168,539	424,568	(593,107)	–	–
G Healy	112,360	247,665	–	(360,025)	–
TOTAL	**842,697**	**1,026,040**	**(1,227,813)**	**(640,924)**	**–**

FY2015					
Name	Performance Rights 1 July 2014	Performance Rights Granted	Performance Rights Vested	Performance Rights Expired / Forfeited	Balance 30 June 2015
P McMahon	–	280,899	–	–	280,899
R Stubbs	–	168,539	–	–	168,539
M Gerolemou	–	112,360	–	–	112,360
C Troman	–	168,539	–	–	168,539
G Healy	–	112,360	–	–	112,360
TOTAL		**842,697**			**842,697**

Remuneration Report

Value of performance rights granted, exercised and expired/forfeited – performance right

FY2016

Name	Rights issue	Tranche	Fair value at grant date $ per share	No. of Performance Rights	Accounting Fair Value at grant date $	Exercised / Vested $	Expired / Forfeited $	Accounting Fair Value at year end 30 June 16 $
M Chun	–	–	–	–	–	–	–	–
M Myers	–	–	–	–	–	–	–	–
A Shea	–	–	–	–	–	–	–	–
P McMahon	FY2016	TSR EPS	– –	– –	– –	– –	– –	– –
	FY2015	TSR EPS Prospectus	1.0349 1.5512 1.5512	93,633 93,633 93,633	96,901 145,244 145,244	– – –	96,901 145,244 145,244	– – –
R Stubbs	FY2016	TSR EPS	0.31 0.75	106,142 106,142	32,904 79,607	32,904 79,607	– –	– – –
	FY2015	TSR EPS Prospectus	1.0349 1.5512 1.5512	56,180 56,180 56,179	58,141 87,146 87,145	58,141 87,146 87,145	– – –	– – –
M Gerolemou	FY2016	TSR EPS	0.31 0.75	70,762 70,761	21,936 53,071	21,936 53,071	– –	– –
	FY2015	TSR EPS Prospectus	1.0349 1.5512 1.5512	37,453 37,453 37,454	38,760 58,097 58,099	38,760 58,097 58,099	– – –	– – –
C Troman	FY2016	TSR EPS	0.31 0.75	212,284 212,284	65,808 159,213	65,808 159,213	– –	– –
	FY2015	TSR EPS Prospectus	1.0349 1.5512 1.5512	56,180 56,180 56,179	58,141 87,146 87,145	58,141 87,146 87,145	– – –	– – –
G Healy	FY2016	TSR EPS	0.31 0.75	123,833 123,832	38,388 92,874	– –	38,388 92,874	– –
	FY2015	TSR EPS Prospectus	1.0349 1.5512 1.5512	37,453 37,453 37,454	38,760 58,097 58,099	– – –	38,760 58,097 58,099	– – –

FY2015

Name	Rights issue	Tranche	Fair value at grant date $ per share	No. of Performance Rights	Accounting Fair Value at grant date $	Exercised / Vested $	Expired / Forfeited $	Accounting Fair Value at year end 30 June 16 $
P McMahon	FY2015	TSR EPS Prospectus	1.0349 1.5512 1.5512	93,633 93,633 93,633	96,901 145,244 145,244	– –	– –	96,901 145,244 145,244
R Stubbs	FY2015	TSR EPS Prospectus	1.0349 1.5512 1.5512	56,180 56,180 56,179	58,141 87,146 87,145	– – –	– – –	58,141 87,146 87,145

Remuneration Report

Value of performance rights granted, exercised and expired/forfeited – performance right (Cont'd)

FY2016								
Name	Rights issue	Tranche	Fair value at grant date $ per share	No. of Performance Rights	Accounting Fair Value at grant date $	Exercised / Vested $	Expired / Forfeited $	Accounting Fair Value at year end 30 June 16 $
M Gerolemou	FY2015	TSR EPS Prospectus	1.0349 1.5512 1.5512	37,453 37,453 37,454	38,760 58,097 58,099	– –	– –	38,760 58,097 58,099
C Troman	FY2015	TSR EPS Prospectus	1.0349 1.5512 1.5512	56,180 56,180 56,179	58,141 87,146 87,145	– – –	– – –	58,141 87,146 87,145
G Healy	FY2015	TSR EPS Prospectus	1.0349 1.5512 1.5512	37,453 37,453 37,454	38,760 58,097 58,099	– –	– –	38,760 58,097 58,099

Non–Executive Directors and KMP Shareholdings

Shareholdings of non–executive directors and KMP are set out below:

FY2016	Number of shares			
Name	Opening balance	Acquired	Other [21]	Closing balance
Non–executive Directors (Current and Former)				
V.G Simonds	56,138,895	–	–	56,138,895
S Oliver	17,000	27,000	–	44,000
L Gorr	56,180	405,000	–	461,180
R Simonds	14,044	–	–	14,044
M Chun	–	–	–	–
R Colless	–	–	–	–
Total NED	**56,226,119**	**432,000**	**–**	**56,658,119**
Senior Executive				
M Chun	–	–	–	–
M Myers	–	–	–	–
A Shea	–	–	–	–
P McMahon	4,040,561	–	(4,040,561)	–
R Stubbs	375,561	–	(375,561)	–
M Gerolemou	–	–	–	–
C Troman	–	–	–	–
G Healy	–	–	–	–
Total Senior Executive	**4,416,122**	**–**	**(4,416,122)**	**–**
TOTAL KMP	**60,642,241**	**432,000**	**(4,416,122)**	**56,658,119**

21. Other relates to when KMP ceased their position with the Company.

Remuneration Report

Non–Executive Directors and KMP Shareholdings (Cont'd)

FY2015	Number of shares			
Name	**Opening balance**	**Acquired [22]**	**Disposed [23]**	**Closing balance**
Non-executive Directors (Current and Former)				
V.G Simonds	27,928,858	111,996,611	(83,786,574)	56,138,895
S Oliver	–	17,000	–	17,000
L Gorr	–	56,180	–	56,180
R Simonds	–	14,044	–	14,044
M Chun	–	–	–	–
R Colless	–	–	–	–
Total NED	**27,928,858**	**112,083,835**	**(83,786,574)**	**56,226,119**
Senior Executive				
P McMahon	–	4,840,561	(800,000)	4,040,561
R Stubbs	–	375,561	–	375,561
M Gerolemou	–	–	–	–
C Troman	–	–	–	–
G Healy	–	–	–	–
Total Senior Executive	**–**	**5,216,122**	**(800,000)**	**4,416,122**
TOTAL KMP	**27,928,858**	**117,299,957**	**(84,586,574)**	**60,642,241**

Executive Service Agreements

		Minimum Notice Period	
Name	**Contract Length**	**Termination by Executive**	**Termination by Company**
M Chun	No fixed term	12 months	12 months
M Myers	No fixed term	6 months	6 months
A Shea	No fixed term	4 weeks	4 weeks

22. Shares acquired include shares issued through share subscriptions by executive from the management incentive (Page 31 of the Remuneration Report) and the pre IPO share split in accordance with S254H of the Corporations Act 2001 (Cth) (Note 30 of the financial statements).

23. Shares were disposed as part of the IPO sell-down of shares.

Remuneration Report

Loans to Director

The Group has not provided any loans to directors or their related parties during the year ended 30 June 2016. The Group provided Vallence Gary Simonds, and his related parties, with an unsecured loan as part of the companies listing on the Australian Stock Exchange (ASX), which was repaid prior to 30 June 2015.

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

	Balance at the beginning of year $	Interest charged $	Arm's length interest differential $[24]	Allowance for doubtful receivables $	Balance as at the end of the year $	Highest loan balance during the period $
FY2016	–	–	–	–	–	–
FY2015	17,988,353	–	265,605	–	–	17,988,353

Other KMP Transactions

During the financial year, the Group entered into a number of transactions with related parties of KMP. This part of the Remuneration Report is to be read in conjunction with note 29 Related Parties included on page 78 of the financial statements for the year ended 30 June 2016.

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

	2016 $
Consolidated revenue includes the following amounts arising from transactions with KMP of the Group or their related parties:	
Revenue – Sales	1,231,463
	1,231,463
Consolidated profit includes the following expenses arising from transactions with KMP of the Group or their related parties:	
Leasing and rental costs	529,087
Purchase of goods	1,070,370
	1,599,457
Total assets arising from transactions with KMP of the Group or their related parties:	
Current	–
Non-Current	–
	–
Total liabilities arising from transactions with KMP of the Group or their related parties:	
Current	36,000
Non-Current	–
	36,000

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

Auditor’s Independence Declaration

Auditor’s independence declaration

The auditor’s independence declaration is included after this report on page 39.

Rounding of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that ASIC Corporations Instrument amounts in the directors’ report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

On behalf of the directors

Vallence Gary Simonds

Director

Melbourne, 30 August 2016

Auditor's Independence Declaration

Auditor's independence declaration

Please refer to individual extract

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

30 August 2016

Simonds Group Limited

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

As lead audit partner for the audit of the consolidated financial report of Simonds Group Limited for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Reid
Partner
Chartered Accountants

Independent Auditor's Report

Independent auditor's report

Please refer to individual extract

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

Report on the Financial Report

We have audited the accompanying financial report, of Simonds Group Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independent Auditor's Report

Deloitte.

Auditor's Independence Declaration

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

Opinion

In our opinion:

(a) the financial report of Simonds Group Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Simonds Group Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Reid
Partner
Chartered Accountants
Melbourne, 30 August 2016

Directors' Declaration

The directors declare that:

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

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

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

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

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

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 16 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

On behalf of the Directors

Vallence Gary Simonds

Director

Melbourne, 30 August 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2016

	Notes	Year ended 30/06/16 $'000	Year ended 30/06/15 (restated[1]) $'000
Revenue	5	662,880	628,820
Cost of sales		(542,027)	(486,359)
Gross profit		**120,853**	**142,461**
Expenses	11	(123,661)	(107,461)
(Loss) / profit before significant items, financing items, depreciation and amortisation		**(2,808)**	**35,000**
Significant items	12	(10,643)	(34,366)
Profit before financing items, depreciation and amortisation		**(13,451)**	**634**
Depreciation and amortisation			
Depreciation and amortisation charges	17, 18	(5,762)	(4,023)
Loss before financing items and tax		**(19,213)**	**(3,389)**
Financing items			
Interest income	7	112	213
Interest expense	8	(2,212)	(1,005)
Net financing cost		**(2,100)**	**(792)**
Loss before tax		**(21,313)**	**(4,181)**
Income tax benefit / (expense)	9	6,422	(6,751)
Loss after tax for the year		**(14,891)**	**(10,932)**
Loss per share			
Basic (cents per share)	13	(10.14)	(7.40)
Diluted (cents per share)	13	(10.14)	(7.40)

The accompanying notes form part of these financial statements.

1. Restated consolidated statement of profit and loss and other comprehensive income. (Refer to Note 3.4).

Consolidated Statement of Financial Position

Consolidated statement of financial position as at 30 June 2016

	Notes	Year ended 30/06/16 $'000	Year ended 30/06/15 (restated[1]) $'000
Assets			
Current Assets			–
Cash and bank balances	33	3,176	5,477
Trade and other receivables	14	43,630	44,956
Inventories	15	49,610	71,686
Tax receivable	9	4,109	–
Other assets	19	3,382	6,809
Total current assets		**103,907**	**128,928**
Non–Current Assets			
Property, plant and equipment	17	9,800	7,433
Intangible assets	18	4,798	4,080
Other financial assets		1,260	-
Deferred tax assets	9	3,946	3,675
Total non–current assets		**19,804**	**15,188**
Total assets		**123,711**	**144,116**
Liabilities			
Current Liabilities			
Trade and other payables	20	75,630	75,685
Borrowings	21	1,790	908
Provisions	22	14,658	11,786
Deposits and income in advance	23	12,484	9,704
Total current liabilities		104,562	98,083
Non–Current Liabilities			
Borrowings	21	9,500	1,877
Provisions	22	6,877	6,384
Deferred tax liabilities	9	6,097	11,117
Total Non–Current Liabilities		**22,474**	**19,378**
Total liabilities		**127,036**	**117,461**
Net assets / (liabilities)		**(3,325)**	**26,655**
Equity			
Issued capital	24	12,911	13,590
Share buy–back reserve	24	(7,204)	–
Share based payments reserve	30	30,248	29,424
Accumulated losses	25	(39,280)	(16,359)
Total equity / (deficit)		**(3,325)**	**26,655**

The accompanying notes form part of these financial statements.

1. Restated consolidated statement of financial position. (Refer to Note 3.4).

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity for the year ended 30 June 2016

	Notes	Issued capital $'000	Share based payments reserve (restated[1]) $'000	Share buy–back reserve $'000	Accumulated losses (restated[1]) $'000	Total $'000
Balance at 1 July 2014		822	–	–	14,074	14,896
Issue of shares – executive subscription		3,523	–	–	–	3,523
Issues of shares – capital raising		9,245	–	–	–	9,245
Employee share plan		–	29,424	–	–	29,424
Dividends paid		–	–	–	(19,501)	(19,501)
Loss for the year		–	–	–	(10,932)	(10,932)
Balance at 30 June 2015 (restated)		**13,590**	**29,424**	**–**	**(16,359)**	**26,655**
Balance at 1 July 2015		13,590	29,424	–	(16,359)	26,655
Share buy–back		(679)	–	(7,204)	–	(7,883)
Employee share plan	30	–	1,332	–	–	1,332
Performance rights vested	30	–	(508)	–	–	(508)
Dividend paid		–	–	–	(8,030)	(8,030)
Loss for the year		–	–	–	(14,891)	(14,891)
Balance at 30 June 2016		**12,911**	**30,248**	**(7,204)**	**(39,280)**	**(3,325)**

The accompanying notes form part of these financial statements

1. Restated consolidated statement of profit and loss and other comprehensive income. (Refer to Note 3.4).

Consolidated Statement of Cash Flows

Consolidated statement of cash flows for the year ended 30 June 2016

	Notes	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Cash flows from operating activities			
Receipts from customers		664,047	608,981
Payments to suppliers and employees		(637,699)	(603,894)
Cash generated from operations		26,348	5,087
Finance costs		(2,212)	(1,005)
Income taxes paid		(9,192)	(10,326)
Net cash generated / (used in) from operating activities	33	**14,944**	**(6,244)**
Cash flows from / (used in) investing activities			
Interest received	7	112	213
Prepayment for acquisitions		–	(3,000)
Payment to acquire subsidiary and its working capital, net of cash acquired		(1,647)	–
Proceeds from disposal of property, plant and equipment		281	183
Investment in land fund		(1,260)	–
Payments for property, plant and equipment and intangibles		(4,823)	(5,770)
Net cash used in investing activities		**(7,337)**	**(8,374)**
Cash flows from / (used in) financing activities			
Repayment of borrowings		–	(716)
Proceeds from borrowings		7,000	–
Costs associated with initial public offering		–	(5,668)
Payment for finance leases		(1,152)	(672)
Amounts advanced from related parties		157	17,989
Proceeds from the issue of share capital		–	12,768
Share buy–back		(7,883)	–
Dividends paid to shareholders		(8,030)	(19,501)
Net cash generated from / (used in) financing activities		**(9,908)**	**4,200**
Net (decrease) in cash and cash equivalents		(2,301)	(10,418)
Cash and cash equivalents at the beginning of the year		5,477	15,895
Cash and cash equivalents at the end of the year	**33**	**3,176**	**5,477**

The accompanying notes form part of these financial statements

Notes to financial statements

1. General information

The Company is incorporated in Australia and is a for-profit entity.

The Company's registered office and principal place of business is as follows:

Level 4, 570 St Kilda Road

MELBOURNE VIC 3004

These financial statements comprise the consolidated financial statements of the Company and the entities it controls (the "Group"). The entities controlled by the Company are detailed in note 16 to the financial report. The principal activities of the Group are the design and construction of residential dwellings, the development of residential land and providing registered training courses.

2. Application of new and revised accounting standards

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

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

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

- AASB 2015-3 'Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality'.

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

2.2 Standards and interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue and relevant to the Group but have not yet been adopted by the Group.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2-15 – 8 'Amendments to Australian Accounting Standards – Effective date of AASB 15'	1 January 2018	30 June 2019
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017	30 June 2018
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

Notes to the Financial Statements

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations (for which Australian equivalent Standards and Interpretations have not yet been issued) were in issue but not yet effective:

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied the financial year ending
Clarifications to IFRS 15 'Revenue from Contracts with Customers'	1 January 2018	30 June 2019

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

3. Application of new and revised accounting standards

3.1 Statement of compliance

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

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS'). The financial statements were authorised for issue by the directors on 30 August 2016.

3.2 Basis of preparation

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 or value in use in AASB 136.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Class Order amounts in the financial are rounded off to the nearest thousand dollars, unless otherwise indicated.

At the date of this declaration, the Company is within the class of companies affected by ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

The principle accounting policies are set out below.

3.3 Going concern

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Group incurred a net loss after tax for the year ended 30 June 2016 of $14.891m. The results include a number of asset value impairments totalling $8.056m (refer note 12), management and operational restructure costs of $2.587m (refer note 12) and a $12.641m after tax loss from the Madisson business (refer note 10). The Madisson business is expected to complete its final construction project in October 2016, and will not be accepting further work thereafter.

The impairment and restructure costs follow an extensive operational and management review undertaken following the appointment of Mr Matthew Chun in April 2016 as CEO of the Group.

At the date of this report, the Directors are of the opinion that the Group is a going concern for the following reasons:

- The estimated future losses in respect of all loss making projects expected to be completed by Madisson business are included in the 30 June 2016 result. All other costs are expected to be fully funded from revenue upon successful completion of these projects.
- As described in note 21 the Group has $24.342m in unused facilities (excluding finance leases) available at 30 June 2016. The Group has complied with all financial covenants in its banking arrangements during the year and expects to continue to operate within its covenants for the 12 months following the date of this report.
- The underlying businesses of Simonds Homes Australia, Builders Academy Australia and City-Wide Building and Training Services Pty Ltd are profitable, after allowing for significant impairments and restructure costs.

Notes to the Financial Statements

3.3 Going concern (Cont'd)

- Following the organisational and management restructure, significant non-core inventory in the form of display, speculative land and building and development land have been divested providing significant working capital to the Group, removing the need for additional borrowings at this time.
- Management has prepared detailed financial forecasts for the 12 months following signing date. These forecasts have been reviewed by the Directors, and indicate that the Group will have sufficient funds to continue to pay its debts as and when they become due and payable, based on all available information to management and the Directors at signing date. The unaudited management information to 31 July 2016 shows the Group is on track with the key assumptions in the forecasts such as housing starts, student enrolments and pipeline of work.

Accordingly, the directors have deemed it appropriate for the financial report to be prepared on a going concern basis.

3.4 Restatement

Executive Share Based Payments

During the current financial year, the Group identified an error in the treatment of share based payment expenses relating to the former CEO and certain key executives of the Group, which required restatement of the comparative financial statements. The restatement relates to amounts payable to these executives by Simonds Family Office Pty Ltd for services rendered as part of the initial public offering process. Accordingly, share based payments expense for the period ended 30 June 2015 was increased by $2.049m (increasing the loss for the period ended 30 June 2015); accumulated losses at 30 June 2015 increased by $2.049m and share based payments reserve increased by $2.049m.

The restatement did not require an adjustment to the previously reported net assets or cash flow of the Group for the year ended 30 June 2015.

3.5 Basis of consolidation

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

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

3.6 Business combinations

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

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

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

Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

Notes to the Financial Statements

3.6 Business combinations (Cont'd)

Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139, or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

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

3.7 Goodwill

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

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

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

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

3.8 Revenue recognition

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

3.8.1 Construction Contracts

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

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

3.8.2 Sale of Speculative Homes, Displays and Land

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

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

3.8.3 Rendering of registered training services

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

Notes to the Financial Statements

3.8 Revenue recognition (Cont'd)

3.8.4 Interest income

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

3.9 Leasing

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

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.10 Borrowing costs

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

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

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

3.11 Employee benefits

3.11.1 Short-term and Long-term employee benefits

Short term employee benefits

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

Other long term employee benefits

Liabilities for annual leave and long service leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognised in the provision for employee entitlements and are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. Consideration is given to expected future wage and salary levels, departures and periods of service.

These employee benefit entitlements are presented as current liabilities in the balance sheet if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

3.11.2 Superannuation contributions

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

3.11.3 Termination benefit

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

3.11.4 Bonus entitlements

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

3.12 Taxation

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

3.12.1 Current tax

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

Notes to the Financial Statements

3.12 Taxation (Cont'd)

3.12.2 Deferred tax

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

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

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

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

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

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

3.12.3 Current and deferred tax for the year

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

3.12.4 Tax consolidation

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

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

The Group recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

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

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

The head entity in conjunction with other members of the tax-consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

Notes to the Financial Statements

3.13 Property, plant and equipment

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

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

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

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

3.14 Intangible assets

3.14.1 Intangible assets acquired separately

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

3.14.2 Internally-generated intangible assets – research and development expenditure

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

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

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

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

3.15 Impairment of tangible and intangible assets other than goodwill

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

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. With the exception of goodwill, when an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the Financial Statements

3.16 Inventories

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

Construction contracts

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

Land at cost:

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

Speculative Homes and Displays

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

3.17 Provisions

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

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

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

3.17.1 Maintenance and warranty

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

3.17.2 Make good

Provisions based on the director's best estimates of the costs required to reinstate the display homes under legislation; or requirement to be at a saleable standard.

3.17.3 Contingent liabilities acquired in a business combination

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

3.18 Financial instruments

3.18.1 Financial assets

Investments in Subsidiaries

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

3.18.2 Loans and receivables

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

3.18.3 Available for sale financial assets

The Group has investments which are units in a land fund that are classified as available for sale financial assets and stated at fair value because the directors consider that fair value can be reliably measured.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserves is reclassified to profit or loss.

3.18.4 Debt and Equity instruments

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

Notes to the Financial Statements

3.18 Financial instruments (Cont'd)

3.18.5 Transaction costs on the issue of equity instruments

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

3.18.6 Interest and dividends

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

3.19 Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii) for receivables and payables which are recognised inclusive of GST.

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

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

3.20 Share-based payment transactions

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

Provision for warranties

At each year end the Group considers its legal and constructive obligations for warranties and maintenance on properties constructed. Typically, the Group makes provision for warranties for a period of up to seven years following the completion of a construction contract. The directors take into account the annual build program, history of defects relating to materials used or in services provided and the historical liabilities the Group has assumed in respect of warranties in estimating the provision for warranties. The directors use a present value methodology to recognise the best estimate of the expenditure required to settle the Group's obligation.

Recoverability of internally generated intangible assets

The Group has developed bespoke building program software, which supports the estimating, ordering and project management of the residential construction business. Intangible assets are amortised over a three year period. The directors annually review the software modules in use and the remaining estimated useful life of the software and consider whether any impairment loss is required to be recognised on the internally generated software.

Provision for impairment losses on sale of speculative homes, displays and land

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

Notes to the Financial Statements

4. Critical accounting judgements and key sources of estimation uncertainty (Cont'd)

Provision for impairment losses on land development

The Group holds land stock for development, which is recorded as inventory in the financial statements. At 30 June 2016, the directors assessed the value of the land stock inventory, referencing contracts, other documentary evidence and comparative sales data to determine valuations of certain land titles.

Percentage of completion on the construction contracts

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

Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGUs) expected to benefit from the synergies of the business combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU is less than the carrying amount of the CGU, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

Impairment of goodwill

The recoverable amount of a cash-generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections covering a five-year period based on financial budgets approved by management for the subsequent financial year. These growth rates do not exceed the long-term average growth rates for the industry in which each CGU operates.

Cash flow projections for CGUs are based on budgeted EBITDA during the projection period, increasing by underlying cash flow growth rates of 2.0% per annum. The cash flows beyond the five year projection period have been extrapolated using a steady growth rate of 2.0%. The underlying growth rates have been determined by management based on most recent financial budgets and forecasts and expected industry growth rates.

In performing the value-in-use calculations for each CGU, the Group has applied post-tax discount rate to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rate applied is 17.0%.

The Directors believe that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of any cash-generating unit.

5. Revenue

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

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Revenue from construction contracts	635,118	594,620
Revenue from rendering of registered training services	19,097	23,172
Revenue from sale of development land	8,665	11,028
	662,880	**628,820**

Notes to the Financial Statements

6. Segment information

6.1 Products and services from which reportable segments derive their revenue

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

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

6.2 Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

Segment	Segment revenue (i)		Segment profit / (loss)	
	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Residential construction (ii)	635,118	594,620	(21,090)	20,553
Registered training	19,097	23,172	2,571	10,296
Land development	8,665	11,028	(2,794)	(664)
	662,880	**628,820**	**(21,313)**	**30,185**
Unallocated costs (iii)	–	–	–	(34,366)
Total	**662,880**	**628,820**	**(21,313)**	**(4,181)**

(i) Segment revenue reported represents revenue generated from external customers. There was no inter-segment sales in the current year (2015: $nil).

(ii) Included in the profit/loss for the residential construction segment for the year ended 30 June 2016 are: the losses relating to the Madisson business of $18.058m separately disclosed in note 10 and significant items for the year of $8.943m separately disclosed in note 12. Adjusting for these amounts, the profit/loss for the residential construction segment for the year ended 30 June 2016 was $5.911m.

(iii) Unallocated costs for the year ended 30 June 2015 include: management incentive and share based payments of $28.848m, costs associated with initial IPO cost of $4.913m; and business restructuring costs of $0.605m.

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

Notes to the Financial Statements

6. Segment information (Cont'd)

6.3 Segment assets and liabilities

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Segment assets		
Residential construction (i)	112,671	130,954
Registered training	5,416	6,388
Land development	5,624	6,774
Total segment assets	**123,711**	**144,116**
Segment liabilities		
Residential construction (i)	125,785	116,355
Registered training	1,235	771
Land development	16	335
Total segment liabilities	**127,036**	**117,461**

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

(i) Included in the residential segment are $2.237m of assets (2015: $16.362m) and $7.779m of liabilities (2015: $9.608m) relating to Madisson, which is discontinuing.

Notes to the Financial Statements

6. Segment information (Cont'd)

6.4 Other segment information

	Interest expense		Depreciation and amortisation	
	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Residential construction	1,991	492	4,325	4,023
Registered training	141	–	1,423	–
Land development	80	513	14	–
Total	**2,212**	**1,005**	**5,762**	**4,023**

	Additions to non-current assets	
	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Residential	8,050	7,021
Registered training	1,342	88
Land development	–	–
	9,392	**7,109**

In addition to the interest expense, depreciation and amortisation reported above, impairment losses of $4.391m (2015: $0.348m) were recognised in respect of the display homes, non-core speculative land stock held on hand as at 30 June 2016. These impairment losses were attributable to the following reporting segments:

	Impairment losses	
	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Residential	6,356	348
Registered training	–	–
Land development	1,700	–
Total impairment	**8,056**	**348**

6.5 Revenue by Geographical region

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

6.6 Information about major customers

No single customer contributed 10% or more to the Groups revenue for the year ended 30 June 2016 and the year ended 30 June 2015.

7. Interest income

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Interest income:		
Bank deposits	112	165
Other	–	48
	112	**213**

Notes to the Financial Statements

8. Finance costs

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Interest on bank overdrafts and loans	2,212	743
Other interest expense	–	262
	2,212	**1,005**

9. Income taxes

9.1 Income tax recognised

	Year ended 30/06/16 $'000	Year ended 30/06/15 (restated[1]) $'000
Current tax		
(Benefit)/expense in respect of the current year	(23)	8,726
(Benefit)/expense in respect of prior years	(735)	(1,393)
	(758)	**7,333**
Deferred tax		
(Benefit)/expense in respect of the current year	(6,230)	(1,255)
(Benefit)/expense in respect of prior years	566	673
Bank deposits	**(5,664)**	**(582)**
Other		
Consolidated income tax expense/(benefit) recognised in the current year	**(6,422)**	**6,751**

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

	Year ended 30/06/16 $'000	Year ended 30/06/15 (restated[1]) $'000
Loss before tax	(21,313)	(4,181)
Income tax benefit calculated at 30% (2015: 30%)	(6,393)	(1,254)
Effect of executive share based payments non-deductible	–	8,640
Effect of concessions (research and development and other allowances)	–	(179)
Effect of expenses that are not deductible in determining taxable profit	140	84
	(6,253)	**7,291**
Effect of deductible IPO costs being recognised in equity	–	(226)
Adjustments recognised in the current year in relation to the current tax of prior years	(169)	(314)
Income tax expense / (benefit) recognised in profit or loss	**(6,422)**	**6,751**

The tax rate used for the 2016 and 2015 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

1. Restated consolidated statement of profit and loss and other comprehensive income. (Refer to Note 3.4).

Notes to the Financial Statements

9. Income taxes (Cont'd)

9.2 Current tax assets and liabilities

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Current tax asset / (liabilities)		
Income tax (payable) / refundable	4,109	(6,215)
	4,109	**(6,215)**

9.3 Deferred tax balances

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Deferred tax assets	3,946	3,675
Deferred tax liabilities	(6,097)	(11,117)
Net deferred tax	**(2,151)**	**(7,442)**

2016	Opening balance $'000	Under / over $'000	Recognised in profit or loss $'000	Other $'000	Closing balance $'000
Construction Contracts income	(10,946)	–	5,102	–	(5,844)
Capitalised Expenses	(138)	(25)	(90)	–	(253)
Property, Plant, Equipment & Intangibles	571	(541)	787	(373)	444
Maintenance Liability	417	–	839	–	1,256
Employee Entitlements	1,492	–	(128)	–	1,364
Other	1,162	–	(280)	–	882
	(7,442)	**(566)**	**6,230**	**(373)**	**(2,151)**

2015	Opening balance $'000	Under / over $'000	Recognised in profit or loss $'000	Other $'000	Closing balance $'000
Construction Contracts income	(10,331)	(468)	(147)	–	(10,946)
Capitalised Expenses	(221)	–	83	–	(138)
Property, Plant, Equipment & Intangibles	512	(495)	554	–	571
Maintenance Liability	248	160	9	–	417
Employee Entitlements	1,229	55	208	–	1,492
Other	312	76	548	226	1,162
	(8,251)	**(672)**	**1,255**	**226**	**(7,442)**

Notes to the Financial Statements

10. Madisson business – impact of closure

During the 2016 financial year the Group encountered a number of challenges that adversely impacted the performance of its Residential segment, of which the Madisson business had the greatest impact. Following a comprehensive review instigated by the Directors on 16 November 2015, the Group announced a plan for the orderly closure of the Madisson business unit of the Group on 21 January 2016 upon completion of the remaining projects.

At 30 June 2016, there were three projects relating to the Madisson business that were incomplete. Two of the three projects remaining were completed subsequent to year end and prior to the date of this financial report. The remaining project is due to be completed by 10 October 2016.

As a consequence of the three contracts in progress at 30 June 2016, the Madisson business does not qualify for presentation as discontinued operations in this financial report. Accordingly its results are included within continuing operations.

The tables presented below show the loss incurred, inclusive of all costs associated with contractual obligations, impairments, and loss making projects relating to the Madisson business for the year ended 30 June 2016:

Loss for the year from the Madisson business

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Revenue	34,372	51,933
Expenses (i)	(52,430)	(54,721)
Loss before tax	**(18,058)**	**(2,788)**
Attributable income tax benefit	5,417	837
Loss for the year	**(12,641)**	**(1,951)**

(i) Included within expenses are: employee benefits expense of $6.099m (2015: $5.894m) and corporate administrative expense of $1.098m (2015: $1.137m).

Notes to the Financial Statements

11. Expenses for the year

	Year ended 30/06/16 $'000	Year ended 30/06/15 (restated[1]) $'000
Loss on disposal of property, plant and equipment and intangibles	(198)	(86)
Marketing and selling expenses	(20,027)	(17,676)
Corporate and administrative expenses (i)	(32,023)	(31,807)
Employee benefits expense (i)	(71,413)	(57,892)
Total expenses	**(123,661)**	**(107,461)**

(i) Included within: employee benefits expense is $6.099m (2015: $5.894m) and corporate administrative expense is $1.098m (2015: $1.137m) related to the Madisson business.

12. Significant items for the year

	Year ended 30/06/16 $'000	Year ended 30/06/15 (restated[1]) $'000
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 initial public offering	–	(4,913)
Initial public offering restructure costs	–	(605)
Costs associated with organisational review and management restructure including settlement of share based payments	(2,587)	(28,848)
Total significant items (i)	**(10,643)**	**(34,366)**

(i) Losses relating to Madisson business are separately disclosed in note 10.

1. Restated consolidated statement of profit and loss and other comprehensive income. (Refer to Note 3.4).

Notes to the Financial Statements

13. Loss per share

	Year ended 30/06/16 Cents per share	Year ended 30/06/15 Cents per share
Total basic and diluted loss per share	**(10.14)**	**(7.40)**

13.1 Basic loss per share

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

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Loss for the year attributable to owners of the Company	(14,891)	(10,932)
Loss used in the calculation of basic earnings per share	**(14,891)**	**(10,932)**

	Shares	Shares
Weighted average number of ordinary shares for the purposes of the basic earnings per share	146,834,376	147,625,959

13.2 Diluted loss per share

Diluted loss per share is the same as basic loss per share for the year ended 30 June 2016. Potential ordinary shares are anti-dilutive as their conversion to ordinary shares will result in a decrease of loss per share. The calculation of diluted loss per share does not assume conversion, exercise or other issue of potential ordinary shares that would have an anti-dilutive effect on loss per share.

14. Trade and other receivables

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Current		
Trade receivables (i)	43,333	44,324
Allowance for doubtful debts	–	–
	43,333	**44,324**
Other	297	632
	43,630	**44,956**

(i) The amounts pertaining to related party receivables are disclosed in note 29.

Notes to the Financial Statements

14. Trade and other receivables (Cont'd)

14.1 Trade receivables

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

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

14.1.1 Age of receivables that are past due but not impaired

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
46 – 60 days	1,430	2,304
61 – 90 days	1,122	1,230
91 – 120 days	586	626
Over 120 days	2,619	1,551
Total	**5,757**	**5,711**
Average age (days)	**113**	**97**

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

14.2 Other receivables

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

15. Inventories

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Work in progress on construction contracts	23,391	36,886
Speculative & display homes, land stock	27,484	37,120
Provision for impairment of inventories	(1,265)	(2,320)
	49,610	**71,686**

Notes to the Financial Statements

16. Subsidiaries

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

Name	Principle activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2016	2015
Simonds Homes Victoria Pty Ltd	Residential – Victoria	Australia	100%	100%
Simonds Homes NSW Pty Ltd	Residential – NSW	Australia	100%	100%
Simonds Queensland Constructions Pty Ltd	Residential – Queensland	Australia	100%	100%
Simonds SA Pty Ltd	Residential – South Australia	Australia	100%	100%
Simonds WA Pty Ltd	Residential – Western Australia	Australia	100%	100%
Madisson Homes Australia Pty Ltd	Residential – Victoria	Australia	100%	100%
Simonds Personnel Pty Ltd	Payroll service entity	Australia	100%	100%
Simonds Assets Pty Ltd	Asset service entity	Australia	100%	100%
Simonds IP Pty Ltd	Intellectual property service entity	Australia	100%	100%
Simonds Corporate Pty Ltd	Asset service entity	Australia	100%	100%
House of Learning Pty Ltd	Registered training organisation	Australia	100%	100%
City Wide Building and Training Services Pty Ltd	Registered training organisation	Australia	100%	0%
Jackass Flats Developments Pty Ltd	Land development and sales	Australia	100%	100%
Simonds Land Development Pty Ltd	Land development and sales	Australia	100%	100%
Bridgeman Downs Land Project Pty Ltd	Land development and sales	Australia	100%	0%
Discover Developments Pty Ltd	Land development and sales	Australia	100%	0%
Discover Gisborne Pty Ltd	Land development and sales	Australia	100%	0%
Chun Property Advisory Pty Ltd ATF Chun Property Advisory Unit Trust	Land development and sales	Australia	100%	0%

- Simonds Group Limited is the head entity within the tax consolidated group.
- All Group subsidiaries are members of the tax consolidated group.
- Simonds Group Limited and its subsidiaries except for:
  - City Wide Building and Training Services Pty Ltd (CWBTS);
  - Bridgeman Downs Land Project Pty Ltd (BDLP);
  - Discover Gisborne Pty Ltd (DG);
  - Discover Developments Pty Ltd (DD);
  - Chun Property Advisory Pty Ltd ATF Chun Property Advisory Unit Trust (CPA); have entered into a deed of cross guarantee with Simonds Group Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge an audited financial report.
- The subsidiaries CWBTS and CPA have been newly acquired in the year ended 30 June 2016; and the subsidiaries DD and DG have been newly incorporated in the year ended 30 June 2016.

Notes to the Financial Statements

16. Subsidiaries (Cont'd)

16.1 Deed of cross guarantee

The consolidated income statement and consolidated statement of financial position of the entities party to the deed of cross guarantee are:

	Year ended 30/06/16 $'000	Year ended 30/06/15 (restated[1]) $'000
Revenue	654,975	628,820
Cost of sales	(534,575)	(486,359)
Gross profit	**120,400**	**142,461**
Expenses	(122,172)	(107,461)
Profit before significant material items, finance, depreciation and amortisation	**(1,772)**	**35,000**
Significant items	(10,643)	(34,366)
Profit before financing items, depreciation and amortisation	**(12,415)**	**634**
Depreciation and amortisation		
Depreciation and amortisation charges	(5,762)	(4,023)
Loss before financing items and tax	**(18,177)**	**(3,389)**
Financing items		
Interest income	112	213
Finance costs	(2,212)	(1,005)
Net financing cost	**(2,100)**	**(792)**
Loss before tax	**(20,277)**	**(4,181)**
Income tax benefit / (expense)	6,111	(6,751)
Loss for the year	**(14,166)**	**(10,932)**

1. Restated consolidated statement of profit and loss and other comprehensive income. (Refer to Note 3.4).

Notes to the Financial Statements

16.1 Deed of cross guarantee (Cont'd)

	Year ended 30/06/16 $'000	Year ended 30/06/15 (restated[1]) $'000
Assets		
Current Assets		
Cash and bank balances	3,095	5,477
Trade and other receivables	44,734	44,956
Inventories	49,610	71,686
Other assets	7,574	6,809
Total current assets	**105,013**	**128,928**
Non–Current Assets		
Property, plant and equipment	9,800	7,433
Intangible assets	1,646	4,080
Other financial assets	–	–
Deferred tax assets	3,851	3,675
Total non–current assets	15,297	15,188
Total assets	**120,310**	**144,116**
Liabilities		
Current Liabilities		
Trade and other payables	75,612	75,685
Borrowings	1,790	908
Provisions	14,658	11,786
Income in advance	12,484	9,704
Total current liabilities	**104,544**	**98,083**
Non–Current Liabilities		
Borrowings	9,500	1,877
Provisions	6,877	6,384
Deferred tax liabilities	6,045	11,117
Total Non–Current Liabilities	22,422	19,378
Total liabilities	**126,966**	**117,461**
Net assets / (liabilities)	**(6,656)**	**26,655**
Equity		
Issued capital	12,911	13,590
Share buy–back reserve	(7,204)	–
Share based payments reserve	30,248	29,424
Accumulated losses	(42,611)	(16,359)
Total equity / (deficit)	**(6,656)**	**26,655**

1. Restated consolidated statement of profit and loss and other comprehensive income. (Refer to Note 3.4).

Notes to the Financial Statements

17. Property, plant and equipment

	Leasehold improvements $'000	Computer equipment $'000	Office Furniture and Fittings $'000	Display Home Furniture, Fixtures & Fittings $'000	Motor Vehicles $'000	Plant and Equipment $'000	Total $'000
Cost							
Balance at 1 July 2014	2,200	1,983	2,162	195	6,314	1,269	14,123
Additions	1,245	304	385	274	1,677	24	3,909
Disposals	(7)	–	–	–	(1,623)	–	(1,630)
Balance at 30 June 2015	**3,438**	**2,287**	**2,547**	**469**	**6,368**	**1,293**	**16,402**
Cost							
Balance at 1 July 2015	3,438	2,287	2,547	469	6,368	1,293	16,402
Additions	1,353	1,178	657	705	1,868	26	5,787
Disposals	(1,686)	(1,535)	(677)	(391)	(1,571)	(1,160)	(7,020)
Balance at 30 June 2016	**3,105**	**1,930**	**2,527**	**783**	**6,665**	**159**	**15,169**
Accumulated depreciation							
Balance at 1 July 2014	(895)	(1,634)	(773)	(172)	(2,747)	(1,063)	(7,284)
Depreciation expense	(646)	(207)	(365)	(103)	(1,205)	(178)	(2,704)
Disposals / transfers	2	–	–	–	1,017	–	1,019
Balance at 30 June 2015	**(1,539)**	**(1,841)**	**(1,138)**	**(275)**	**(2,935)**	**(1,241)**	**(8,969)**
Accumulated depreciation							
Balance at 1 July 2015	(1,539)	(1,841)	(1,138)	(275)	(2,935)	(1,241)	(8,969)
Depreciation expense	(658)	(489)	(467)	(280)	(1,269)	(37)	(3,200)
Disposals / transfers	1,677	1,535	637	377	1,418	1,156	6,800
Balance at 30 June 2016	**(520)**	**(795)**	**(968)**	**(178)**	**(2,786)**	**(122)**	**(5,369)**
Net book value							
As at 30 June 2015	1,899	446	1,409	194	3,433	52	7,433
As at 30 June 2016	**2,585**	**1,135**	**1,559**	**605**	**3,879**	**37**	**9,800**

* The Groups' obligations under finance leases (note 21) are secured by motor vehicles with a carrying value of $3.622m (2015: $2.869m).

Notes to the Financial Statements

18. Intangible assets

	Computer Software $'000	Capitalised Courses $'000	Goodwill from Acquisitions $'000	RTO Licence $'000	Total $'000
Cost					
Balance at 1 July 2014	5,221	–	–	–	5,221
Additions	3,111	399	–	–	3,510
Disposals	–	–	–	–	–
Balance at 30 June 2015	**8,332**	**399**	**–**	**–**	**8,731**
Cost					
Balance at 1 July 2015	8,332	399	–	–	8,731
Additions	2,333	649	2,976	1,245	7,203
Impairment of IT project costs	(3,665)	–	–	–	(3,665)
Disposals	(752)	–	–	–	(752)
Balance at 30 June 2016	**6,248**	**1,048**	**2,976**	**1,245**	**11,517**
Accumulated amortisation					
Balance at 1 July 2014	(3,332)	–	–	–	(3,332)
Amortisation Expense	(1,265)	(54)	–	–	(1,319)
Disposal/Transfers	–	–	–	–	–
Balance 30 June 2015	**(4,597)**	**(54)**	**–**	**–**	**(4,651)**
Accumulated amortisation					
Balance at 1 July 2015	(4,597)	(54)	–	–	(4,651)
Amortisation Expense	(1,167)	(326)	–	(1,069)	(2,562)
Disposal/Transfers/Impairment	494	–	–	–	494
Balance 30 June 2016	**(5,270)**	**(380)**	**–**	**(1,069)**	**(6,719)**
Net Book Value					
As at 30 June 2015	**3,735**	**345**	**–**	**–**	**4,080**
As at 30 June 2016	**978**	**668**	**2,976**	**176**	**4,798**

Notes to the Financial Statements

19. Other assets

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Prepayments	3,255	3,008
Land deposits	–	663
Prepayment for acquisition	–	3,000
Other assets	127	138
	3,382	**6,809**
Current	3,382	6,809
Non–current	–	–
	3,382	**6,809**

20. Trade and other payables

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Trade payables	50,497	32,929
Construction accruals	14,380	28,238
Income tax payable	–	6,215
Goods and services tax payable	750	787
Other payables and accruals	10,003	7,516
	75,630	**75,685**

21. Borrowings

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Current		
Finance lease liability (ii)	1,790	908
	1,790	**908**
Non – current		
Commercial bills (i)	2,000	–
Finance lease liability (iii)	2,500	1,877
Display fund facility (iv)	5,000	–
	9,500	**1,877**

Notes to the Financial Statements

21. Borrowings (Cont'd)

21.1 Summary of borrowing arrangements

The Group executed an amended debt facility with the Commonwealth Bank of Australia (CBA), taking effect 20 June 2016. Details of the facility are as follows:

(i) The Groups facilities consist of an $8.210m market rate loan, a $0.500m business corporate credit card facility and a $24.500m Multi Option Facility incorporating a market rate loan, overdraft facility and bank guarantee facility. The term for all facilities will be until 7 May 2018, weighted average effective interest rates are disclosed in note 27.6. The Group's facilities are secured by:

- Joint and several liability guarantee.
- First ranking charge over all present and after-acquired property for all Simonds Group Limited corporate entities and Jackass Flat Developments Pty Limited as trustee for Jackass Flat Developments Unit Trust, with exception for Display Homes which Simonds Homes Display Fund has the first ranking charge.
- The Group has unused facilities of $24.342m as at 30 June 2016.
- Included in used facilities is $4.167m of overdraft, which has been offset against cash in the balance sheet, as the group has legal right of the set-off under the funding agreement terms.

(ii) Assets under finance lease are secured by the assets leased. The borrowings are at an average fixed rate of 6.76% with repayments periods not exceeding 5 years.

(iii) Unused finance lease facilities as at 30 June 2016 are $0.256m

(iv) On 15 September 2015, the Group entered into a mortgage facility with Simonds Homes Display Fund with an initial expiry of 15 September 2016. Details of the facility are as follows:

- A $5m mortgage facility secured by first mortgages over a number of display homes of the Group
- On 16 June 2016, the facility was extended to 15 September 2017.

(v) Financial guarantees of $2.167m for property rentals, project contracts, crossing deposits and merchant facility.

22. Provisions

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Employee benefits (i)	6,387	6,462
Warranty and contract maintenance provision (ii)	14,209	11,006
Provision for make good	939	702
	21,535	**18,170**
Current	14,658	11,786
Non – current	6,877	6,384
	21,535	**18,170**

(i) The provision for employee benefits represents annual leave and long service leave entitlements accrued and compensation claims made by employees. The provision for employee entitlements relates to annual and long service leave. The measurement and recognition criteria for employee benefits have been included in note 3 of the financial statements.

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

Notes to the Financial Statements

22. Provisions (Cont'd)

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the consolidated entity does not expect the full amount of annual leave classified as current liabilities to be settled wholly within the next 12 months. However, these amounts must be classified as current liabilities since the consolidated entity does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement. The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

The following amounts reflect annual leave that is not expected to be taken or paid within the next 12 months which is currently:

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Leave obligations expected to be settled after 12 months	**1,423**	**1,564**

23. Deposits and income in advance

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Arising from construction contracts	**12,484**	**9,704**

24. Issued capital

	Year ended 30/06/16 $	Year ended 30/06/15 $
143,841,655 fully paid ordinary shares (30 June 2015: 151,412,268 shares)	12,911,152	13,590,304
	12,911,152	**13,590,304**

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

Notes to the Financial Statements

24. Issued capital (Cont'd)

	Number of shares		Share capital ($)	
	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Balance at beginning of the period	151,412,268	27,928,858	13,590,304	822,059
Share split (i)	–	111,715,432	–	–
Issue of shares (ii)	–	6,150,000	–	3,523,193
Issue of shares (iii)	–	5,617,978	–	10,000,000
Cancelled Shares (iv)	(7,570,613)	–	(679,152)	–
Transaction costs	–	–	–	(754,948)
Balance at end of the period	**143,841,655**	**151,412,268**	**12,911,152**	**13,590,304**

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

(ii) Additional capital of $3.523m (6,150,000 ordinary shares) was raised during the year ended 30 June 2015 (Current year: $nil) through share subscriptions by executives from the management incentive.

(iii) Additional capital of $10.000m (5,617,977 ordinary shares) was raised during the year ended 30 June 2015 (Current year: $nil) as part of the Group's initial public offering. Transaction costs arising on the new share issue are accounted as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction. No transaction costs were accounted as a deduction in equity for the year ended 30 June 2016. (2015: $0.755m). As part of the listing on the Australian Stock Exchange during the year ended 30 June 2015, the Company granted 137,191 shares ($0.244m) to employees for no consideration, which was recognised in the profit and loss at a five day volume weighted average price (VWAP) of $1.60 on 20 November 2014.

(iv) On 20 August 2015, the Group announced its intention to undertake an on-market share buy-back ("buy-back") to enable the Group to acquire up to a maximum of 7.570m shares within a 12-month period. The buy-back was part of the Group's ongoing capital management strategy, and determined by the Directors to be an appropriate use of Group capital resources given current market conditions at the time. The Group bought back 7,570,613 of its issued shares for a total amount of $7.883m. As a result, a reduction in capital of $0.679m has been recognised based on an implied value per share of 8.97c and the remaining balance was recorded in the share buy-back reserve.

25. Accumulated losses

	Year ended 30/06/16 $'000	Year ended 30/06/15 (restated[1]) $'000
Balance at the beginning of the year	(16,359)	14,074
Loss attributable to owners of the Group (net of tax)	(14,891)	(10,932)
Payment of dividends (refer to note 26)	(8,030)	(19,501)
Balance at the end of the year	**(39,280)**	**(16,359)**

1. Restated consolidated statement of profit and loss and other comprehensive income. (Refer to Note 3.4).

26. Dividends

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

	Year ended 30 June 2016		Year ended 30 June 2015	
	Cents per share	Total $'000	Cents per share	Total $'000
Special dividend	–	–	13.96	19,501
Final dividend (i)	5.3	8,030	–	–
	5.3	**8,030**	**13.96**	**19,501**

(i) The directors declared a fully franked final dividend of 5.30 cents per share ($8.030m) on 19 August 2015 to the post IPO holders of fully paid ordinary shares in respect to the year ended 30 June 2015, which was paid on 25 September 2015.

The company's adjusted franking account balance as at 30 June 2016 is $10.704m (2015: $3.998m).

27. Financial instruments

27.1 Capital risk management

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 21, cash, and equity attributable to equity holders of the parent, comprising issued capital, accumulated losses and dividends, as disclosed in notes 24, 25 and 26.

27.2 Categories of financial instruments

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

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Financial assets		
Cash and cash equivalents	3,176	5,477
Trade and other receivables	43,630	44,956
Other financial asset	1,260	–
Financial liabilities		
Trade and other payables	75,630	69,470
Borrowings	11,290	2,785

Notes to the Financial Statements

27. Financial instruments (Cont'd)

27.3 Financial risk management objectives

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

27.4 Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. As at 30 June 2016, there were borrowings from CBA of $2.000m, Simonds Homes Display Fund from Australian Executor Trustees Limited of $5.000m, and other finance leases of $4.290m.

The bill rates are benchmarked against the BBSY bid rate (Australian Bank Bill Swap Reference Rate – Average Bid Rate) on a quarterly basis. The overdraft rate is fixed at 7.75% p.a. charged on a monthly basis and the Simonds Homes Display Fund rate is fixed at 7.2% p.a. charged on a quarterly basis.

27.4.1 Interest rate sensitivity analysis

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

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

i) loss for the year ended 30 June 2016 would decrease/increase by $151,650. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings; and

ii) other comprehensive income for the year ended 30 June 2016 would decrease/increase by $nil.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in overdraft limit.

27.5 Credit risk management

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

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

Registered training is delivered under the terms provided by the Department of Education and Early Childhood Development (the Department) in accordance with the Victorian Training Guarantee Program.

27. Financial instruments (Cont'd)

27.6 Liquidity risk management

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

Year ended 30 June 2016	Weighted average effective interest rate %	< 6 months $'000	6 – 12 months $'000	>1 – 5 years $'000	Total $'000
Financial Liabilities					
Finance lease liability	6.76	1,022	768	2,500	4,290
Borrowings	4.64	3	–	2,000	2,003
Overdraft	7.75	4,167	–	–	4,167
Simonds Homes Display Fund	7.2	91	–	5,000	5,091
		5,283	**768**	**9,500**	**15,551**

Year ended 30 June 2015	Weighted average effective interest rate %	< 6 months $'000	6 – 12 months $'000	>1 – 5 years $'000	Total $'000
Financial Liabilities					
Finance lease liability	5.83	321	587	1,877	2,785
Borrowings	4.99	–	–	–	–
		321	**587**	**1,877**	**2,785**

28. Key management personnel compensation

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

	Year ended 30/06/16 $	Year ended 30/06/15 (restated[1]) $
Short-term employee benefits	2,627,732	3,905,302
Post-employment benefits	165,659	119,024
Other long-term benefits	165,674	223,406
Termination benefits	592,631	–
Share-based payments	774,352	14,375,564
	4,326,048	**18,623,296**

1. Restated consolidated statement of profit and loss and other comprehensive income. (Refer to Note 3.4).

Notes to the Financial Statements

29. Related party transactions

29.1 Trading transactions

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

	Sale of goods		Leases and services rendered		Business combinations	
	Year ended 30/06/16 $	Year ended 30/06/15 $	Year ended 30/06/16 $	Year ended 30/06/15 $	Year ended 30/06/16 $	Year ended 30/06/15 $
Vallence Gary Simonds and related entities	737,318	326,838	1,159,165	751,392	–	–
Leon Gorr and related entities	–	–	256,603	1,429,620	–	–
Rhett Simonds and related entities	34,118	706,364	–	–	–	–
Matthew Chun and related entities	–	–	105,000	–	555,000	–
Michael Gerolemou and related entities	460,027	–	–	–	–	–
Paul McMahon and related entities	–	–	78,689	76,800	–	–

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

	Amounts owed by related parties		Amounts owed to related parties	
	Year ended 30/06/16 $	Year ended 30/06/15 $	Year ended 30/06/16 $	Year ended 30/06/15 $
Vallence Gary Simonds and related entities	–	–	36,000	3,750
Rhett Simonds and related entities	–	297,556	–	–
Leon Gorr and related entities	–	–	–	43,115
Paul McMahon and related entities	–	–	–	3,200

Notes to the Financial Statements

29. Related party transactions (Cont'd)

29.1 Trading transactions (Cont'd)

Vallence Gary Simonds and related entities

The Group has sold goods to Vallence Gary Simonds and related entities which consist of the following:

- The construction of one display home for a closely related family member of Vallence Gary Simonds. The display home has been constructed at the Group's usual list prices and in line with relevant internal discount policies. This amounted to $735,615.
- A sub-lease agreement with SFO Consulting Pty Ltd which incurred an annual fee of $20,444 per annum. The agreement ended on 31 July 2015 and the amount recognised for the period ended 30 June 2016 is $1,703.

The Group's leases and receives services from Vallence Gary Simonds and related entities which consist of the following:

- property leases on an arms-length basis which amounted to $450,398 for the year ended 30 June 2016 (2015: $372,487);
- purchase of goods of $20,000 paid to Mark Simonds, a son of Gary Simonds, for consulting services provided and;
- services received from OzSoft Solutions Pty Ltd (VETtrak) and RTOMS Pty Ltd, as part of the normal course of business, two entities under the common control of a closely related family member of Vallence Gary Simonds. Purchases amounted to $688,767.

The Group continues to maintain a small number of motor vehicle leases on behalf of the Simonds family which are fully reimbursed on a monthly basis.

Leon Gorr and related entities

Leon Gorr is both a director of the Group and a Partner at HWL Ebsworth Lawyers who have provided legal services to the Company during the year.

Rhett Simonds and related entities

Sale of goods to Rhett Simonds and related entities are in respect to the construction of a home which was provided at cost.

Matthew Chun and related entities

Matthew Chun was both a director of the Company and a director at Chun Property Advisory Pty Ltd prior to his appointment as Chief Executive Officer and Managing Director of the Simonds Group on 1 April 2016 Chun Property Advisory had provided advisory services as part of the normal course of business to the Company during the year.

Acquisition costs for Chun Property Advisory are included in non-current assets, in respect to Goodwill. Please refer to note 35 (Business Combinations).

Michael Gerolemou and related entities

Sale of goods was made with respect to the construction of a personal home. The sale to Michael Gerolemou is part of the normal course of business and abides by the Simonds Group Staff Discount Policy.

Paul McMahon and related entities

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

29.2 Loans to related parties

During the year ended 30 June 2016 there were no loans to related parties.

29.3 Other related party transactions

Share based payment transactions that took place during the period are disclosed in note 30.

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

Notes to the Financial Statements

30. Share based payments

30.1 Share based payments

Employee share plan

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

Share based payments made to the management team during the year were $1.332m (2015: $29.424m). Share based payments made in the ordinary course of business amounted to $0.404m (2015: $0.576m) and share based payments associated with the organisational review and management restructure amounted to $0.928m (2015: $nil).

1,592,132 performance rights (2015: 1,348,316 performance rights) were granted to 8 senior executive (2015: 9 senior executives) during the period. As at 30 June 2016, of the FY16 performance rights granted, 566,092 performance rights remain on issue, of the FY15 performance rights granted, 337,080 remain on issue.

Incentives	Financial Year	Tranche	Grant Date	Fair Value at Grant Date	Vesting Date	Other Vesting Condition	
Performance rights	FY16	Tranche 1	30 Nov' 15	$0.31	31 Aug' 18	Non market and market	(1), (2)
	FY16	Tranche 2	30 Nov' 15	$0.75	31 Aug' 18	Non market	(1), (3)
	FY15	Tranche 1	17 Nov' 14	$1.03	31 Aug' 17	Non market and market	(2)
	FY15	Tranche 2	17 Nov' 14	$1.55	31 Aug' 17	Non market	(4)
	FY15	Tranche 3	17 Nov' 14	$1.55	31 Aug' 17	Non market	(5)
Service rights	FY15	Tranche 1	17 Nov' 14	$1.69	24 Nov' 15	Non market vesting only	(6)
	FY15	Tranche 2	17 Nov' 14	$1.61	24 Nov' 16	Non market vesting only	(7)

(1) Gateway Hurdle Condition exists whereby FY16 Performance Rights may not vest unless the individual remains employed up to and including 31 August 2018.

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

(3) Vesting condition linked to compound annual growth rate in Earnings Per Share (EPS) where EPS is calculated based on Net Profit Before Tax for the period commencing 1 July 2015 - 30 June 2018 with the specific EPS methodology to be determined by the board.

(4) Vesting condition linked to compound annual growth rate in Earnings Per Share (EPS) where EPS is calculated based on pro-forma Net Profit After Tax for the financial years 2015, 2016 and 2017, with the specific EPS methodology to be determined by the board.

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

(6) Vesting condition based on continuous employment with Simonds Group Limited from Grant Date to 24 November 2015.

(7) Vesting condition based on continuous employment with Simonds Group Limited from Grant Date to 24 November 2016.

Notes to the Financial Statements

30. Share based payments (Cont'd)

30.1 Share based payments (Cont'd)

The following table outlines the share based payments made under the management incentive and employee share plan for the period ended 30 June 2016:

	Year ended 30/06/16 $'000	Year ended 30/06/15 (restated[1]) $'000
Executive share based payment		
Equity settled share based payments	–	6,337
Cash settled share based payments	–	20,462
Restatement [1]	–	2,049
	–	**28,848**
Employee share plan		
Share based payments	1,332	576
	1,332	**29,424**

1. Restated share based payments expense (Refer Note 3.4)

30.2 Fair value of performance and service rights granted in the year

Service rights were priced using a Binominal Approximation Option Valuation Model. For performance rights subject to market vesting conditions only (Tranche 1) the model used was a Monte Carlo Simulation Model. For performance rights subject to non-market vesting conditions, the FY16 performance rights (Tranche 2) used the Black Scholes Option Pricing Model, while for FY15 (Tranche 2 and Tranche 3) the model used was a Binominal Approximation Option Valuation Model. Expected volatility is estimated using the daily rolling three year standard deviation of a relevant Peer Group. The risk free rate is derived from the average of the 2 and 3 year Commonwealth Treasury Bond Rate. This yield was converted to a continuously-compounded rate for the purposes of the rights valuation.

Fair value model inputs and assumptions	Performance rights	
	Tranche 1	Tranche 2
Fair value at grant date	$0.31	$0.75
Exercise Price	$0.00	$0.00
Expected life of instruments (days)	1,004	1,004
Expected volatility	45%	45%
Expected dividend yield	6.0%	6.0%
Risk-free rate	2.11%	2.11%

Notes to the Financial Statements

30. Share based payments (Cont'd)

30.2 Fair value of performance and service rights granted in the year (Cont'd)

The following table outlines information relevant to the fair value of performance and service rights granted in 2015:

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

30.3 Movements in performance and service rights during the year

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

2016	Financial Year Issued	Opening balance	Granted during the year		Vested during the year		Forfeited during the year		Closing balance
		Number of rights	Number of rights	Weighted average fair value	Number of rights	Weighted average fair value	Number of rights	Weighted average fair value	Total number of rights
Performance Rights									
Tranche 1	FY2016	–	796,069	$0.31	(389,188)	$0.31	(123,833)	$0.31	283,048
Tranche 2	FY2016	–	796,063	$0.75	(389,187)	$0.75	(123,832)	$0.75	283,044
Tranche 1	FY2015	393,258	–	–	(149,813)	$1.03	(131,086)	$1.03	112,359
Tranche 2	FY2015	393,258	–	–	(149,813)	$1.55	(131,086)	$1.55	112,359
Tranche 3	FY2015	393,261	–	–	(149,813)	$1.55	(131,087)	$1.55	112,361
Service Rights									
Tranche 1	FY2015	168,549	–	–	(168,549)	$1.69	–	–	–
Tranche 2	FY2015	84,261	–	–	–	–	–	–	84,261
TOTAL		**1,432,587**	**1,592,132**	**$0.53**	**(1,396,363)**	**$0.94**	**(640,924)**	**$1.05**	**987,432**

The performance rights outstanding at the end of the year had an exercise price of $0.00 (2015: $0.00) and a weighted average contractual life of 1,009 days (2015: 1,018 days). The service rights outstanding at the end of the year had an exercise price of $0.00 (2015: $0.00) and a weighted average contractual life of 738 days (2015: 494 days).

Notes to the Financial Statements

30. Share based payments (Cont'd)

30.4 Performance and service rights vested during the year

Performance rights of 1,227,814 vested during the year ended 30 June 2016 as a result of the organisational review and management restructure. Tranche 1 service rights of 168,549 vested on 24 November 2015.

395,406 performance rights and 56,174 service rights have been accelerated during the year but have not vested due to the vesting date not occurring until after 30 June 2016.

30.5 Performance and service rights forfeited during the year

There were 640,924 performance rights which were forfeited during the year due to 2 employee resignations.

30.6 Share based payments reserve

	Year ended 30/06/16 $'000	Year ended 30/06/15 (restated[1]) $'000
Balance at the beginning of the year	29,424	–
Executive share based payment	–	28,848
Amounts expensed	404	576
Settlement of share based payments (non-cash) arising from organisation review and management restructure	928	–
	1,332	**576**
Performance rights vested	(508)	–
Balance at the end of the year	**30,248**	**29,424**

31. Commitments for expenditure

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Lease commitments		
Non – cancellable operating lease payments		
No longer than 1 year	9,746	9,025
Longer than 1 year and not longer than 5 years	12,344	14,739
	22,090	**23,764**

The Group has no capital expenditure commitments. Lease commitments relate primarily to office leases, display home leases and information technology leases. The operating lease expense for the year ended 30 June 2016 is $7.543m (2015: $6.393m).

1. Restated share based payments expense (Refer to Note 3.4)

Notes to the Financial Statements

32. Auditors remuneration

	Year ended 30/06/16 $	Year ended 30/06/15 $
Audit or review of financial statements	328,500	319,500
IPO advisory costs	–	573,231
IPO tax costs	–	144,186
Non – audit services – corporate advisory services	254,200	–
Tax services	285,600	268,107
	868,300	**1,305,024**

The Group's auditors are Deloitte Touche Tohmatsu.

33 Cash and cash equivalents

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

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Cash and bank balances	3,176	5,477
	3,176	**5,477**

33. Cash and cash equivalents (Cont'd)

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

	Year ended 30/06/16 $'000	Year ended 30/06/15 (restated[1]) $'000
Cash flows from operating activities		
Loss for the year	(14,891)	(10,932)
Income tax expense recognised in profit or loss	(6,422)	6,751
Finance costs recognised in profit or loss	2,212	1,005
Interest received	(112)	(213)
Significant one-off items:		
Impairment of IT project costs	3,665	86
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	348
Costs associated with initial public offering	–	5,668
Management incentive and share based payments	824	29,424
Depreciation and amortisation of non-current assets	5,762	4,022
	(4,571)	**36,159**
Movements in working capital		
(Increase)/decrease in trade and other receivables	1,167	(19,839)
(Increase)/decrease in inventories	17,685	(8,087)
(Increase)/decrease in other assets	(238)	(2,104)
Increase/(decrease) in trade and other payables	8,939	(1,819)
Increase/(decrease) in provisions	3,366	777
Increase/(decrease) in other liabilities	–	–
Cash generated by operating activities	**26,348**	**5,087**
Interest paid	(2,212)	(1,005)
Income taxes paid	(9,192)	(10,326)
Net cash generated by / (used in) operating activities	**14,944**	**(6,244)**

33.2. Non-cash transactions

During the current year, the Group entered into non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows. The Group acquired $2.458m of equipment under a finance lease in 2016 (2015: $1.618m).

1. Restated reconciliation of profit for year to net cash flows from operating activities. (Refer to Note 3.4)

Notes to the Financial Statements

34. Parent entity information

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

	Year ended 30/06/16 $'000	Year ended 30/06/15 (restated[1]) $'000
Statement of financial position		
Other financial assets	892	822
Intercompany loan receivables	41,105	53,899
Other receivables	1,527	4,952
Total assets	**43,524**	**59,673**
Intercompany loan payables	43,524	31,329
Total liabilities	**43,524**	**31,329**
Net assets / (liabilities)	**–**	**28,344**
Issued capital	12,911	13,590
Share buy-back reserve	(7,204)	–
Share based payments reserve	1,332	576
Retained earnings	(7,039)	14,178
Total equity / (deficit)	**–**	**28,344**
Income statement		
Dividend income	–	35,673
Operating expense	(13,193)	(3,034)
PROFIT / (LOSS) FOR THE YEAR	**(13,193)**	**32,639**
Other comprehensive income, net of income tax		
Items that will not be reclassified subsequently to profit or loss:	–	–
Items that may be reclassified subsequently to profit or loss:	–	–
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(13,193)**	**32,639**

1. Restated for the tax impact on the parent entity.

Notes to the Financial Statements

35. Business combinations

The total goodwill recorded as at 30 June 2016 is $2.976m which is comprised of $2.603m from the acquisition of City-Wide Building and Training Services Pty Ltd (CWBTS) and $0.373m from the acquisition of Chun Property Advisory Pty Ltd (CPA).

The net cash outflow on the acquisition of subsidiaries is $1.647m in for the year ended 30 June 2016 (2015: $3.000m) comprising of $1.154m (FY15: $3.000m) for CWBTS and $0.493m for CPA (2015: $nil).

35.1.1 Subsidiaries acquired – CWBTS

The acquisition of CWBTS was completed on 1 July 2015.

	Principal activity	Date of acquisition	Proportion of shares acquired
2016			**%**
CWBTS	Provision of registered training services	01/07/2015	100

35.1.2 Consideration transferred

	CWBTS $'000
Cash	4,543
Contingent consideration (i)	–
Total	**4,543**

(i) Under the contingent consideration arrangement in the share sale and purchase agreement, the Group was required to pay the vendor an additional $0.500m if CWBTS's performance indicators were met. This amount is an Earn Out amount based on the Gross Revenue for the calendar year 2015. The fair value of the contingent consideration at date of acquisition was nil.

Notes to the Financial Statements

35. Business combinations (Cont'd)

35.1.3 Assets and liabilities assumed at the date of acquisition

The accounting for the acquisition of CWBTS has been determined at the end of the reporting period. There are no other intangible assets identified other than the RTO license and the assets acquired and liabilities assumed are as follow:

	$'000
Cash	389
Trade receivables	663
Plant and Equipment	26
Inventory	26
RTO Licence (i)	1,245
Total assets	**2,349**
Trade payables and provisions	35
Deferred tax liability	374
Total liabilities	**409**
Net assets	**1,940**
Cash paid	4,543
Net assets acquired	1,940
Goodwill	**2,603**

(i) RTO Licence relates to New South Wales and Queensland state government funding contracts for the provision of training services. The contracts are due to expire in March, 2017.

35.1.4 Non-controlling interests

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

35.1.5 Goodwill arising on acquisition

Goodwill of $2.603m was recognised and allocated to Registered Training cash generating unit in the current period ended 30 June 2016.

35.1.6 Net cash outflow on acquisition of subsidiaries

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Consideration paid		
– Deposit pending regulatory approval (i)	(500)	(3,000)
– Final payment on completion	(1,043)	–
Cash balance assumed at acquisition	389	–
	(1,154)	**(3,000)**

(i) Cash outflow of $0.500m relates to a retention amount which was payable in accordance with the share purchase agreement pursuant to conditions being met.

Notes to the Financial Statements

35. Business combinations (Cont'd)

35.2.1 Subsidiaries acquired – CPA

The acquisition of CPA was completed on 8 April 2016.

	Principal activity	Date of acquisition	Proportion of shares acquired
2016			**%**
CPA	Development and consulting services	08/04/2016	100

35.2.2 Consideration transferred

	CPA $'000
Cash	555
Total	**555**

(i) This is a related party transaction refer to disclosures made in note 29.

35.2.3 Assets and liabilities assumed at the date of acquisition

The initial accounting for the acquisition of CPA has been determined at the end of the reporting period. There are no other intangible assets identified and the assets acquired and liabilities assumed are as follow:

	$'000
Cash	62
Trade receivables	174
Total assets	**236**
Trade payables and provisions	54
Total liabilities	**54**
Net assets	**182**
Cash paid	555
Net assets acquired	182
Goodwill	**373**

35.2.4 Non-controlling interests

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

35.2.5 Goodwill arising on acquisition

Goodwill of $0.373m was recognised and allocated to Simonds Land Developments cash generating unit in the current period ended 30 June 2016.

Notes to the Financial Statements

35. Business combinations (Cont'd)

35.2.6 Net cash outflow on acquisition of subsidiaries

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Consideration paid – final payment on completion	(555)	–
Cash balance assumed at acquisition	62	–
	(493)	**–**

35.2.7 Other subsidiaries

There were no other subsidiaries acquired during the year ended 30 June 2016.

36 Contingent liabilities

	Year ended 30/06/16 $'000	Year ended 30/06/15 $'000
Other guarantees (i)	2,126	5,388
	2,126	**5,388**

(i) Represents guarantees for property rentals, project contracts, crossing deposits and merchant facility. The Group has in place a guarantee with a Significant Investor Fund for the acquisition and leaseback of displays. There have been no funds received to date.

Regulatory actions affecting Registered Training Organisations (RTO)

Wholly owned subsidiaries, House of Learning Pty Ltd (BAA) and City Wide Building Training Services Pty Ltd (CWBTS), are nationally accredited RTOs under the Australian Skills Quality Authority (ASQA) and hold funding contracts across multiple states.

Both CWBTS and BAA continue to focus on embedding a quality framework across operations recognising that providers in this sector continue to face major risk due to an ever changing regulatory environment and adaptions to state and federal funding models.

As part of the ongoing accreditation process and approval process for RTO's and for approved delivery under state and federal funding regimes, RTO's 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 the Group's RTO operations, financial performance and financial position.

Both CWBTS and BAA have experienced compliance audits and reviews over the 2016 financial year with no material adverse findings resulting from any audits or reviews that have been fully completed during the period. Audit activity from both ASQA and State Funding bodies is still in progress at the completion of the 2016 financial year with the market to be informed if any material adverse findings result from any current activity underway.

Litigation

There are a small number of legal matters relating to the construction of residential dwellings and personal injury claims from employees, contractors or the public that are the subject of litigation or potential litigation. A provision is raised in respect of claims where an estimate may be reliably established and legal or other advice indicates that it is probable that the Group will incur costs either in progressing its investigation of the claim or ultimately in settlement.

37. Subsequent events

There have been no events that have occurred subsequent to the reporting date that have significantly affected or may significantly affect the Group's operations, results or state of affairs in future years.

Shareholder Information

The Shareholder Information set out below was applicable as at 10 September 2016.

Distribution of equity securities

Analysis of number of equity security holders by size of holding:

Holding	Class of equity security			
	Ordinary shares		Performance rights	
	Holders	No. of shares	Holders	No. of performance and service rights
1-1,000	167	61,110	–	–
1,001-5,000	128	416,120	–	–
5,001-10,000	146	1,110,438	–	–
10,001-100,000	332	10,567,150	2	28,087
100,001 and over	89	131,686,837	2	507,768
Total	**862**	**143,841,655**	**4**	**535,855**

There were 168 holders of less than a marketable parcel of ordinary shares ($500).

Shareholder Information

Equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Number held	Percentage of issued shares
Simonds Constructions Pty Ltd	21,485,018	14.94%
Simonds Custodians Pty Ltd	16,400,010	11.40%
Simonds Custodians Pty Ltd	9,840,006	6.84%
McDonald Jones Homes Investments Pty Ltd	7,650,428	5.32%
Jrandl Pty Ltd	6,700,660	4.66%
Simonds Custodians Pty Ltd	6,560,004	4.56%
Henry Morgan Limited	5,669,039	3.94%
Citicorp Nominees Pty Ltd	4,921,916	3.42%
HSBC Custody Nominees (Australia) Limited	4,307,680	2.99%
UBS Nominees Pty Ltd	4,127,201	2.87%
National Nominees Limited	4,066,648	2.83%
FJP Pty Ltd	4,000,000	2.78%
JP Morgan Nominees Australia Limited	3,666,636	2.55%
BNP Paribas Nominees Pty Ltd	3,569,527	2.48%
Silver Street Investments Pty Ltd	3,300,000	2.29%
CS Fourth Nominees Pty Ltd	1,832,207	1.27%
Madisson Constructions Pty Ltd	1,572,678	1.09%
Brispot Nominees Pty Ltd	1,129,640	0.79%
Mr Yves Zairre Sabello	1,012,223	0.70%
Citicorp Nominees Pty Ltd	955,429	0.66%
Total	**112,766,950**	**78.40%**

Shareholder Information

Substantial shareholders

Substantial shareholders in the Company are set out below:

Name	Number held	Percentage of issued shares
Simonds Constructions Pty Ltd	21,485,018	14.94%
Simonds Custodians Pty Ltd	16,400,010	11.40%
Simonds Custodians Pty Ltd	9,840,006	6.84%
McDonald Jones Homes Investments Pty Ltd	7,650,428	5.32%
Total	**55,375,462**	**38.50%**

Voting Rights

The voting rights attaching to each class of equity security are set out as follows:

Ordinary Shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Performance Rights

No voting rights.

Disclaimer

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