ALWAYS THINKING AHEAD

Simonds Group
Annual Report 2019

Simonds Group

FOUNDER'S MESSAGE

Dear Shareholder,

In 2019, Simonds Homes celebrates 70 years in the building industry, making it one of the longest standing residential home builders in Australia. Starting from very humble beginnings in 1949, and with the support of many people, we have contributed to helping over 50,000 Australians achieve their dream of owning a new home. I believe our longevity directly relates to our commitment to excellence whilst innovating in a fiercely competitive industry. We take it very seriously when people choose to build their dream home, that is why we protect them with a lifetime structural guarantee.

As Founder of Simonds Homes, I have continued my involvement with the Simonds Group as a consultant and advisor to the Board – reinforcing our foundation values and encouraging the team to demonstrate these values in their commitment to governance and strategy. The Simonds Group Board of Directors, support our Chief Executive Officer (CEO) and Managing Director (MD), Mr Kelvin Ryan, with cross-industry insights, listed company board experience and strategic thinking.

Iain Kirkwood is the independent Chair and has a successful business and board career spanning 39 years across a range of industries. Kelvin Ryan as Managing Director has extensive experience in residential volume home building and building industries, both in Australia and overseas. Delphine Cassidy and Neil Kearney are both independent Non-Executive Directors; and Piers O'Brien and Scott Mahony sit on the board as Non-Executive Directors. Both my son, Mark Simonds and grandson, Rhett Simonds, continue on the Board.

It has been my pleasure to have helped guide the business to its current position by galvanising its core strength and maintaining its foundation principles.

Yours sincerely

Gary Simonds
Simonds Founder and
Senior Advisor to the Board

70 years young

THE NEXT CHAPTER BEGINS

"In 1949, Gary Simonds built his first home for his family, and for 70 years, the Simonds firsts have continued."

Contents

CHAIRMAN'S LETTER

> "Having laid the foundations to transform the company, we redefined our core purpose, reset our strategy and put in place the best structures to achieve these goals."

Dear Shareholders

On behalf of the Board, I am pleased to report the Simonds Group has significantly strengthened its financial position over the past two financial years and is well positioned to pursue growth opportunities. Starting with the "Back to Basics" theme, leveraging the famous Simonds brand and led by our CEO & MD, Kelvin Ryan, this two year journey of transformation sees a different company today. One that reflects a complete turnaround, delivering stronger performance and a much improved balance sheet. Most importantly our leadership in safety and environment continues.

We are focussed on both cultural and behavioural safety initiatives that has led

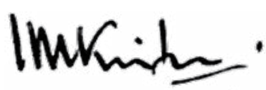
to our employees reinforcing safe work processes to each other and to our contractors. We think “safety” at every opportunity. Our people feel empowered to be safety leaders and are committed to all safety programs. In July 2019 we became the first national residential volume home builder to hold AS4801, ISO 9001 and ISO 14001 in the areas of safety, quality and environment. This focus has also delivered a significant reduction in our Workers Compensation premiums and performed 82% better than our industry sector in Victoria.

In FY19, revenue increased $82.5 million to $687.7 million, EBITDA by over $9.5 million to $23.2 million and net profit after tax from continuing operations of $11.7 million, was more than double the $4.8 million earned in FY18.

During the year a number of challenging conditions faced the residential building industry which are expected to continue into the new financial year. On a more encouraging note, there are some positive macro-economic factors which suggest market confidence has improved since the Federal Election in May 2019. We have fresh strategies in place to address these challenges and we will continue to focus strongly on shareholder value and total returns. We now have an industry-experienced executive team, led by Kelvin Ryan, who will drive the business forward in traditional and new areas, leveraging the Simonds brand to grow sales and financial performance, whilst maintaining our company’s rigorous emphasis on safety.

Simonds’ origins in building began in 1949 so this year marks our 70th year in the industry. Our Founder’s most important building feat was the creation of today’s Simonds Group. It is an enduring brand and still carries with it the promise of a family home built to a high-quality standard, delivered on-time, backed by a safe and efficient building process. It is a fundamental strength of our business which continues to hold a prominent market position.

Your Directors have determined that no dividend will be paid in respect of the 2019 financial year.



Iain Kirkwood
Chairman

CEO LETTER

The 2019 financial year marks considerable growth for the Simonds Group, with increases in its market presence, site starts and earnings as well as strengthening of our balance sheet. As we look ahead, we continue to believe our opportunity for growth is significant.

Simonds Group remains uniquely placed in the market providing two critical social enablers that increase demand and fulfilment for our brand:

- Simonds Homes: Providing access to affordable home ownership
- Education: Assisting people seeking qualifications to enter the workforce or advance their careers.

A successful financial year

The previous financial year focused on a 'back to basics' approach underpinned by a strong, industry-experienced leadership team focused on driving the business forward.

In the Simonds Homes segment of the business, our innovation has seen us develop market-leading product and establish efficient process disciplines across the business through our "functionally led, regionally operated" model leading to improvements to our operating margins.

Over the past 12 months we have achieved a number of firsts:

- The first national residential volume home builder to offer Lifetime Structural Warranty with every new home built providing home buyers with comfort when making their biggest purchase.
- The first to "Make the move to Wellness" with a number of company-wide initiatives to promote health and wellbeing

- The first national residential volume home builder to be fully certified in Quality, Safety and Environment, achieving accreditation under AS 4801 Safety, ISO 9001 Quality and ISO 14001 Environment (July 2019), demonstrating market-leading quality assurance.

In our Education business, Builders Academy Australia (BAA), we continue to deliver high quality, nationally accredited Building and Construction qualifications developing skilled workers for high demand areas in the Building and Construction industries. BAA continues to ensure strong governance, quality management systems and processes are in place across its operations.

In line with our successful initiatives both Simonds Homes and Education segments have performed above expectation. Sales revenue in the Simonds Homes business increased $83.8 million (up 14.1% on FY18), with site starts recorded by the Group of 2,580 (up 3.2% on FY18). Student enrolments in the Education business rose by 144 (up 8.5% on FY18).

Financial performance across the Group has seen revenue grow to $687.7 million and EBITDA to $23.2 million (up 69.3% on FY18). Our future pipeline of sales, accepted and contracted, will provide continued momentum into FY20. Our balance sheet health has significantly improved on the back of these results with net assets increasing from $1.0 million at 30 June 2018 to $11.4 million as at 30 June 2019.

Safety as a core value

The Simonds Group has continued to strengthen its safety, environmental and quality management systems. The primary objective of our safety program is to recognise safety as a core value across our entire business resulting in a positive safety culture and a healthy, engaged workforce.

Our safety management systems are highly visible across the Group and we are committed to continuous improvement in safe work practises and compliance with regulatory requirements. We remain committed to safety in the sectors we operate in. Importantly, we have a voice in industry through our involvement in the Volume Builders Safety Alliances in each state and through our active participation with the regulators in industry programs around the country.

In 2019, Simonds Group demonstrated this continued commitment to rigorous standards and quality assurance when we successfully obtained our ISO accreditation.

Strategic direction

Our core purpose is to leverage the strength of the Simonds brand to become a leader in Australian residential home building, by being recognised for our design and the good-value homes we build.

We do this by working in partnership with key land developers, leveraging our supply chain to meet the market with our innovative product mix, and an increased footprint through targeted sales channels. This has seen increased penetration in the key growth corridors of major Australian cities across the east coast and southern Australia.

The primary elements of the Group's strategy for the year ahead and beyond is to:

- continue to ensure the safety of our staff and sub-contractors;
- organically grow our existing business whilst pursuing new business growth opportunities to deliver increased site starts, revenues and bottom-line results;
- improve operating margins;
- maintain focus on cost control and debt levels; and
- broaden our offering by developing new and innovative products and sales channels.

Outlook and future developments

Challenging conditions across the residential property market over the past 12 months are likely to continue through to 2020. Despite industry groups reporting a decline (10% – 15%) in housing starts, there has been some positive signs including a relief in financing and lending criteria, and increased market confidence post the May 2019 Federal Election.

"In line with our successful initiatives both Simonds Homes and Education segments have performed above expectation."

The Group has entered FY20 in a solid position and is well placed to continue to capitalise on improvements, as well as introducing new initiatives to underpin future growth.

In line with the strategic direction, the business continues to focus on deepening relationships with land developers, locating display homes in major growth zones, and continuing to innovate and release new products.

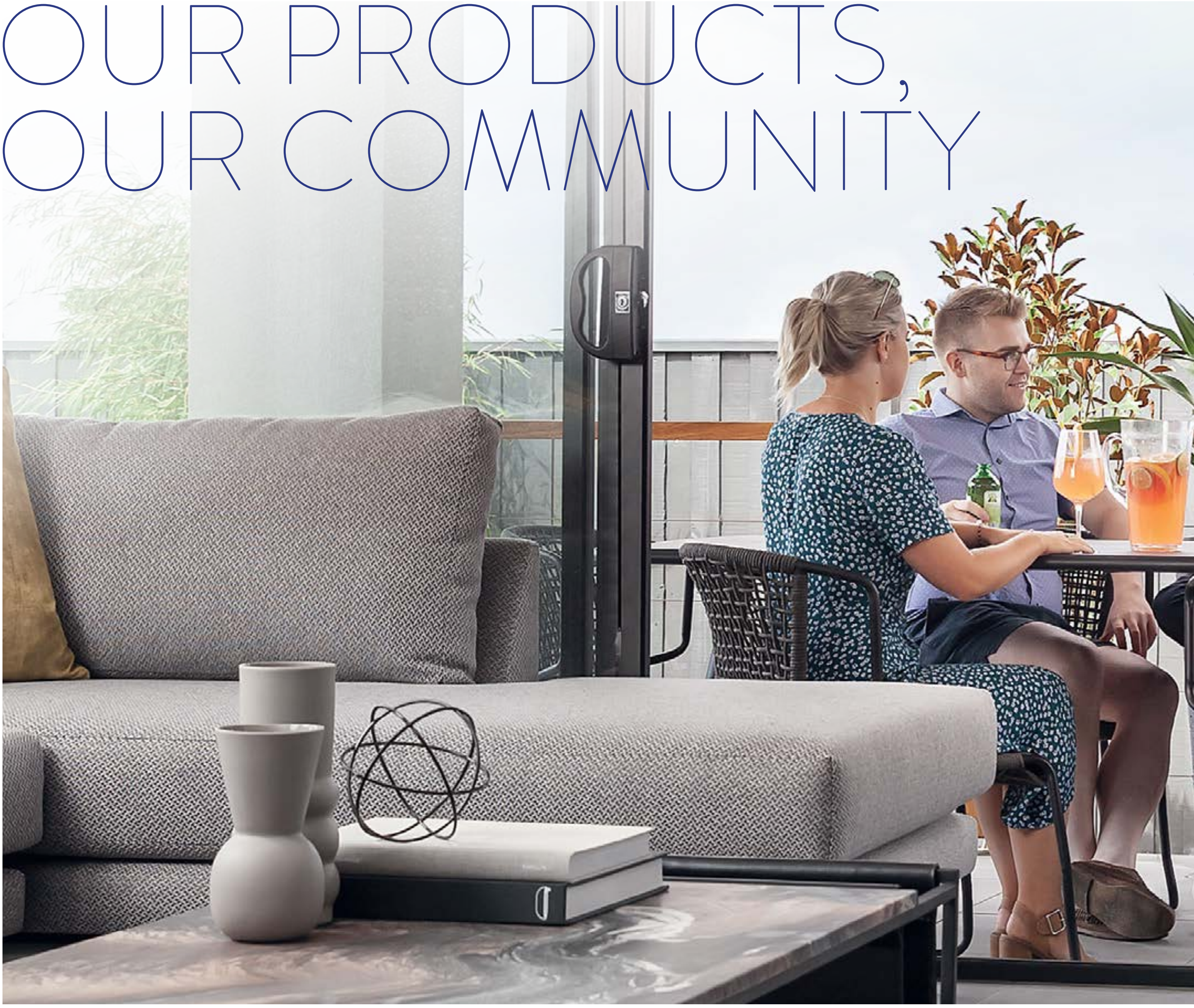
Acknowledgements and thanks

I take this opportunity to thank our customers, loyal and talented staff, trades, suppliers, trainers and industry partners, together with the Board and shareholders of Simonds Group for their valuable input and support during the year.

When the Simonds journey first started 70 years ago, the Founder articulated a powerful vision: the promise of a family home built to a high-quality. Today, this idea is as relevant as ever and is the key driver behind our brand. There are substantial opportunities ahead and we are confident we have the strategy and execution capabilities to deliver in FY20 and beyond.

Kelvin Ryan
CEO and Managing Director

OUR HISTORY, OUR PRODUCTS, OUR COMMUNITY



For 70 years, the Simonds name has been recognised as the builder that offers quality homes at an affordable price. That is founded on our belief that homes are a place to live and feel safe, be nurtured, welcomed and comforted.

We design homes to reflect how people choose to live their own unique lifestyles

We build homes with consideration of environment and materials

We work with suppliers that provide products that consider sustainability

We adopt the highest safety standards and processes for our staff

We provide upskilling opportunities and a nurturing place of work for staff

We support communities at the grassroot level and partner groups that seek to improve the lives of all Australians

ADAPTING TO CHANGING NEEDS

This commitment ensures Simonds can provide homes across a broad cross section of the community, from first home buyers to downsizers to trade-up buyers. Our product range caters to most customer groups, life stages and lifestyles. We recognise that people are changing the way they buy homes, and we are adapting our approach to ensure we connect with our home buyers, as well as providing innovative solutions that are on trend in a continuously evolving market.

CELEBRATING 70 YEARS

1949
Gary Simonds starts his apprenticeship.

1951 – 1953
Gary builds his first house; a home for his mum. And from here Gary's life long dedication to building homes for Australian families began.

1968
Simonds Homes opened the first Display Centre in Werribee.

2002 – 2006
Gary's grandson, Rhett Simonds joins the business.

HIA Award – "Best Custom-Built home over $1,000,000".

BUILDERS ACADEMY AUSTRALIA

2005
BAA established to provide trade training.

2009
Expansion to Queensland. Simonds Homes grows to building 2,000 homes per year.

2011
Geelong Football Club grounds named Simonds Stadium.

2012
Expansion to South Australia.

2014
Simonds Group Limited listed on stock exchange.

For 70 years we've been putting Australian homebuyers first.

1970
In just two years, Simonds building an average of 3 homes per year.

1973
Gary's son, Mark Simonds, started his apprenticeship.

1976
Mark Simonds joins the business.

1979
Simonds build an average of 12 homes per year.

1980
By the 80's Simonds were building 100 homes per year.

1995
Simonds wins first award – "Best Display Home under $100k".

1999
Building 1,000 homes per year makes Simonds a household name.

2015
Simonds expands into New South Wales.

2018
Lifetime Structural Guarantee & Wellness focus launched.

2019
Simonds awarded AS4801, ISO 9001 and ISO 14001 accreditation and Xpress online building tool launched.

WE BUILD MARKET LEADING HOMES

Design

The Simonds design philosophy has always been anchored in a simple yet profoundly important belief:

"Form and function are the foundations for quality living"

We focus on delivering spaces that encourage positive and healthy living, from everyday activities and busy schedules, to sharing traditions and memorable celebrations that make a house a home.

Design components that are considered in our homes include light management, air movement, home amenity and space management. The latest design insights and leading research, as well as decades of experience contribute to the goal of quality living.

Construction

Simonds is committed to creating affordable, high-quality homes for consumers today that are suitable for future generations.

The quality of our construction processes means we are the first national residential volume home builder to offer a Lifetime Structural Guarantee on every Simonds home.

We ensure that our work sites are safe for our people, and homes are built with sustainable materials to provide comfort to our customers. The quality of our construction is why the Simonds name has endured for 70 years.

Suppliers

Our choice of supplier partners is not just about price. Quality always counts and we value our supplier's commitment to sustainability, safety, materials sourcing and people management within their businesses.

We collaborate continuously with our suppliers, to ensure our building materials are sustainably sourced, with our key material suppliers obtaining the relevant accreditations for their respective industries. All timber sourced is AFS or FSC accredited and materials such as steel and concrete contain significant recycled content. Recycling is also a key focus at Simonds with many recyclable products, for example brick, roof tiles and plasterboard, being separated from general waste.

Education

We believe in not just building homes but supporting the industry by educating and enabling tradespeople to be the best they can be. Simonds is uniquely placed as the only national residential volume home builder with its own Registered Training Organisation, Builders Academy Australia (BAA). BAA continues to provide excellence in education in building and construction. In 2018, BAA was awarded the Victorian Small Training Provider of the Year at the Victorian Training Awards.

WE ENGAGE WITH OUR COMMUNITY

Photo courtesy of the Nine Network

Supporting our community

Community is an important part of the Simonds business. We have a long history of supporting Australian community groups at all levels from grassroots community organisations to major national charities.

Today, Simonds is woven into local sports and community child health programs. We also support our staff with a "Coffee Karma" program at our St Kilda Rd Head Office. Simonds has an on-site café for staff and clients where a gold coin donation is made for their coffee and a charitable cause is profiled and supported with funds each month. Staff nominate a cause that is close to their heart and the feedback from charitable beneficiaries speaks to the impact of our contributions.

Simonds have been discreet supporters of major health programs over the decades and during 2019 commenced a relationship with the Salvation Army to contribute to the renovation of Westwood Place with other pro-bono partners, aimed at addressing homelessness to provide long term options for those sleeping it rough in the Melbourne CBD. New to Simonds is a partnership with My Room, a charity aiming to end childrens' cancers. The Simonds' donation of a house to the Home for a Cure auction – will see proceeds directed towards critical research to help achieve a 100% cure rate for childhood cancers.

Initiatives such as the CEO Sleep Out, Mission Australia, AHHA, Movember, R U OK Day are amongst other charitable causes that are given focus throughout the year to raise awareness. The wellbeing of our people is paramount and the giving is tangible.

Many will know Simonds as a long-time partner of Geelong Football Club.

Our business success relies on how these initiatives contribute to our organisational culture. We are committed about the relationship between people, culture and outcomes and FY2019 has seen significant improvements in our operations, people and community, of which we are very proud.

Supporting our staff

People are at the heart of the business. It is our people who enable the delivery of exceptional homes to our clients. We aim to create productive teams that are united in delivering the company strategy through common processes and practices.

We take a proactive and comprehensive approach to workplace wellbeing through our Employee Assistance Program with Assure. Staff can avail themselves of qualified, professional counselling as we know that many and varied factors can affect happiness in our workplace and at home. The service is free and aims to provide support for a holistic approach to working lives.

We include the launch of a focused 'Wellness Challenge' where staff set a specific target for 60 days to bring out change for something that was meaningful and important for them personally. Feedback from our inaugural challenge highlighted that for many of our participants the challenge was life changing.

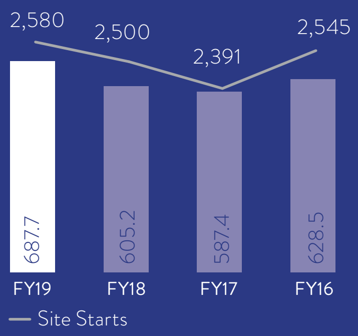
Supporting our contractors

Many of the suppliers to Simonds have been our partners for decades. They have been an integral part of the growth of the business and regularly work with us on product development and design innovation. We have supply relationships with small local area businesses through to large multi-nationals; and we have enjoyed watching many of these grow in scale as Simonds has grown. It's been a privilege to work alongside these businesses.

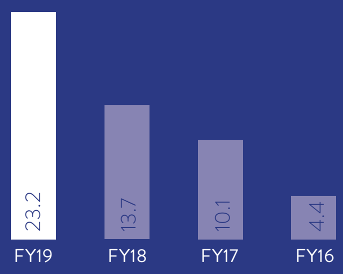
Our choice of supplier partners is not just about price. Quality always counts and we value our supplier's commitment to sustainability, safety, materials sourcing and people management within their businesses.

FINANCIAL SUMMARY

Revenue ($m)[1]



EBITDA ($m)[1]



1 Revenue and EBITDA have been adjusted to exclude the Madisson business, which has been presented as discontinued operations.

$687.7m
Revenue
Up $82.5m or 13.6%

$11.7m
Profit from continuing operations
Up $6.9m or 143.8%

2,580
Site starts
Up 80 or 3.2%

$23.2m
EBITDA
Up $9.5m or 69.3%

$154.0m
Gross profit
Up $20.7m or 15.5%

FINANCIAL REPORT

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 2019. To comply with the provisions of the *Corporations Act 2001*, the directors' report as follows:

Information about the directors

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

Name	Date appointed	Current Position
Current Directors		
Iain Kirkwood	20 September 2017	Independent Non-Executive Director and Chairman
Kelvin Ryan	5 March 2018	Chief Executive Officer (CEO) and Managing Director
Neil Kearney	20 September 2017	Independent Non-Executive Director
Delphine Cassidy	20 September 2017	Independent Non-Executive Director
Rhett Simonds	20 April 2016	Non-Executive Director
Mark Simonds	20 September 2017	Executive Director
Piers O'Brien	20 September 2017	Non-Executive Director
Scott Mahony	20 September 2017	Non-Executive Director

DIRECTORS' REPORT (CONTINUED)

The particulars of the directors are as follows:

Name	Experience and Directorships
Iain Kirkwood 	• Iain was educated at Glenalmond College in Scotland and holds a Master of Arts from Oxford University. Iain is a Fellow of CPA Australia (FCPA). • Iain is member of the Company's Audit & Risk and Nomination & Remuneration Committees. • Iain is an experienced corporate Chairman and has worked as a senior executive and Non-Executive Director across a range of industries, including auditing, resources, manufacturing and latterly healthcare in Australia, the USA and Britain. • Iain is Chairman of Bluechip Ltd, former chairman of Novita Healthcare Limited and has held Non-Executive Director roles with Medical Developments International Ltd and Vision Eye Institute Ltd. • Iain began his business career with Arthur Andersen & Co in London and went on to hold several senior financial and general management positions in Woodside Petroleum Ltd, Santos Ltd, Pilkington Plc, F.H Faulding & Co Ltd and Clinuvel Pharmaceuticals Ltd.
Kelvin Ryan 	• Kelvin holds a Master of Technology Management Degree from Griffith University and Bachelor of Education from WACAE Nedlands. • Kelvin possesses extensive experience in the volume home building industry as CEO of BGC Residential from 2009 until 2017 and has a strong awareness of the issues facing the industry. • Kelvin has extensive experience in building industries. • Kelvin also has significant experience as a senior executive in mining and manufacturing industries both in Australia and Internationally.
Neil Kearney 	• Neil holds a Bachelor of Economics from Monash University, has completed the Advanced Management Program at INSEAD and is a graduate of the Australian Institute of Company Directors. • Neil chairs the Company's Audit & Risk Committee. • Neil has held senior executive roles in Australian and International companies, including Goodman Fielder Limited and National Foods Limited (including as Chief Financial Officer & Chief Strategy Officer). • Neil is currently Chairman of Huon Aquaculture Group Ltd, Chairman of Felton, Grimwade & Bosisto's Pty Ltd and a Non-Executive Director of Brainwave Australia. • Neil's previous directorships include Warrnambool Cheese and Butter Factory Company Holdings Limited and National Foods Limited.
Delphine Cassidy 	• Delphine is an accountant with over 15 years' experience specialising in financial, accounting and treasury roles. • Delphine chairs the Company's Nomination & Remuneration Committee. • Delphine has become an investor relations expert, working as a senior executive in this field for a number of ASX 200 Companies. • Delphine has been a member of the Australasian Investor Relations Association (AIRA) Issues Committee and the ASX Issuer Services Working Group. • Delphine is currently the Vice President of Investor Relations at Orica.

DIRECTORS' REPORT (CONTINUED)

Name	Experience and Directorships
Rhett Simonds 	• Rhett holds a Bachelor of Commerce from Deakin University. • Rhett has been involved with the business since joining the Simonds Group of Companies in 2005. Rhett has a strong focus on the property and construction sector, where he sits on a number of private company boards and executive management teams. • In addition to his experience in the property and construction sector, Rhett is a director of and investor in a number of technology and finance related businesses.
Mark Simonds 	• Mark holds a registered builder's licence in Victoria, NSW, Queensland and South Australia. Mark has spent over 40 years immersed in the volume home building industry. • Prior to 2014, when Simonds Group Limited was listed, Mark was fully engaged in the day-to-day executive management of Simonds Homes. From 1973 until the listing of Simonds Group Limited in 2014, Mark worked alongside his father Gary Simonds and understands what is required for a successful volume building business. • Mark is the Deputy Chairman of Simonds Consolidated, which is primarily focussed on venture capital and private equity building and construction, real estate and the vocational education sector.
Piers O'Brien 	• Piers is a qualified lawyer with over 20 years' professional experience. • Piers is a member of the Company's Nomination & Remuneration Committee. • Piers has spent the last 12 years working in in-house legal roles as both General Manager Legal and General Counsel. During this time, he managed the legal function at ASX 200 company Skilled Group Limited for approximately 8 years and for the last 4 years has been the General Counsel of the Simonds Family Office. • Piers started his career in private practice with K&L Gates Lawyers (and its predecessor firms) where he spent 8 years specialising in mergers and acquisitions, corporate transactions and board advisory work.
Scott Mahony 	• Scott is a Chartered Accountant and has held Chief Financial Officer roles at two of Australia's largest volume builders spanning more than 20 years. • Scott is a member of the Company's Audit & Risk Committee. • Scott is well regarded for his strong financial knowledge, analytical skills and strategic thinking, as well as his ability to negotiate and deliver successful commercial outcomes in challenging business environments. • Scott joined Simonds Homes (then a private company) in 1999 and was Chief Financial Officer from 2008 to 2014. • Scott has been in various accounting roles with Telstra, P. Sartori & Co Chartered Accountants and Australian Unity before joining the volume housing industry.

DIRECTORS' REPORT (CONTINUED)

Directors' Shareholding

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

Directors	Fully Paid Ordinary shares (Number)	Share options (Number)
Rhett Simonds	14,044	–
Mark Simonds	56,741	–
Iain Kirkwood	75,000	–
Neil Kearney	90,000	–
Delphine Cassidy	30,000	–
Kelvin Ryan	61,623	2,133,332

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 Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Company Secretary

Mr Paul Taylor was appointed Company Secretary of Simonds Group Limited on 16 April 2019. Paul is a member of the Executive Leadership Team and the Group's General Counsel. Prior to joining Simonds Group, Paul held numerous roles at Cover-More Group Limited, including General Counsel and Head of Risk and Compliance. Paul holds a Master of Laws (Commercial) and Bachelor of Commerce (Hons) from the University of Melbourne.

Operating and Financial Review

Principal activities

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

Business Overview

Building homes since 1949, Simonds Homes is one of Australia's largest volume homebuilders, with display homes located across the Australian eastern seaboard and South Australia. Simonds Homes product range includes single and double storey detached homes, with a target market being first and second home families in the metropolitan areas of state capital and large regional cities.

Builders Academy Australia (BAA) is a Registered Training Organisation with a focus on offering nationally accredited qualifications in building and construction. Embedded within one of Australia's leading residential volume home builders, BAA's core offering is 'builders training builders'. Completion of courses offered enables successful students to increase their career and employment opportunities; as well as provide a well-trained network of employees, suppliers and contractors for Simonds Homes.

The Group maintains a small development land portfolio via direct land ownership, and participation in other development land projects via indirect holdings.

Operations

Group revenue from continuing operations for the period was $687.7m compared to the previous corresponding period of $605.2m. The increase of $82.5m is predominantly due to increased site starts and changes in product mix.

Earnings per share

The calculation of EPS is presented in Note 12.

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

- profit after tax attributable to shareholders (Statutory profit); and
- the weighted average number of ordinary shares outstanding during the period ended 30 June 2019:
  - Basic: 143,841,655 (30 June 2018: 143,841,655).

	Note	30 June 2019 cents per share	30 June 2018 cents per share
EPS from continuing operations			
Basic	12	8.16	3.31

Balance sheet

During the financial year the Group delivered a significantly improved operating result and stabilised the business to create a solid platform to assist in achieving sustainable growth for the business in future years.

During the year the Group continued to operate within its banking covenants. In August 2018 Simonds signed a revised facility agreement to extend the existing borrowing facilities for 3 years to September 2021.

Improved operating results and cash flow management have enabled the Group to maintain its net indebtedness (measured by cash and cash equivalents less borrowings) at $1.218 million at 30 June 2019 (30 June 2018: $1.088 million). The net assets of the Group have improved from $1.026 million at 30 June 2018 to a net asset position of $11.408 million at 30 June 2019.

Operating cash flows

The Group generated $6.055 million in operating cash flows during the financial year ended 30 June 2019, a decrease of $2.645 million in comparison with the prior corresponding period. The lower operating cash flows were primarily as a result of a tax refund received in the prior year and tax payable in the current year as a result of increased profitability of the company. Overall the Group generated net cash flows of $2.692 million, a significant improvement on the net cash outflows of $3.194 million in financial year ended 30 June 2018.

Future developments

Simonds Homes Australia (SHA) recorded 2,580 site starts in the 2019 financial year. Challenges remain in some areas with continued delays in registration of land by developers as well as customer financing, however changes made by APRA to relax constraints on customer borrowings combined with reduction in cash rates are expected to improve access by customers to finance. In addition, SHA continues to leverage its strategic relationships with land developers to enable its customers to procure land in key growth zones.

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 remains focused on meeting the increased demands 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.

Summary of key business risks

The business faces risks that may impair its ability to execute its strategy or achieve its objectives. There are some risks over which the Group has no control. These are both specific to the Group's home building and education businesses, and external risks, such as the economic environment. The Group's risk management approach is to identify, evaluate, and mitigate or manage its financial, operational and business risks. The 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 the Group's Risk Management Framework.

DIRECTORS' REPORT (CONTINUED)

Deterioration in economic conditions resulting in a fall in demand:

There are a number of general economic conditions, such as interest rate movements, overall levels of demand for housing, economic and political stability, and state and federal 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.

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

The potential failure of IT security measures may result in the loss, inability to access information, destruction or theft of customer, supplier, and financial or other commercially-sensitive information including intellectual property. This has the potential to adversely affect 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 aligned to improving the security posture; the implementation, maintenance and supervision of operational policies intended to preserve the integrity of the IT systems and supporting infrastructure; regular independent audit and review of IT security; and the ongoing review, practice and updating of a disaster/crisis management plan relating to IT systems.

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

The directors have not declared a dividend in relation to the 2019 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 (CONTINUED)

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, 11 Board meetings, 5 Nomination and Remuneration Committee meetings and 4 Audit and Risk Committee meetings were held.

	Board of Directors		Nomination and Remuneration Committee		Audit and Risk Management Committee	
Directors	**Held***	**Attended**	**Held***	**Attended**	**Held***	**Attended**
Iain Kirkwood	11	11	5	5	4	3
Kelvin Ryan	11	11	5	4	4	4
Neil Kearney	11	11	–	–	4	4
Delphine Cassidy	11	11	5	5	–	–
Rhett Simonds	11	10	–	–	–	–
Mark Simonds	11	10	–	–	–	–
Piers O'Brien	11	11	5	5	–	–
Scott Mahony	11	11	–	–	4	4

* Meetings held has been adjusted to reflect the number of meetings since the date of appointment, and to exclude meetings where there was conflict of interest for each director.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 34 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 in note 34 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.

DIRECTORS' 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 2019.

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

Non-Executive Directors (NED)

Name	Position	Appointment Date
Iain Kirkwood	Independent Non-Executive Director and Chairman	20 September 2017
Neil Kearney	Independent Non-Executive Director	20 September 2017
Delphine Cassidy	Independent Non-Executive Director	20 September 2017
Rhett Simonds	Non-Executive Director	20 April 2016
Piers O'Brien	Non-Executive Director	20 September 2017
Scott Mahony	Non-Executive Director	20 September 2017

Executive Directors (ED)

Name	Position	Appointment Date
Kelvin Ryan	Chief Executive Officer (CEO) & Managing Director	5 March 2018
Mark Simonds	Executive Director	20 September 2017

Current Senior Executives

Name	Position	Appointment Date
Mick Myers	Chief Financial Officer (CFO)	30 May 2016

Former[1] Senior Executives

Name	Position	Appointment Date	Cessation Date
John Thorburn	Executive General Manager – Housing	5 December 2016	5 September 2018

1. Former Non-Executive Directors and Senior Executives resigned from their position during the year ended 30 June 2019.

Remuneration Policy Summary

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

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

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

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

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.

The remuneration of KMP is structured taking into accounts 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
- other appropriate benchmarks and targets to reward senior executives for the Group and individual performance.

Remuneration Governance

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

- create a consistent and sustainable 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.

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 and other 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 2019, the Committee was at all times comprised of at least two non-executive directors.

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.

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

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 2019, fees paid to non-executive directors totalled $634,703 (exclusive of superannuation and cash salary and fees).

Shareholdings of Non-Executive Directors are set out on page 37 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 2019 are set out commencing on page 30 of this remuneration report.

KMP Remuneration Framework

The KMP remuneration framework comprises three principal elements:

- a total fixed remuneration (TFR) comprising a fixed component, consisting of a base salary, superannuation contributions and other related allowances;
- 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 options and/or performance rights and/or cash equivalents referred to as long-term incentives (LTI).

Executive Remuneration Components

TFR overview

TFR is benchmarked against the market median, also known as the 50th percentile, referencing market practice and comparable and similar sized organisations. 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. The achievement of the Group's budgeted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) is an initial gateway to realise a STI amount. All STI's are subject to the achievement of relevant key performance measures which are determined with reference to the Balanced Scorecard approach. The Balance Scorecard Approach encompasses the following areas of focus: Financial, Operational, Customer and People, Safety & Values.

This aligns executive interests with shareholder interests and focuses executive performance on those areas aligned to the achievement of the Group's operational strategy.

The STI payment is made in cash or in shares at the Board's discretion 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 and/or options and/or cash equivalents that vest after a defined period, subject to Group and individual financial and non-financial performance hurdles. Vesting conditions may be waived at the absolute discretion of the Board.

Long term Incentive Key Features

Award Structure	FY2019 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	**1 March 2019**
	Tranche 1 Total Share Holder Return (TSR) representing 50% of the Performance Rights Granted	Up to 50% 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 50% 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 2018 to 30 June 2021.
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 vesting date.	

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Award Structure	FY2018 Cash Rights	
Consideration for the Cash Rights	The Cash Rights will be granted for nil consideration.	
Vesting Period	Each tranche has a vesting period of approximately three years.	
Performance Measure	Vesting of Cash Rights is dependent on two discrete performance measures (hurdles):	
	Grant Date	**24 November 2017**
	Tranche 1 Total Share Holder Return (TSR) representing 50% of the Cash Rights Granted	Up to 50% of the Cash 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 50% of the Per 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 2017 to 30 June 2020.
TSR Vesting Schedule (Tranche 1)	**Simonds Group Limited Percentile Ranking**	**Percentage of Cash 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 Cash 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 vesting date.	

Award Structure	FY2017 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 Cash Rights is dependent on two discrete performance measures (hurdles):	
	Grant Date	**31 January 2017**
	Tranche 1 Total Share Holder Return (TSR) representing 50% of the Performance Rights Granted	Up to 50% 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 50% 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 2016 to 30 June 2019.

Award Structure	FY2017 Performance Rights	
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) & CEO Options	**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 September 2019.	

Remuneration Structure and Performance/Shareholder Wealth Creation

The Group's annual financial performance and indicators of shareholder wealth are summarised below.

	FY2019	FY2018	FY2017	FY2016	FY2015
	Statutory Actual [2]	Statutory Actual [2]	Statutory Actual [2]	Statutory Actual [2]	Statutory Actual
Financial Performance	$m	$m	$m	$m	$m
Revenue	687.7	605.2	587.4	628.5	628.8
EBITDA	23.2[1]	13.7	10.1	4.4	0.6
NPAT	11.7	4.8	2.1	(2.2)	(10.9)
Share Price at beginning of period ($)	0.36	0.31	0.28	1.40	–
Share Price at end of period ($)	0.33	0.36	0.31	0.28	1.40
Dividends (cents per share)	–	–	–	–	5.30
EPS (cents per share)	8.16	3.31	1.44	(1.53)	(7.40)

1. Statutory EBITDA is net profit after tax from continuing operations $11.736m before financing items $1.309m, tax expenses $5.410m, and depreciation and amortisation $4.732m.
2. The Madisson business was discontinued on 21 January 2016 and is classified as a discontinued operation after this date. As the Madisson business is a discontinued operation it is not reflected in the results presented above for FY2016-2019.

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Remuneration Tables – Details of KMP Remuneration

Details of the remuneration of 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.

		Short Term Employee Benefits			
FY2019	**Directors Fees $**	**Cash Salary and Fees $**	**Short Term Incentive $**	**Non-monetary benefits $**	**Annual Leave $**
Current Non-Executive Directors					
I Kirkwood	155,251	–	–	–	–
N Kearney	109,589	–	–	–	–
D Cassidy	109,589	–	–	–	–
R Simonds	86,758	–	–	–	–
P O'Brien	86,758	–	–	–	–
S Mahony	86,758	–	–	–	–
Total	**634,703**	**–**	**–**	**–**	**–**
Executive Directors					
K Ryan	–	584,646	600,000	10,272	44,562
M Simonds	–	91,324	–	–	–
Total	**–**	**675,970**	**600,000**	**10,272**	**44,562**
Current Senior Executives					
M Myers	–	277,043	125,000	10,272	23,077
Former Senior Executives					
J Thorburn[1]	–	76,533	–	1,078	–
Total	**–**	**353,576**	**125,000**	**11,350**	**23,077**
TOTAL KMP	**634,703**	**1,029,546**	**725,000**	**21,622**	**67,639**

1. John Thorburn ceased to be KMP on 5 September 2018.

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Termination Benefits	Post-employment benefits	Long-term benefits	Share-based Payments (SBP)		Percentage of remuneration fixed and at risk	
Termination Payments $	**Super $**	**Long Service Leave $**	**Performance Rights/Options $**	**Total $**	**Fixed %**	**At Risk %**
–	14,749	–	–	170,000	100%	–
–	10,411	–	–	120,000	100%	–
–	10,411	–	–	120,000	100%	–
–	8,242	–	–	95,000	100%	–
–	8,242	–	–	95,000	100%	–
–	8,242	–	–	95,000	100%	–
–	**60,297**	**–**	**–**	**695,000**		
–	20,531	1,081	214,960	1,476,052	45%	55%
–	13,805	–	–	105,129	100%	–
–	**34,336**	**1,081**	**214,960**	**1,581,181**		
–	20,531	5,314	103,905	565,142	59%	41%
24,778	5,133	–	–	107,522	100%	–
24,778	**25,664**	**5,314**	**103,905**	**672,664**		
24,778	**120,297**	**6,395**	**318,865**	**2,948,845**		

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Remuneration Tables – Details of KMP Remuneration (continued)

FY2018	Directors Fees $	Cash Salary and Fees $	Short Term Incentive $	Non-monetary benefits $	Termination Payments $
		Short Term Employee Benefits			Termination Benefits
Current Non-Executive Directors					
I Kirkwood	121,215	–	–	–	–
N Kearney	85,563	–	–	–	–
D Cassidy	85,563	–	–	–	–
R Simonds	52,300	–	–	–	–
P O'Brien	67,737	–	–	–	–
S Mahony	67,737	–	–	–	–
Former Non-Executive Directors					
V G Simonds	45,662	–	–	1,763	–
S Oliver	44,954	–	–	–	–
M Humphris	29,988	–	–	–	–
Total	**600,719**	**–**	**–**	**1,763**	**–**
Executive Directors					
M Chun[1]	–	310,167	144,986	2,133	464,891
R Simonds[2]	–	133,729	–	–	–
K Ryan[3]	–	189,598	193,973	2,569	–
M Simonds	–	104,160	–	–	–
Total	**–**	**737,654**	**338,959**	**4,702**	**464,891**
Current Senior Executives					
M Myers	–	290,961	125,000	8,246	–
J Thorburn	–	404,951	125,000	7,946	–
Total	**–**	**695,912**	**250,000**	**16,192**	**–**
Total KMP	**600,719**	**1,433,566**	**588,959**	**22,657**	**464,891**

1. Matthew Chun stepped down as CEO and Managing Director effective 6 October 2017 by mutual agreement with the Board. From this date, Mr Chun was no longer considered a KMP. Mr Chun remained employed by the Company until 12 January 2018.
2. Rhett Simonds was Interim CEO from 7 October 2017 to 4 March 2018, and in that capacity received a salary. For the preceding and subsequent periods Rhett was a non-executive director.
3. Kelvin Ryan was appointed CEO and Managing Director on 5 March 2018.

Post-employment benefits		Long-term benefits	Share-based Payments (SBP)		Percentage of remuneration fixed and at risk	
Super $	**Annual Leave $**	**Long Service Leave $**	**Performance Rights/Options $**	**Total $**	**Fixed %**	**At Risk %**
11,515	–	–	–	132,730	100%	–
8,129	–	–	–	93,692	100%	–
8,129	–	–	–	93,692	100%	–
4,969	–	–	–	57,269	100%	–
6,435	–	–	–	74,172	100%	–
6,435	–	–	–	74,172	100%	–
4,338	–	–	–	51,763	100%	–
4,271	–	–	–	49,225	100%	–
2,849	–	–	–	32,837	100%	–
57,070	**–**	**–**	**–**	**659,552**		
12,198	15,491	–	57,619	1,007,485	80%	20%
9,252	–	–	–	142,981	100%	–
9,250	14,584	141	–	410,115	53%	47%
9,895	1,667	52	–	115,774	100%	–
40,595	**31,742**	**193**	**57,619**	**1,676,355**		
20,049	10,952	1,380	69,066	525,654	63%	37%
20,049	22,219	864	69,066	650,095	70%	30%
40,098	**33,171**	**2,244**	**138,132**	**1,175,749**		
137,763	**64,913**	**2,437**	**195,751**	**3,511,656**		

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

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

The material terms of the Executive Services Agreement between Kelvin Ryan 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.
Total Fixed Remuneration (TFR):	$600,000 per annum including superannuation, reviewed annually.
Short Term Incentive (STI) for FY19:	Maximum opportunity of $600,000 per annum, subject to performance.
Long Term Incentive (LTI) for FY19:	Options and Performance Rights issued under the Simonds Group Employee Share Plan with maximum opportunity of $600,000 per annum. To recognise the time serviced between the Executive's commencement date of 5 March 2018 and 30 June 2018, the first allocation of LTI was increased to $800,000.
Notice Period/Termination Entitlements:	6 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 make a payment in lieu of any unserved notice period.
Post-Employment Restraint:	A 6 month post-employment restraint provision applies.

STI Payments to KMP

All STI's are subject to the achievement of relevant key performance measures which are determined with reference to the Balanced Scorecard approach. The Balanced Scorecard Approach encompasses the following areas of focus: Financial, Operational, Customer and People, Safety and Values.

KMP LTI

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

Number of cash settled performance rights granted, vested and expired/forfeited

	FY2019				
Name	**Performance Rights 1 July 2018**	**Performance Rights Granted**	**Performance Rights Vested**	**Performance Rights Expired/ Forfeited**	**Balance 30 June 2019**
M Myers	403,226	–	–	–	403,226
J Thorburn[1]	403,226	–	–	(403,226)	–
Total	**806,452**	**–**	**–**	**(403,226)**	**403,226**

1. John Thorburn ceased employment on 5 September 2018, as of this date, his performance rights were forfeited.

					FY2018
Name	**Performance Rights 1 July 2017**	**Performance Rights Granted**	**Performance Rights Vested**	**Performance Rights Expired/ Forfeited**	**Balance 30 June 2018**
M Myers	–	403,226	–	–	403,226
J Thorburn	–	403,226	–	–	403,226
Total	**–**	**806,452**	**–**	**–**	**806,452**

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

					FY2019
Name	**Performance Rights 1 July 2018**	**Performance Rights Granted**	**Performance Rights Vested**	**Performance Rights Expired/ Forfeited**	**Balance 30 June 2019**
K Ryan	–	2,133,332	–	–	2,133,332
M Myers	314,861	333,332	–	–	648,193
J Thorburn[1]	314,861	–	–	(314,861)	–
Total	**629,722**	**2,466,664**	**–**	**(314,861)**	**2,781,525**

1. John Thorburn ceased employment on 5 September 2018, as of this date, his performance rights were forfeited.

					FY2018
Name	**Performance Rights 1 July 2017**	**Performance Rights Granted**	**Performance Rights Vested**	**Performance Rights Expired/ Forfeited**	**Balance 30 June 2018**
M Chun[1]	453,401	–	–	(337,718)	115,683
M Myers	314,861	–	–	–	314,861
J Thorburn	314,861	–	–	–	314,861
Total	**1,083,123**	**–**	**–**	**(337,718)**	**745,405**

1. M Chun is no longer considered a KMP and as such is not included this financial year.

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Value of cash settled performance rights granted, exercised and expired/forfeited

	Rights issue	Tranche	Fair value at grant date $ per share	No. of Performance Rights	Accounting Fair Value at grant date $	Exercised/ Vested $	Expired/ Forfeited $	Accrued Fair Value at 30 June $
FY2019								
M Myers	FY2018	TSR	0.19	201,613	38,306	–	–	17,177
		EPS	0.30	201,613	60,484	–	–	44,294
J Thorburn[1]	FY2018	TSR	0.19	201,613	38,306	–	(38,306)	–
		EPS	0.30	201,613	60,484	–	(60,484)	–
FY2018								
M Myers	FY2018	TSR	0.19	201,613	38,306	–	–	12,478
		EPS	0.30	201,613	60,484	–	–	22,300
J Thorburn	FY2018	TSR	0.19	201,613	38,306	–	–	12,478
		EPS	0.30	201,613	60,484	–	–	22,300

1. John Thorburn ceased employment on 5 September 2018, as of this date, his performance rights were forfeited.

Value of equity settled performance rights granted, exercised and expired/forfeited

	Rights issue	Tranche	Fair value at grant date $ per share	No. of Performance Rights	Accounting Fair Value at grant date $	Exercised/ Vested $	Expired/ Forfeited $	Accrued Fair Value at 30 June $
FY2019								
K Ryan	FY2019	TSR	0.27	1,066,666	288,000	–	–	80,219
		EPS	0.38	1,066,666	405,333	–	–	134,741
M Myers	FY2019	TSR	0.27	166,666	45,000	–	–	12,534
		EPS	0.38	166,666	63,333	–	–	21,053
M Myers	FY2017	TSR	0.23	157,431	36,209	–	–	32,782
		EPS	0.35	157,430	55,100	–	–	49,885
J Thorburn[1]	FY2017	TSR	0.23	157,431	36,209	–	(36,209)	–
		EPS	0.35	157,430	55,100	–	(55,100)	–
FY2018								
M Chun[2]	FY2017	TSR	0.23	226,701	52,141	–	(38,387)	13,304
		EPS	0.35	226,700	79,345	–	(59,101)	20,244
M Myers	FY2017	TSR	0.23	157,431	36,209	–	–	19,185
		EPS	0.35	157,430	55,100	–	–	29,194
J Thorburn	FY2017	TSR	0.23	157,431	36,209	–	–	5,588
		EPS	0.35	157,430	55,100	–	–	8,503

1. John Thorburn ceased employment on 5 September 2018, as of this date, his performance rights were forfeited.
2. M Chun is no longer considered a KMP and as such is not included this financial year.

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

KMP Shareholdings

Shareholdings of KMP are set out below:

FY2019 — Number of shares

Name	Opening balance	Acquired	Other	Closing balance
Non-executive Directors				
I Kirkwood	75,000	–	–	75,000
N Kearney	–	90,000	–	90,000
D Cassidy	–	30,000	–	30,000
R Simonds	14,044	–	–	14,044
Total Non-Executive Directors	**89,044**	**120,000**	**–**	**209,044**
Executive Directors				
K Ryan	–	61,623	–	61,623
M Simonds	56,741	–	–	56,741
Total Executive Directors	**56,741**	**61,623**	**–**	**118,364**
Senior Executives				
M Myers	–	20,000	–	20,000
Total Senior Executive	**–**	**20,000**	**–**	**20,000**
Total KMP	**145,785**	**201,623**	**–**	**347,408**

FY2018 — Number of shares

Name	Opening balance	Acquired	Other[1]	Closing balance
Non-executive and Executive Directors (Current and Former)				
I Kirkwood	–	75,000	–	75,000
V.G Simonds[2]	56,138,895	–	(56,138,895)	–
M Simonds	–	–	56,741	56,741
R Simonds	14,044	–	–	14,044
S Oliver	44,000	–	(44,000)	–
Total Non-Executive Directors	**56,196,939**	**75,000**	**(56,126,154)**	**145,785**
Senior Executives	–	–	–	–
Total Senior Executive	**–**	**–**	**–**	**–**
Total KMP	**56,196,939**	**75,000**	**(56,126,154)**	**145,785**

1. Other relates to when KMP took up their position or ceased their position with the Company.
2. Vallence Gary Simonds resigned from his KMP role on 20 September 2017 and was appointed as an Advisor to the Board of Simonds Group Limited.

DIRECTORS' REPORT: REMUNERATION REPORT (CONTINUED)

Executive Service Agreements

		Minimum Notice Period	
Name	Contract Length	Termination by Executive	Termination by Company
K Ryan	No fixed term	6 months	6 months
M Myers	No fixed term	6 months	6 months

Loans to Director

The Group has not provided any loans to directors or their related parties during the year ended 30 June 2019 (2018: Nil).

Other KMP Transactions

During the financial year, the Group entered into a number of transactions with related parties of KMP.

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

	Cost of goods		Leases and services rendered		Non-cash remuneration	
	30 June 2019 $	30 June 2018 $	30 June 2019 $	30 June 2018 $	30 June 2019 $	30 June 2018 $
Vallence Gary Simonds and related entities:						
Properties leased on an arms-length basis	–	–	266,982	267,192	–	–
Advisory fee paid during the year	–	–	57,154	71,303	–	–
Payment for use of building licence	–	–	42,846	–	–	–
Remuneration for employee services	–	–	61,018	130,644	–	–
Car Park provided	–	–	–	–	20,543	6,183
	–	–	**428,000**	**469,139**	**20,543**	**6,183**
Simonds Family Office Pty Ltd[1]						
Supplier payments to Delos Welltek Australia Pty Ltd[2]	191,972	–	–	–	–	–
Mark Simonds and related entities:						
Payment for use of building licence	–	–	87,320	–	–	–
John Thorburn and related entities:						
Lease of display home on an arms–length basis	–	–	43,500	261,000	–	–
Total	**191,972**	**–**	**558,820**	**730,139**	**20,543**	**6,183**

1. Mark Simonds and Rhett Simonds are directors of Simonds Family Office Pty Ltd.
2. There is a Supply Agreement between Delos Welltek Australia Pty Ltd and the Simonds Group for the inclusion of the "DARWIN Essentials Package" into all of its homes built in Victoria. Simonds Family Office Pty Ltd (of which Mark Simonds and Rhett Simonds are directors) hold 25% interest in Delos Welltek Australia Pty Ltd.

DIRECTORS' REPORT: (CONTINUED)

Auditor's independence declaration

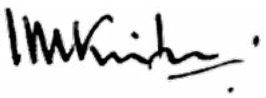
The auditor's independence declaration is included after this report on page 40.

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 Class Order amounts in the financial report 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



Iain Kirkwood
Chairman

Kelvin Ryan
Chief Executive Officer and Managing Director

Melbourne, 26 August 2019

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
Australia

Tel: +61 3 9671 7000
www.deloitte.com.au

26 August 2019

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

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 financial report of Simonds Group Limited for the financial year ended 30 June 2019, 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 faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Genevra Cavallo

Genevra Cavallo
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
Australia

Tel: +61 3 9671 7000
www.deloitte.com.au

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Simonds Group Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Deloitte.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Recognition of construction revenue and related contract assets For the year ended 30 June 2019, the Group's revenue from construction contracts totalled $676.901m. Revenue from construction contracts is recognised over time as performance obligations are fulfilled. Construction revenue is recognised with 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 as disclosed in Note 3.8. As disclosed in Note 4, significant management estimation is required in assessing the following: - Estimation of total contract revenue and costs; and - Determination of stage of completion.	Our audit procedures included, but were not limited to: • Obtaining an understanding of the process undertaken by management to account for the recognition of revenue and contract assets; • Testing key controls in respect of the revenue process; • Assessing management's determination of the percentage of completion allocated to each stage of the build process against historical cost profiles; • Testing a sample of inputs into the model used to establish management's percentage of completion allocated to each stage; • Assessing management's estimation of costs to complete, including comparing historical actual performance against forecast; • Recalculating, on a sample basis, revenue recognised based on the stage of completion of selected jobs; • Challenging contracts which exhibited heightened risk characteristics; and • Agreeing, on a sample basis, job data back to source documentation, including customer contracts, approved variations and job costs. We also assessed the appropriateness of the disclosures in Notes 3.8 and 4 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, ASX announcement and full year results presentation which we obtained prior to the date of the auditor's report, and also includes the following information which will be included in the Group's annual report (but does not include the financial report and our auditor's report thereon): the Chairman's Welcome Letter, Letter from the Group CEO and Managing Director, Financial Highlights and additional securities exchange information, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Deloitte.

When we read the Chairman's Welcome Letter, Letter from the Group CEO and Managing Director and Financial Highlights, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgment to determine the appropriate action.

Responsibilities of the Directors 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 preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Deloitte.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 24 to 38 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Simonds Group Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Genevra Cavallo

Genevra Cavallo
Partner
Chartered Accountants
Melbourne, 26 August 2019

DIRECTORS' DECLARATION

The directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the Group 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 to the financial statements;

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 Group; and

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 3 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

Iain Kirkwood
Chairman

Kelvin Ryan
Chief Executive Officer and Managing Director

Melbourne, 26 August 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	30 June 2019 $'000	30 June 2018 $'000
Continuing operations			
Revenue	5	687,725	605,164
Cost of sales		(533,741)	(471,838)
Gross profit		**153,984**	**133,326**
Expenses	11	(130,797)	(119,634)
Profit before financing items, depreciation and amortisation		**23,187**	**13,692**
Depreciation and amortisation charges	17,18	(4,732)	(5,247)
Profit before financing items and tax		**18,455**	**8,445**
Financing items			
Interest income	7	–	2
Interest expense	8	(1,309)	(1,280)
Net financing cost		**(1,309)**	**(1,278)**
Profit before tax		**17,146**	**7,167**
Income tax expense	9	(5,410)	(2,400)
Profit from continuing operations after tax		**11,736**	**4,767**
Discontinued operations			
Loss from discontinued operations after tax	10	(1,428)	(993)
Profit after tax for the year		**10,308**	**3,774**
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Net fair value gain on available for sale financial asset		–	236
Reclassification adjustment relating to available for sale financial assets		(236)	–
Total comprehensive income for the year		**10,072**	**4,010**
Earnings per share			
From continuing operations			
Basic (cents per share)	12	8.16	3.31
Diluted (cents per share)	12	8.09	3.31
From continuing and discontinued operations			
Basic (cents per share)	12	7.17	2.62
Diluted (cents per share)	12	7.11	2.62

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	30 June 2019 $'000	30 June 2018 $'000
Assets			
Current Assets			
Cash and cash equivalents	35	9,702	7,010
Trade and other receivables	13	27,430	34,947
Tax receivable	9	1,120	–
Accrued revenue	14	53,711	38,363
Inventories	15	35,459	29,544
Other financial assets	20	–	1,197
Other assets	19	2,820	2,363
Total current assets		130,242	113,424
Non-Current Assets			
Property, plant and equipment	17	8,021	7,177
Intangible assets	18	6,388	5,667
Total non-current assets		14,409	12,844
Total assets		**144,651**	**126,268**
Liabilities			
Current Liabilities			
Trade and other payables	21	78,148	71,739
Deferred revenue		782	1,722
Customer deposits	24	15,300	18,298
Tax payable	9	–	3,432
Borrowings	22	9,036	2,362
Provisions	23	13,416	12,497
Total current liabilities		116,682	110,050
Non-Current Liabilities			
Borrowings	22	1,884	5,736
Provisions	23	8,576	8,205
Deferred tax liabilities	9	6,101	1,251
Total non-current Liabilities		16,561	15,192
Total liabilities		**133,243**	**125,242**
Net assets		**11,408**	**1,026**
Equity			
Issued capital	25	12,911	12,904
Reserves	26	22,318	23,423
Accumulated losses	27	(23,821)	(35,301)
Total equity		**11,408**	**1,026**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

Consolidated	Notes	Issued capital $'000	Share based payments reserve $'000	Share buy-back reserve $'000	Investment revaluation reserve $'000	Accumu-lated losses $'000	Total $'000
Balance at 1 July 2017		12,911	30,243	(7,204)	–	(39,075)	(3,125)
Profit after tax for the year		–	–	–	–	3,774	3,774
Other comprehensive income for the year, net income tax		–	–	–	236	–	236
Total comprehensive income for the year		–	–	–	236	3,774	4,010
Treasury shares	25	(7)	–	–	–	–	(7)
Employee share plan expense	32	–	832	–	–	–	832
Performance and service rights vested/forfeited		–	(684)	–	–	–	(684)
Balance at 30 June 2018		**12,904**	**30,391**	**(7,204)**	**236**	**(35,301)**	**1,026**
Balance at 1 July 2018		12,904	30,391	(7,204)	236	(35,301)	1,026
Profit after tax for the year		–	–	–	–	10,308	10,308
Reclassification adjustment relating to available for sale financial asset		–	–	–	(236)	–	(236)
Total comprehensive income for the year		–	–	–	(236)	10,308	10,072
Treasury shares	25	7	–	–	–	–	7
Employee share plan expense	32	–	519	–	–	–	519
Performance and service rights vested/forfeited		–	(216)	–	–	–	(216)
Transfer to accumulated losses		–	(1,172)	–	–	1,172	–
Balance at 30 June 2019		**12,911**	**29,522**	**(7,204)**	**–**	**(23,821)**	**11,408**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	30 June 2019 $'000	30 June 2018 $'000
Cash flows from operating activities			
Receipts from customers		745,445	603,200
Payments to suppliers and employees		(733,682)	(594,661)
Cash generated from operations		11,763	8,539
Interest paid	8	(1,309)	(1,280)
Income taxes (paid)/refunded		(4,399)	1,441
Net cash generated from operating activities	**35**	**6,055**	**8,700**
Cash flows from investing activities			
Interest received	7	–	2
Proceeds from disposal of property, plant and equipment		1,289	263
Net cash inflow on disposal of subsidiary		–	140
Payments for property, plant and equipment		(2,652)	(2,089)
Payments for intangibles assets		(2,170)	(2,576)
Net cash (used in) investing activities		**(3,533)**	**(4,260)**
Cash flows from financing activities			
Proceeds from borrowings		5,479	1,059
Repayment of borrowings		(3,258)	(6,939)
Payment for finance leases		(2,051)	(1,754)
Net cash generated from/(used in) financing activities	**35**	**170**	**(7,634)**
Net increase/(decrease) in cash and cash equivalents		**2,692**	**(3,194)**
Cash and cash equivalents at the beginning of the year		7,010	10,204
Cash and cash equivalents at the end of the year	**35**	**9,702**	**7,010**

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

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

New and amended accounting standards relevant to the Group that are effective for the period are as follows:

AASB 9 'Financial instruments'

This standard replaces AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation of impairment on financial assets, and new general hedge accounting requirements. It also carries forward guidance on recognition and de-recognition of financial instruments from AASB 139.

To assess for any expected credit loss under AASB 9, there is consideration around the probability of default upon initial recognition of the asset. For trade receivables, loan and other receivables the Group applies the simplified approach permitted by AASB 9, whereby the loss allowance is measured at an amount equal to lifetime expected credit loss. Lifetime expected credit loss is the amount the Group expects to lose due to default events that are possible over the life of the financial instrument.

The Group has applied AASB 9 retrospectively with the cumulative effect of initially applying the standards as an adjustment to the opening balance of equity and comparative figures are therefore not restated.

The Group assesses expected credit loss in a way that reflects:

- an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

For all other financial instruments in-scope of impairment requirements, the Group assesses expected credit loss on a forward-looking basis and the impairment methodology applied will depend on whether there has been a significant increase in credit risk.

The change in method from recognition of incurred losses to recognition of expected credit losses for impairment of financial assets under AASB 9 has not resulted in a material change to the loss allowance for receivables from expected credit losses.

The new hedging requirements have had no impact on the Group.

All recognised financial assets that are within the scope of AASB 9 are required to be measured subsequently at amortised cost or fair value. The initial application of AASB 9 did not have a material impact on the Group's financial assets as regards to their classification and measurement.

AASB 15 'Revenue from Contracts with Customers'

In the current year, the Group has applied AASB 15 Revenue from Contracts with Customers (which has come into effect for the Group from 1 July 2018). Details of the new requirements of AASB 15 as well as their impact on the Group's consolidated financial statements are described below.

AASB 15, as adopted by the Group from 1 July 2018, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue and AASB 111 Construction Contracts.

Significant judgments and estimates are used in determining the impact of AASB 15, such as the assessment of the probability of customer approval of variations and acceptance of claims, estimation of project completion date and assumed levels of project productivity. In making this assessment we have considered, for applicable contracts, the individual status of legal proceedings, including arbitration and litigation.

Impact on application of AASB 15

The core principle of AASB 15 is revenue shall be recognised when control of a good or service transfers to a customer. The Group has reviewed the impact of this standard for all revenue streams, including work in progress for the various residential home building contracts entered into with customers, noting the following pertinent facts:

- The Group enters into contracts with customers for residential home building. Under these contracts, the Group has the right of access to the land to discharge its obligations under the contact, which includes obtaining permits and licences, as well as undertaking site and building works. However, this right expires at the completion date of the building. The Group at no stage obtains ownership nor is granted any option to acquire ownership or title to the completed works. The risk and benefits of ownership remain with the customer.
- The benefit of services performed by the Group is transferred to the customer by reference to the stage of completion of the contract, based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract value.
- The Group has no alternate use of the asset and has an enforceable right to payment for works completed to date.

Prior to adopting the new accounting standard on 1 July 2018, the Group had determined costs plus a margin in meeting its obligations under the residential home building contracts but not invoiced to customers should be accounted for as 'Inventory/work-in-progress' under AASB 102 – with the carrying value stated at the aggregated of contract costs incurred to date plus recognised profits less recognised losses and progress billings.

In applying the implementation guidance for AASB 15, the Group has concluded these contracts should be treated as a 'construction and services contract' entered into by the Group with the customer. The Group has elected to adopt the "Retrospective method" on the implementation of this standard.

Construction revenue was previously recognised with reference to stage of completion of contracted activity. Under the new standard the performance obligation was deemed to be over time, with reference to stage of completion of contracted activity and as a result no change to the recognition of revenue.

Revenue from development and sale of land was recognised when title passed. Under the new standard revenue is recognised when control is passed to a third party along with the fulfilment of all performance obligations and as a result there is no change in the recognition of revenue.

Revenue from training activities was previously recognised over the duration of the training courses. Under the new standard the performance obligation was deemed to be over the duration of the training courses and as a result no change to the recognition of revenue.

The adoption of AASB 15 has had no significant impact on the revenue of the Group.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Application of new and revised accounting standards (continued)

Amendments to AASBs and the new interpretation that are mandatorily effective for the current year (continued)

AASB 15 'Revenue from Contracts with Customers' (continued)

Impact on application of AASB 15 (continued)

The impact of the change in disclosure resulted in a balance sheet re-classification from inventory to accrued revenue. As shown in the table below, there is no impact on working capital or net assets as a result of this re-classification.

	As reported 30 June 2018 $'000	Accounting Policy adjustments $'000	AASB 15 Transition adjustments $'000	Adjusted Opening balance 30 June 2018 $'000
Accrued revenue	–	38,363	–	38,363
Inventories	67,907	(38,363)	–	29,544
Current asset impact	–	–	–	–
Non-current assets impact	–	–	–	–
Total assets impact	–	–	–	–
Deferred revenue	–	1,722	–	1,722
Customer deposits	–	18,298	–	18,298
Deposits and income in advance	20,020	(20,020)	–	–
Current liability impact	–	–	–	–
Non-current liability impact	–	–	–	–
Total liability impact	–	–	–	–

The Group's accounting policies for its revenue streams are disclosed in detail in Note 3.

New standards and Interpretations issued by the AASB that does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements is as below:

- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions.

Standards and interpretations in issue not yet adopted

At the date of signing these financial statements, the Directors have reviewed all Standards and Interpretations on issue but not yet effective and, with the exception of the following standard, do not expect these Standards and Interpretations to have a material effect on the financial statements of the Group.

AASB 16 'Leases' (effective 1 January 2019)

AASB 16 is effective for the annual reporting periods beginning on or after 1 January 2019. For the Group, AASB 16 is initially applied in the financial year ending 30 June 2020.

AASB 16 eliminates the classification of leases as either operating leases or finance leases as required by AASB 117 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to:

- Recognise assets and liabilities for all leases with a term of more than 12 months in the Consolidated;
- Statement of Financial Position initially measured at the present value of the future lease payments, unless the underlying asset is of low value;
- Recognise amortisation of lease assets separately from interest on lease liabilities in the Statement of Profit or Loss;
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Consolidated statement of cash flows.

The Group's operating leases with terms of more than 12 months mainly related to commercial office leases.

The Group intends to adopt the modified retrospective transition method and the comparatives will not be restated.

Other Standards and Interpretations

New standards and Interpretations not yet applicable and do not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements is as below:

- AASB 2018-7 Amendment to Australian Accounting Standards – Definition of Material (effective 1 January 2020)
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework (effective 1 January 2020)
- Interpretation 23 Uncertainty over Income Tax Treatments and AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments (effective 1 January 2019).

3. Significant accounting policies

Statement of compliance

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

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') as issued by the International Accounting Standards Board (IASB). Consequently, this financial report has been prepared in accordance with and complies with IFRS as issued by the IASB. The financial statements were authorised for issue by the directors on 26 August 2019.

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.

Comparatives have been reclassified where appropriate to ensure consistency and comparability with the current period.

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 Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

Basis of consolidation

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.

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.

Shares in subsidiary companies are measured at cost less any impairment in the parent entity only financial statements (refer Note 36).

Business combinations

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

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

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.

Revenue recognition

Accounting policies applied from 1 July 2018

The accounting policies and methods of computation applied by the Group in these consolidated financial statements are the same as those applied by the Group in the financial statement for the year ended 30 June 2018, except for the following amended policies for the new accounting standards effective for financial years beginning on or after 1 January 2018 outlined in Note 2.

Construction contracts

Contracts entered into are for the construction of residential homes, speculative home building and display home inventory. The construction of each dwelling is taken to be one performance obligation. The transaction price is normally fixed at the start of the contracts. When a variation for the building works is required and agreed upon per the contract the variation will be included in the transaction price and accounted for accordingly. As a result, the one performance obligation recognised and fulfilled over time and as such revenue is recognised over time.

Revenue earned is referenced to the stage of completion of the contract activity, based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Our customers are invoiced on achievement of each key milestone in the build program. Invoices are paid on normal commercial terms. Deposit payments received prior to work being performed are recognised as deferred revenue on the balance sheet.

Registered training courses

The Group derives revenue by providing training courses to students. The performance obligation is fulfilled over the duration of the course. The transaction price is determined and agreed at the beginning of the course and is not variable unless the student stops part way through the course. Revenue is recognised in the accounting period in which the courses are delivered and when the Group is entitled to claim course funding from the relevant federal or state government body. This funding is not considered a state government grant. Funding received in respect of courses is in relation to specific students completing a period of study for a specific course. Payment is received following invoice on normal commercial terms.

Development

The Group generates revenue from the sale of land developments for residential homes.

Revenue in respect of the sale of land developments is recognised when control passes to a third party along with fulfillment of all performance obligations on a contract. Revenue is measured at the transaction price agreed under the contract. Payment is received on actual settlement of individual parcels of land, when control is transferred to the customer. Costs in relation to individual settlements are recognised in proportion to the total costs for the project and based on the percentage of revenue recognised for each settled unit.

Variable consideration

Where consideration in respect of a contract is variable, the expected value of revenue is only recognised when the uncertainty associated with the variable consideration is subsequently resolved, known as “constraint” requirements. The Group assesses the constraint requirements on a periodic basis when estimating the variable consideration to be included in the transaction price. The estimate is based on all available information including historic performance. Where variations in design or requirements are entered into, the transaction price is updated to reflect these when the variation has been agreed.

Contract assets and liabilities

The Group has adopted the terms accrued revenue for ‘contract assets’ and deferred revenue for ‘contract liabilities’ as defined within AASB 15. A contract asset is the Group’s right to payment for goods and services transferred to a customer if that right to payment is conditional on something other than passage of time. A contract liability is the Group’s obligation to transfer goods or services to a customer at the earlier of (a) when the customer pays consideration or (b) the time that the customer’s consideration is due for goods and services the Group will yet provide.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

Revenue recognition (continued)

Accounting policies applied from 1 July 2018 (continued)

Contract fulfilment costs

Costs incurred prior to the commencement of a contract may arise due to feasibility studies, environmental impact studies and preliminary design activities as these are costs incurred to fulfil a contract. Where these costs are expected to be recovered, they are capitalised and amortised over the course of the contract consistent with the transfer of service to the customer. Where the costs, or a portion of these costs, are reimbursed by the customer, the amount received is recognised as deferred revenue and allocated to the performance obligations within the contract and recognised as revenue over the course of the contract.

Incremental costs

Commissions payable to sales consultants in respect of contracts to build are recognised as an asset when expected to be recovered and released over the period of the build.

Financing components

The Group does not have any contracts where the period between the transfer of the promised goods or services to the customer represents a financing component. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Other revenue

Interest revenue is recognised on an accruals basis.

Dividend income is recognised when the dividend is declared.

Financial instruments

Non-derivative financial instruments

Accounting policies applied from 1 July 2018.

Classification

From 1 July 2018, the Group has classified its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- Those to be measured at amortised cost.

The classification depends on the Group's business model for managing financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Measurement of cash and cash equivalents, trade receivables, loan and other receivables remain at amortised cost consistent with the comparative period.

Impairment

For trade receivables, loan and other receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime loss to be recognised from initial recognition of the receivables. For all other financial instruments, the Group assesses expected credit loss on a forward-looking basis and the impairment methodology applied will depend on whether there has been a significant increase in credit risk.

Investment in land fund

The Group has investments which are units held in a land fund that are 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 investment revaluation reserve is reclassified to profit or loss.

Non-derivative financial liabilities

Interest bearing liabilities

All loans and borrowings are initially recognised at fair value, being the amount received less attributable transaction costs. After initial recognition, interest bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of profit or loss over the period of the borrowings on an effective interest basis.

Trade and other payables

Liabilities are recognised for amounts to be paid for goods or services received. Trade payables are settled on terms aligned with the normal commercial terms in the Group's countries of operation.

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.

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.

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.

Leases are classified as operating leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee. Payment made under operating leases (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the period of the lease.

Employee benefits

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

Employee benefits (continued)

Short-term and Long-term employee benefits (continued)

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 at 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 benefits 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.

Superannuation contributions

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

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.

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.

Taxation

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

Current tax

The tax currently a payable 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.

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.

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.

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.

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.

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 FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

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 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 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:

	Useful life
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

Intangible assets

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

	Useful Life	Source
Computer Software	3 years	External
Capitalised Courses	2-3 years	External/Internal
RTO Licence	Over the life of the licence	External
Capitalised Product Designs	3 years	External/Internal

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.

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).

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.

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

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.

Maintenance and warranty

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

Make good

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

Goods and services tax

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

a) 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

b) 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.

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.

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.

Provision for maintenance and 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 ten 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.

In April 2017, an independent actuary was engaged by Simonds Group Ltd to analyse historical maintenance and warranty spend and provide an estimate for the maintenance and warranty provision as at 30 June 2017. Consistent with the prior year, the Group has adopted the key assumptions provided by the independent actuary while retaining the model used historically for calculating the maintenance and warranty provision as at 30 June 2019.

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 2018, 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.

Impairment of goodwill

At 30 June 2019 goodwill of $2.603m is allocated to the registered training segment (2018: $2.603m).

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 1.3% per annum. The cash flows beyond the five-year projection period have been extrapolated using a steady growth rate of 2.3%. 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%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Revenue

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

	30 June 2019 $'000	30 June 2018 $'000
Continuing operations		
Revenue from residential construction contracts	676,901	593,067
Revenue from rendering of registered training services	10,229	11,190
Revenue from developments	595	907
	687,725	**605,164**
Discontinued operations	–	–
	687,725	**605,164**

6. Segment information

Products and services from which reportable segments derive their revenue

Information on segment performance focuses on the types of products and services 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 Operating Segments 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.
- Development – this includes activities relating to land development and sales.

Madisson Homes is a subsidiary of the Group and in the prior years formed part of the residential construction segment. Madisson Homes operated in the medium density market, building apartments and townhouses for commercial developers using the concepts, designs and specifications provided by the developers. Consistent with the prior reporting period, this business unit has been presented as a discontinued operation in note 10 as at 30 June 2019.

Segment revenues and results

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

	Segment revenue		Segment Profit before tax	
Continuing operations	30 June 2019 $'000	30 June 2018 $'000	30 June 2019 $'000	30 June 2018 $'000
Residential construction	676,901	593,067	15,919	8,896
Registered training	10,229	11,190	1,100	(446)
Land development	595	907	127	(1,283)
	687,725	**605,164**	**17,146**	**7,167**
Discontinued operations	–	–	**(2,040)**	**(1,419)**
Consolidated segment revenue and profit/(loss) before tax for the period	**687,725**	**605,164**	**15,106**	**5,748**

Segment assets and liabilities

	30 June 2019 $'000	30 June 2018 $'000
Segment assets		
Residential construction	136,822	118,957
Registered training	3,549	3,681
Land development	3,497	2,948
	143,868	**125,586**
Discontinued operations	783	682
Total segment assets	**144,651**	**126,268**
Total assets	**144,651**	**126,268**
Segment liabilities		
Residential construction	129,484	122,099
Registered training	1,075	1,735
Land development	333	97
	130,892	**123,931**
Discontinued Operations	2,351	1,311
Total segment liabilities	**133,243**	**125,242**
Total liabilities	**133,243**	**125,242**

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

Other segment information

	Interest expense		Depreciation and amortisation	
	30 June 2019 $'000	30 June 2018 $'000	30 June 2019 $'000	30 June 2018 $'000
Residential construction	1,309	1,280	4,600	3,975
Registered training	–	–	132	1,269
Land development	–	–	–	3
Total	**1,309**	**1,280**	**4,732**	**5,247**

	Additions to non-current assets	
	30 June 2019 $'000	30 June 2018 $'000
Residential construction	7,474	4,686
Registered training	–	487
Land development	–	–
	7,474	**5,173**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Segment information (continued)

Other segment information (continued)

In addition to the interest expense, depreciation and amortisation reported above, impairment losses of $nil (2018: $0.432m) were recognised in respect of land stock held on hand and other current assets as at 30 June 2019. These impairment losses were attributable to following reporting segments:

	Impairment losses	
	30 June 2019 $'000	**30 June 2018 $'000**
Residential construction	–	–
Registered training	–	–
Land development	–	432
Total impairment	**–**	**432**

Revenue by Geographical region

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

Information about major customers

No single customer contributed 10% or more to the Group's revenue for the year ended 30 June 2019 and the year ended 30 June 2018.

7. Interest income

	30 June 2019 $'000	30 June 2018 $'000
Bank deposits	–	2
	–	**2**

8. Finance costs

	30 June 2019 $'000	30 June 2018 $'000
Interest on bank overdrafts, finance leases and loans	1,309	1,280
	1,309	**1,280**

9. Income taxes

	30 June 2019 $'000	30 June 2018 $'000
Income tax recognised		
Current tax		
(Benefit)/expense in respect of the current year	–	3,431
(Benefit)/expense in respect of prior years	(155)	(7)
	(155)	3,424
Deferred tax		
(Benefit)/expense in respect of the current year	4,826	(1,423)
(Benefit)/expense in respect of prior years	127	(27)
	4,953	(1,450)
Consolidated income tax expense recognised in the current year	**4,798**	**1,974**
Income tax expense from continuing operations	5,410	2,400
Income tax (benefit) from discontinued operations	(612)	(426)
	4,798	**1,974**

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

	30 June 2019 $'000	30 June 2018 $'000
Profit before tax from continuing operations	17,146	7,167
Loss before tax from discontinued operations	(2,040)	(1,419)
Profit before tax	**15,106**	**5,748**
Income tax expense calculated at 30% (2018: 30%)	4,532	1,725
Effect of Executive Share Based Payments non-deductible	77	99
Effect of expenses that are not deductible in determining taxable profit	215	184
	4,824	2,008
Adjustments recognised in the current year in relation to deferred and current tax of prior years	(26)	(34)
Income tax expense recognised in profit or loss	**4,798**	**1,974**
Income tax expense from continuing operations	5,410	2,400
Income tax (benefit) from discontinued operations	(612)	(426)
	4,798	**1,974**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Income taxes (continued)

The tax rate used for the 2019 and 2018 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

	30 June 2019 $'000	30 June 2018 $'000
Current tax assets and liabilities		
Income tax (payable)/refundable	1,120	(3,432)
	1,120	**(3,432)**
Deferred tax balances		
Amounts recognised in profit or loss		
Deferred tax assets	5,008	3,957
Deferred tax liabilities	(11,210)	(5,107)
	(6,202)	**(1,150)**
Amounts recognised in other comprehensive income		
Deferred tax liabilities	101	(101)
Net deferred tax	**(6,101)**	**(1,251)**

2019	Opening balance $'000	Under/over $'000	Recognised in profit or loss $'000	Recognised in Other compre-hensive Income $'000	Closing balance $'000
Construction Contracts income	(4,469)	–	(5,948)	–	(10,417)
Capitalised Courses and Product Design	(638)	–	(155)	–	(793)
Property, Plant, Equipment & Intangibles	1,018	–	214	–	1,232
Provision for warranty and contract maintenance	1,031	–	36	–	1,067
Employee Entitlements	1,068	29	380	–	1,477
DTA on Losses	–	–	917	–	917
Other	739	(156)	(268)	101	416
	(1,251)	**(127)**	**(4,824)**	**101**	**(6,101)**

2018	Opening balance $'000	Under/over $'000	Recognised in profit or loss $'000	Recognised in Other compre-hensive Income $'000	Closing balance $'000
Construction Contracts income	(7,810)	412	2,929	–	(4,469)
Capitalised Courses and Product Design	(630)	35	(43)	–	(638)
Property, Plant, Equipment & Intangibles	845	(39)	212	–	1,018
Provision for warranty and contract maintenance	1,195	–	(164)	–	1,031
Employee Entitlements	1,308	1	(241)	–	1,068
Other	1,082	(29)	(213)	(101)	739
DTA on Losses & Carry Forward Non-Refundable R&D offset	1,410	(353)	(1,057)	–	–
	(2,600)	**27**	**1,423**	**(101)**	**(1,251)**

10. Discontinued Operations

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. All projects were completed.

Loss for the year from the Madisson business

	Notes	30 June 2019 $'000	30 June 2018 $'000
Revenue		–	–
Expenses		(2,040)	(1,419)
Loss before tax		(2,040)	(1,419)
Attributable income tax benefit		612	426
Loss for the year		**(1,428)**	**(993)**
Statement of Cash Flows from the Madisson business			
Cash flows from operating activities		(11)	7
Cash flows from investing activities		–	–
Cash flows from financing activities		–	–
Net increase in cash and cash equivalents		(11)	7
Cash and cash equivalents at the beginning of the year		13	6
Cash and cash equivalents at the end of the year		**2**	**13**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Expenses for the year

	30 June 2019 $'000	30 June 2018 $'000
Profit/(loss) on disposal of property, plant and equipment and intangible assets	340	(84)
Marketing and selling expenses	(21,513)	(19,280)
Corporate and administrative expenses	(31,035)	(29,912)
Employee benefits expense	(78,589)	(68,457)
Divestment of Hub Property Advisory Pty Ltd	–	(285)
Impairment of non-core development land and other current assets	–	(432)
Costs associated with organisational review and management restructure including settlement of share-based payments	–	(1,184)
	(130,797)	**(119,634)**

12. Earnings per share

	30 June 2019 Cents per share	30 June 2018 Cents per share
From continuing operations		
Total basic profit per share	8.16	3.31
Total diluted profit per share	8.09	3.31
From continuing and discontinued operations		
Total basic profit per share	7.17	2.62
Total diluted profit per share	7.11	2.62

Basic earnings per share

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

	30 June 2019 $'000	30 June 2018 $'000
From continuing operations		
Profit for the year attributable to owners of the Company	11,736	4,767
From continuing and discontinued operations		
Profit for the year attributable to owners of the Company	10,308	3,774

	30 June 2019 Shares	30 June 2018 Shares
Weighted average number of ordinary shares for the purposes of the basic earnings per share	143,841,655	143,841,655

Diluted earnings per share

	30 June 2019 $'000	30 June 2018 $'000
From continuing operations		
Profit for the year attributable to owners of the Company	11,736	4,767
From continuing and discontinued operations		
Profit for the year attributable to owners of the Company	10,308	3,774

	30 June 2019 Shares	30 June 2018 Shares
Weighted average number of ordinary shares for the purposes of the basic earnings per share	143,841,655	143,841,655
Shares deemed to be issued for no consideration in respect of:		
• Performance Rights/Options/Service Rights	1,218,917	–
Weighted average number of ordinary shares for the purposes of the diluted earnings per share	145,060,572	143,841,655

The following potential ordinary shares are excluded from the weighted average number of ordinary shares for the purpose of diluted earnings per share.

	30 June 2019 Shares	30 June 2018 Shares
Options	–	1,020,576
Performance Rights	2,537,111	1,579,623

These shares have been excluded from the diluted earnings per share (EPS) calculation on the basis that the exercise price of the options is higher than the average share price or the performance conditions are yet to be met at the end of the reporting period.

13. Trade and other receivables

	30 June 2019 $'000	30 June 2018 $'000
Current		
Trade receivables [(i)]	26,965	34,585
	26,965	**34,585**
Other receivables	465	362
	27,430	**34,947**

(i) The amounts pertaining to related party receivables are disclosed within note 31.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Trade and other receivables (continued)

Trade receivables

The average settlement terms for progress invoices in relation to 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 the 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 receivables, 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.

Age of receivables from continuing operations that are past due but not impaired

	30 June 2019 $'000	30 June 2018 $'000
46 – 60 days	858	917
61 – 90 days	718	1,085
91 – 120 days	489	424
Over 120 days	1,293	1,167
Total	3,358	3,593
Average age (days)	110	105

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. Accrued revenue

	30 June 2019 $'000	30 June 2018 $'000
Work in progress on residential construction contracts	53,711	38,363

15. Inventories

	30 June 2019 $'000	30 June 2018 $'000
Speculative and display homes, land stock (i)	37,216	31,573
Provision for impairment of inventories	(1,757)	(2,029)
	35,459	**29,544**

(i) The Group's obligations under the Simonds Homes Display Fund (Note 22) are secured by mortgages over 12 displays homes with a carrying value of $5.985m.

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 2019	2018
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%	100%
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%	100%
Discover Developments Pty Ltd	Land development and sales	Australia	100%	100%
Discover Gisborne Pty Ltd	Land development and sales	Australia	100%	100%

- 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 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.
- No subsidiaries have been acquired or incorporated in the year ended 30 June 2019.
- The above companies represent a "Closed Group" for the Class Order. The closed Group's Statement of Profit or loss and Other Comprehensive Income for the year and closed group's Statement of Financial Position as at 30 June 2019 are the same as the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year and the Consolidated Statement of Financial Position as at 30 June 2019 disclosed on pages 46–47.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

17. Property, plant and equipment

	Leasehold improve-ments $'000	Computer equipment $'000	Office furniture & fittings $'000	Display home furniture, fixtures & fittings $'000	Motor Vehicles $'000	Plant and equipment $'000	Total $'000
Cost							
Balance at 1 July 2017	3,548	2,188	1,899	688	6,257	181	14,761
Additions	920	491	179	28	682	297	2,597
Reclass	479	(32)	(295)	344	(382)	(114)	–
Disposals	–	(141)	–	(35)	(263)	–	(439)
Balance at 30 June 2018	**4,947**	**2,506**	**1,783**	**1,025**	**6,294**	**364**	**16,919**
Cost							
Balance at 1 July 2018	4,947	2,506	1,783	1,025	6,294	364	16,919
Additions	874	985	97	574	2,774	–	5,304
Disposals	(32)	(225)	(10)	(21)	(3,830)	(4)	(4,122)
Balance at 30 June 2019	**5,789**	**3,266**	**1,870**	**1,578**	**5,238**	**360**	**18,101**
Accumulated depreciation							
Balance at 1 July 2017	(1,193)	(1,398)	(809)	(512)	(2,839)	(132)	(6,883)
Depreciation expense	(866)	(541)	(343)	(291)	(1,157)	(24)	(3,222)
Reclass	(478)	29	78	(125)	382	114	–
Disposals	–	141	–	35	187	–	363
Balance at 30 June 2018	**(2,537)**	**(1,769)**	**(1,074)**	**(893)**	**(3,427)**	**(42)**	**(9,742)**
Accumulated depreciation							
Balance at 1 July 2018	(2,537)	(1,769)	(1,074)	(893)	(3,427)	(42)	(9,742)
Depreciation expense	(942)	(565)	(327)	(136)	(1,443)	(73)	(3,486)
Disposals	32	191	10	2	2,912	1	3,148
Balance at 30 June 2019	**(3,447)**	**(2,143)**	**(1,391)**	**(1,027)**	**(1,958)**	**(114)**	**(10,080)**
Net book value							
As at 30 June 2018	**2,410**	**737**	**709**	**132**	**2,867**	**322**	**7,177**
As at 30 June 2019	**2,342**	**1,123**	**479**	**551**	**3,280**	**246**	**8,021**

18. Intangible Assets

	Computer Software $'000	Capitalised courses $'000	Goodwill from acquisitions $'000	RTO Licence $'000	Capitalised Product Designs $'000	Total $'000
Cost						
Balance at 1 July 2017	6,614	1,890	2,976	1,245	1,192	13,917
Additions	781	487	–	–	1,308	2,576
Disposals	(4,713)	(1)	(373)	–	(154)	(5,241)
Balance at 30 June 2018	**2,682**	**2,376**	**2,603**	**1,245**	**2,346**	**11,252**
Cost						
Balance at 1 July 2018	2,682	2,376	2,603	1,245	2,346	11,252
Additions	714	385	–	–	1,071	2,170
Disposals	(1,577)	(11)	–	–	(200)	(1,788)
Balance at 30 June 2019	**1,819**	**2,750**	**2,603**	**1,245**	**3,217**	**11,634**
Accumulated amortisation						
Balance at 1 July 2017	(5,897)	(1,074)	–	(1,245)	(25)	(8,241)
Amortisation Expense	(525)	(1,238)	–	–	(262)	(2,025)
Disposal/Transfers/Impairment	4,681	–	–	–	–	4,681
Balance 30 June 2018	**(1,741)**	**(2,312)**	**–**	**(1,245)**	**(287)**	**(5,585)**
Accumulated amortisation						
Balance at 1 July 2018	(1,741)	(2,312)	–	(1,245)	(287)	(5,585)
Amortisation Expense	(506)	(94)	–	–	(646)	(1,246)
Disposal/Transfers/Impairment	1,572	11	–	–	2	1,585
Balance 30 June 2019	**(675)**	**(2,395)**	**–**	**(1,245)**	**(931)**	**(5,246)**
Net Book Value						
As at 30 June 2018	**941**	**64**	**2,603**	**–**	**2,059**	**5,667**
As at 30 June 2019	**1,144**	**355**	**2,603**	**–**	**2,286**	**6,388**

19. Other assets

	30 June 2019 $'000	30 June 2018 $'000
Prepayments	2,630	2,176
Other assets	190	187
	2,820	**2,363**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

20. Other financial assets

	30 June 2019 $'000	30 June 2018 $'000
Current		
Units held in Simonds Land Development Fund	–	1,197
	–	**1,197**

21. Trade and other payables

	30 June 2019 $'000	30 June 2018 $'000
Trade payables	58,425	54,767
Construction accruals	11,159	8,991
Goods and services tax payable	826	1,671
Other payables and accruals	7,738	6,310
	78,148	**71,739**

22. Borrowings

	30 June 2019 $'000	30 June 2018 $'000
Current		
Other borrowings	717	675
Finance lease liability	1,140	1,687
Display fund facility	5,000	–
Commercial bills	2,179	–
	9,036	**2,362**
Non-current		
Finance lease liability	1,884	736
Display fund facility	–	5,000
	1,884	**5,736**

Summary of borrowing arrangements

Details of the Group's borrowing facility are as follows:

Facility	Utilised $'000	Unutilised $'000	Interest Charge	Description	Maturity Date
Market Rate Loan	2,220[1]	–	Variable Market Rate	The Group's facilities are secured by all Simonds Group Limited corporate entities. Simonds have extended the existing corporate finance facility arrangements in place with Commonwealth Bank Australia.	1 May 2020
Bank Guarantees	919	1,081	Fixed Market Rate		30 September 2021
Multi Option Facility	Nil	22,500	Variable Market Rate		
Business Corporate Credit Card Facility	1,000	–	Option Index Rate	Charged Card facility made available to Simonds Group	2 August 2019
Finance Lease	3,024	1,976	Fixed Market Rate	Asset under finance leases are secured by the assets leased with repayments periods not exceeding 5 years.	Repayment periods are not exceeding 5 years
Total	**7,163**	**25,557**			

In addition to the debt facility outlined above, the Group has additional facilities as below:

Facility	Utilised $'000	Unutilised $'000	Interest Charge	Description	Maturity Date
Simonds Homes Display Fund	5,000	–	Fixed Interest Rate	The Group entered in to a mortgage facility with Simonds Homes Display Fund with an initial expiry of 15 September 2016. The facility has been extended to 30 September 2019. Facility is secured by first mortgages over a number of display homes of the Group.	30 September 2019
Insurance Premium Funding	717	–	Fixed Interest Rate	The Group entered in to a premium funding contract with Attvest Finance Pty Ltd, which covers various corporate insurances for period from 30 April 2019 to 30 April 2020.	30 November 2019
Total	**5,717**	**–**			

1. As at 30 June 2019 in the Statement of Financial Position, there is $0.041m of capitalised borrowing costs that offset this utilised market rate loan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

23. Provisions

	30 June 2019 $'000	30 June 2018 $'000
Provision for employee benefits (i)	7,463	6,696
Provision for warranty and contract maintenance (ii)	13,316	12,433
Provision for make good (iii)	1,213	1,573
	21,992	**20,702**
Current	13,416	12,497
Non-current	8,576	8,205
	21,992	**20,702**

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

The current portion of the provision for employee benefits 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 Group 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 Group 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:

Leave obligations expected to be settled after 12 months	899	858

(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.

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

24. Customer deposits

	30 June 2019 $'000	30 June 2018 $'000
Arising from construction contracts	**15,300**	**18,298**

25. Issued capital

	30 June 2019 $'000	30 June 2018 $'000
143,841,655 fully paid ordinary shares	12,911	12,911
Less: Treasury shares (i)	–	(7)
	12,911	**12,904**

(i) Treasury shares are shares in the Company that held by the Employee Share Trust for the purpose of further allocation to employee Performance Rights and Options Plan and shares held by the Employee Share Trust that have been allocated to employees under the Performance Rights and Options Plant but are subject to a disposal restriction.

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

	Number of shares		Share capital ($'000)	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
Balance at beginning of the period	143,816,926	143,841,655	12,904	12,911
Treasury shares	24,729	(24,729)	7	(7)
Balance at end of the period	**143,841,655**	**143,816,926**	**12,911**	**12,904**

26. Reserves

	30 June 2019 $'000	30 June 2018 $'000
Share Buy-back Reserve	(7,204)	(7,204)
Share Based Payment Reserve	29,522	30,391
Investment Revaluation Reserve	–	236
	22,318	**23,423**

Share Buy-back Reserve

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 was recognised based on an implied value per share of 8.97c and the remaining balance was recorded in the share buy-back reserve.

Share Based Payment Reserve

This reserve is used to recognise the value of equity settled benefits provided to employees and directors as part of their remuneration.

Investment Revaluation Reserve

The investment revaluation reserve represents any unrealised gains/(losses) arising on the revaluation of available for sale assets that have been recognised in other comprehensive income.

27. Accumulated losses

	30 June 2019 $'000	30 June 2018 $'000
Balance at the beginning of the year	(35,301)	(39,075)
Profits attributable to owners of the Group (net of tax)	10,308	3,774
Transfers between reserves	1,172	–
Balance at the end of the year	**(23,821)**	**(35,301)**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

28. Dividends paid or payable

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

	Year ended 30 June 2019		Year ended 30 June 2018	
	Cents per share	Total $'000	Cents per share	Total $'000
Final dividend	–	–	–	–

The company's adjusted franking account balance as at 30 June 2019 is $10.921m (2018: $6.522m).

29. Financial Instruments

Capital risk management

Directors 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 22, cash, and equity attributable to equity holders of the parent, comprising issued capital, accumulated losses and dividends, as disclosed in notes 26, 27 and 28.

Financial risk management

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 which are approved by the directors. The Chief Financial Officer is responsible for managing the Group's treasury requirements in accordance with this policy.

The Group hold the following financial instruments:

	30 June 2019 $'000	30 June 2018 $'000
Financial Assets		
Cash and Cash equivalents	9,702	7,010
Trade and other receivables	27,430	34,947
Available for sale financial assets	–	1,197
	37,132	**43,154**
Financial Liabilities		
Trade and other payables	78,148	71,739
Borrowings	10,920	8,098
	89,068	**79,837**

Market risk

i) Interest rate risk management

As at 30 June 2019, the Group had $12.880m debt facilities that have been utilised.

The Group is exposed to interest rate risk as the entities in the Group borrow funds at both fixed and variable interest rates. There is an interest rate exposure for these utilised facilities when they are used during each financial year. (Refer to note 22 for details of these facilities).

A sensitivity analysis has been determined based on the exposure to interest rates at the end of the reporting period. 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 profit for the year ended 30 June 2019 would decrease/increase by $16,629 (2018: $27,743). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

ii) Price risk

The Group has no foreign exchange exposure or price risk on equity securities.

Credit risk

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 risk 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.

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.

Liquidity risk

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.

i) Financial arrangements

The Group had access to the following debt facilities at the end of the reporting period:

	Utilised		Unutilised		Total	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**
Expiring within 1 year	10,077	2,362	–	29,178	10,077	31,540
Expiring beyond 1 year	2,803	5,736	25,557	–	28,360	5,736
	12,880	**8,098**	**25,557**	**29,178**	**38,437**	**37,276**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

29. Financial Instruments (continued)

Liquidity risk (continued)

ii) Maturities of financial liabilities

The table below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities.

The amounts disclosed in the table are the contractual undiscounted cash flows.

Balance due within 12 months equal their carrying balances as the impact of discounting is not significant.

Year ended 30 June 2019	<6 months $'000	6–12 months $'000	>1–5 years $'000	Total $'000
Financial Liabilities				
Finance lease liability	516	624	1,884	3,024
Commercial Bills	1,100	1,120	–	2,220
Simonds Homes Display Fund	5,000	–	–	5,000
Insurance premium funding	717	–	–	717
	7,333	**1,744**	**1,884**	**10,961**

Year ended 30 June 2018	<6 months $'000	6–12 months $'000	>1–5 years $'000	Total $'000
Financial Liabilities				
Finance lease liability	927	759	736	2,422
Simonds Homes Display Fund	–	–	5,000	5,000
Insurance premium funding	–	676	–	676
	927	**1,435**	**5,736**	**8,098**

30. 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:

	30 June 2019 $	30 June 2018 $
Short-term employee benefits	2,478,510	2,646,201
Post-employment benefits	120,297	137,763
Other long-term benefits	6,395	67,350
Termination benefits	24,778	464,891
Share-based payments	318,865	195,751
	2,948,845	**3,511,956**

31. Related party transactions

Trading Transactions

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

	Cost of goods		Leases and services rendered		Non-cash remuneration	
	30 June 2019 $	30 June 2018 $	30 June 2019 $	30 June 2018 $	30 June 2019 $	30 June 2018 $
Vallence Gary Simonds and related entities:						
Properties leased on an arms-length basis	–	–	266,982	267,192	–	–
Advisory fee paid during the year	–	–	57,154	71,303	–	–
Payment for use of building licence	–	–	42,846	–	–	–
Remuneration for employee services	–	–	61,018	130,644	–	–
Car Park provided	–	–	–	–	20,543	6,183
	–	–	428,000	469,139	20,543	6,183
Simonds Family Office Pty Ltd[1]						
Supply payment to Delos Welltek Australia Pty Ltd[2]	191,972	–	–	–	–	–
Mark Simonds and related entities:						
Payment for use of building licence	–	–	87,320	–	–	–
John Thorburn and related entities:						
Lease of display home on an arms-length basis	–	–	43,500	261,000	–	–
Total	**191,972**	**–**	**558,820**	**730,139**	**20,543**	**6,183**

At 30 June 2019 there were no balances outstanding from related parties (2018: nil).

1. Mark Simonds and Rhett Simonds are directors of Simonds Family Office Pty Ltd.
2. There is a Supply Agreement between Delos Welltek Australia Pty Ltd and the Simonds Group for the inclusion of the “DARWIN Essentials Package” into all of its homes in Victoria. Simonds Family Office Pty Ltd (of which Mark Simonds and Rhett Simonds are directors) hold 25% interest in Delos Welltek Australia Pty Ltd.

Loans to related parties

During the year ended 30 June 2019 there were no loans to related parties outside the Group (2018: Nil).

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated upon consolidation and disclosed in this note.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

32. 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. During the current financial year:

- Share based payments made to key management personal and other employees amounted to $0.342m (2018: $0.196m),
- 2,338,710 cash rights (2018: 2,338,710) were granted to 6 senior executives (2018: 6) as at 30 June 2019, 2,016,129 cash rights remain,
- As at 30 June 2019, performance rights remaining on issue are: FY17: 1,438,100 and FY16: 141,523,
- No options were granted (2018: Nil) during the period. As at 30 June 2019, no options remain.

Incentives	Financial Year	Tranche	Grant Date	Fair Value at Grant Date	Vesting Date	Other Vesting Condition
Cash Settled	FY18	Tranche 1	4 Dec' 17	$0.19	30 Sep' 20	Market (1),(4)
	FY18	Tranche 2	4 Dec' 17	$0.30	30 Sep' 20	Non-market (1),(5)
Performance rights	FY19	Tranche 1	1 Mar' 19	$0.27	28 Aug' 21	Market (4),(6)
	FY19	Tranche 2	1 Mar' 19	$0.38	30 Jun' 21	Non-market (5),(6)
	FY17	Tranche 1	31 Jan' 17	$0.23	30 Sep' 19	Market (2),(4)
	FY17	Tranche 2	31 Jan' 17	$0.35	30 Sep' 19	Non-market (2),(5)
	FY16	Tranche 1	30 Nov' 15	$0.31	31 Aug' 18	Market (3),(4)
	FY16	Tranche 2	30 Nov' 15	$0.75	31 Aug' 18	Non-market (3),(5)
Options	FY17	Options	31 Jan' 17	$0.11	30 Sep' 19	Non-market vesting only (5)

Notes:

(1) Gateway Hurdle Condition exists whereby FY18 Cash Rights may not vest unless the individual remains employed up to and including 30 September 2020.

(2) Gateway Hurdle Condition exists whereby FY17 Performance Rights may not vest unless the individual remains employed up to and including 30 September 2019.

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

(4) 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.

(5) 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 relevant period with the specific EPS methodology to be determined by the board.

(6) Gateway Hurdle Condition exists whereby FY19 Performance Rights may not vest unless the individual remains employed up to and including 28 August 2021.

The following table outlines the share-based expense (excluding forfeitures and lapses) under the management incentive and employee share plan for the year ended 30 June 2019:

	30 June 2019 $'000	30 June 2018 $'000
Employee share plan		
Share based expense (excluding forfeitures)	519	832
	519	**832**

Fair value of performance rights, service rights and options granted in the year

Cash rights subject to market based vesting conditions and FY19 performance rights (Tranche 1) are valued using a Monte Carlo based simulation model (applying a Black-Scholes framework).

For performance rights subject to non-market vesting conditions, the FY19 performance rights (Tranche 2) value at grant date is equivalent to that of the underlying share; FY17 and FY16 performance rights (Tranche 2) the Black Scholes Pricing Model was used to value the rights at grant date. Expected volatility is estimated using the daily rolling three-year standard deviation of a relevant Peer Group. The risk free rates used for FY19 performance rights valuation are the yield to maturity on Australian Government Bonds with maturities equivalent to the expected lift of the rights. FY17 and FY16 performance rights risk free rates are derived from the average of the 3 and 4-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					
	Fair value at grant date	Exercise Price	Expected life of instruments (days)	Expected volatility	Expected dividend yield	Risk-free rate
FY19 Performance rights:						
Tranche 1	$0.27	$0.00	912	67%	0.0%	1.70%
Tranche 2	$0.38	$0.00	853	67%	0.0%	1.70%
FY18 Cash rights:						
Tranche 1[1]	$0.19	$0.00	1,097	74%	0.0%	2.03%
Tranche 2[2]	$0.30	$0.00	1,096	74%	0.0%	2.01%
FY17 Performance rights:						
Tranche 1	$0.23	$0.00	972	50%	5.5%	1.91%
Tranche 2	$0.35	$0.00	972	50%	5.5%	1.91%
CEO Options:						
EPS	$0.11	$0.40	972	50%	5.5%	2.06%
FY16 Performance rights:						
Tranche 1	$0.31	$0.00	1,004	45%	6.0%	2.11%
Tranche 2	$0.75	$0.00	1,004	45%	6.0%	2.11%
FY15 Performance rights:						
Tranche 1	$1.03	$0.00	1,018	40%	4.92%	2.57%
Tranche 2	$1.55	$0.00	1,018	40%	4.92%	2.57%
Tranche 3	$1.55	$0.00	1,018	40%	4.92%	2.57%

1. The fair value at 30 June 2019 is $0.14.
2. The fair value at 30 June 2019 is $0.33.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

32. Share based payments (continued)

Movements in performance rights, service rights and options during the year

The following reconciles the cash rights, performance rights and option rights outstanding at the beginning and end of the financial year:

		Opening balance	Granted during the year		Vested during the year		Forfeited during the year		Closing balance
2019	**Financial Year Issued**	**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**
Cash Rights									
Tranche 1	FY2018	1,008,066	–	–	–	–	362,904	0.19	645,162
Tranche 2	FY2018	1,008,063	–	–	–	–	362,903	0.33	645,160
Performance Rights									
Tranche 1	FY2019	–	2,033,332	0.27	–	–	–	–	2,033,332
Tranche 2	FY2019	–	2,033,332	0.38	–	–	–	–	2,033,332
Tranche 1	FY2017	719,051	–	–	–	–	215,272	0.23	503,779
Tranche 2	FY2017	719,048	–	–	–	–	215,271	0.35	503,777
Tranche 1	FY2016	70,762	–	–	–	–	70,762	0.31	–
Tranche 2	FY2016	70,761	–	–	70,761	0.75	–	–	–
CEO Options									
EPS	FY2017	1,020,576	–	–	–	–	1,020,576	0.11	–
Total		**4,616,327**	**4,066,664**	**0.33**	**70,761**	**0.75**	**2,247,688**	**0.20**	**6,364,542**

		Opening balance	Granted during the year		Vested during the year		Forfeited during the year		Closing balance
2018	**Financial Year Issued**	**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**
Cash Rights									
Tranche 1	FY2018	–	1,169,357	$0.23	–	–	161,291	$0.23	1,008,066
Tranche 2	FY2018	–	1,169,353	$0.36	–	–	161,290	$0.36	1,008,063
Performance Rights									
Tranche 1	FY2017	1,703,403	–	–	–	–	984,352	$0.23	719,051
Tranche 2	FY2017	1,703,397	–	–	–	–	984,349	$0.35	719,048
Tranche 1	FY2016	70,762	–	–	–	–	–	–	70,762
Tranche 2	FY2016	70,761	–	–	–	–	–	–	70,761
Tranche 1	FY2015	37,453	–	–	–	–	37,453	$1.03	–
Tranche 2	FY2015	37,453	–	–	–	–	37,453	$1.55	–
Tranche 3	FY2015	37,454	–	–	37,454	$1.55	–	–	–
CEO Options									
EPS	FY2017	4,000,000	–	–	–	–	2,979,424	$0.11	1,020,576
Total		**7,660,683**	**2,338,710**	**$0.29**	**37,454**	**$1.55**	**5,345,612**	**$0.20**	**4,616,327**

Movements in performance rights, service rights and options during the year (continued)

Cash rights outstanding at the end of the current financial year had an exercise price of $nil (2018: nil). Performance rights outstanding at the end of the current financial year had an exercise price of $nil (2018: $nil).

The weighted average contractual life of cash rights was 1,097 days (2018: 1,097). The weighted average contractual life of performance rights was 900 days (2018: 975 days).

Performance and service rights vested during the year

70,761 performance rights vested during the year ended 30 June 2019 (2018: 37,454).

Performance and service rights forfeited during the year

There were 725,807 (2018: 322,581) cash rights, 501,306 (2018: 2,043,607) performance rights and 1,020,576 (2018: 2,979,424) options forfeited during the year.

Share based payments reserve

	30 June 2019 $'000	30 June 2018 $'000
Balance at the beginning of the year	30,391	30,243
Amounts expensed	519	832
Performance rights vested	(22)	(11)
Performance rights forfeited	(82)	(345)
Performance options forfeited	(112)	(328)
Transfer to accumulated losses	(1,172)	–
Balance at the end of the year	**29,522**	**30,391**

33. Commitments for expenditure

	30 June 2019 $'000	30 June 2018 $'000
Lease commitments		
Non-cancellable operating lease payments		
No longer than 1 year	10,225	10,004
Longer than 1 year and not longer than 5 years	15,423	11,895
	25,648	**21,899**

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 2019 is $8.655m (2018: $8.145m).

34. Auditor's remuneration

	30 June 2019 $	30 June 2018 $
Audit or review of financial statements	284,500	264,500
Tax services	123,250	136,691
	407,750	**401,191**

The Group's auditor is Deloitte Touche Tohmatsu.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

35. 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:

	Notes	30 June 2019 $'000	30 June 2018 $'000
Cash and cash equivalents		9,702	7,010
		9,702	**7,010**

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

	Notes	30 June 2019 $'000	30 June 2018 $'000
Cash flows from operating activities			
Net profit after tax for the year		**10,308**	**3,774**
Add/(deduct):			
Income tax expense recognised in profit or loss		4,798	1,974
Finance costs recognised in profit or loss		1,309	1,280
Interest received		–	(2)
Revaluation reserve		236	–
Loss on disposal of Hub		–	285
Impairment of non-core development land and other current assets		–	432
Management incentive and share based payments		(303)	(147)
Depreciation and amortisation of non-current assets		4,732	5,247
		21,080	12,843
Movements in working capital			
(Increase)/decrease in trade and other receivables		7,517	(2,258)
(Increase)/decrease in inventories		(5,915)	(9,699)
(Increase) in other assets		(14,607)	(8,812)
Increase in trade and other payables		5,418	7,747
Increase/(decrease) in provisions		1,267	(165)
Increase/(decrease) in other liabilities		(2,997)	8,881
Cash generated by operating activities		11,763	8,537
Net interest paid		(1,309)	(1,278)
Income taxes refunded		(4,399)	1,441
Net cash generated from operating activities		**6,055**	**8,700**

Non-cash transactions

The Group acquired $2.652m of equipment under finance leases in 2019 (2018: $2.230m). The additions are non-cash and not included within investing activities in the consolidated statement of cash flows.

Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing actives are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

				Non-cash changes	
	Notes	30 June 2018 $'000	Financing cash flows $'000	New finance leases $'000	30 June 2019 $'000
Other borrowings	22	675	42	–	717
Commercial bills	22	–	2,179	–	2,179
Finance lease liabilities	22	2,423	(2,051)	2,652	3,024
Display fund facility	22	5,000	–	–	5,000
Total liabilities from financing activities		**8,098**	**170**	**2,652**	**10,920**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

36. 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.

	30 Jun 2019 $'000	30 Jun 2018 $'000
Statement of financial position		
Cash at bank	–	1
Other financial assets	2,294	2,294
Intercompany loan receivable	5,359	–
Deferred tax asset	847	–
Income tax receivables	–	1,038
Total assets	**8,500**	**3,333**
Intercompany loan payable	–	1,618
Tax payable	4,801	–
Trade and other payables	1,383	689
Total liabilities	**6,184**	**2,307**
Net assets	**2,316**	**1,026**
Issued capital	12,911	12,904
Reserves	(34,238)	(5,730)
Accumulated profit/ losses	23,643	(6,148)
Total equity	**2,316**	**1,026**
Income statement		
Dividends from subsidiaries	30,186	–
Subsidiary receivable recovery	–	3,638
Operating expense	(395)	(295)
Profit for the year	**29,791**	**3,343**
Other comprehensive income, net of income tax		
Items that will not be reclassified subsequently to profit or loss:	–	–
Items that may be reclassified subsequently to profit or loss:	–	–
Total comprehensive income for the year	**29,791**	**3,343**

37. Contingent liabilities and contingent assets

Contingent Liabilities	30 June 2019 $'000	30 June 2018 $'000
Other guarantees (i)	919	1,652

(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.

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.

38. Subsequent events

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

SHAREHOLDER INFORMATION

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 2 September 2019 (Reporting Date).

Corporate governance statement

The Company has prepared a Corporate Governance Statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company. In accordance with ASX Listing Rule 4.10.3, the Corporate Governance Statement will be available on Simonds website www.simondsgroup.com.au and will be lodged with ASX at the same time that this Annual Report is lodged with ASX.

Distribution of equity securities

The distribution and number of holders of equity securities on issue in the Company as at the Reporting Date, and the number of holders holding less than a marketable parcel of the Company's ordinary shares, based on the closing market price as at the Reporting Date, is as follows:

	Class of equity security			
	Ordinary shares		Performance rights	
Holding	**Holders**	**No. of shares**	**Holders**	**No. of performance rights**
1 - 1,000	520	210,319	–	–
1,001 - 5,000	89	258,823	–	–
5,001 - 10,000	72	543,773	–	–
10,001 - 100,000	154	5,663,866	–	–
100,001 and over	63	137,164,874	7	5,074,220
Total	**898**	**143,841,655**	**7**	**5,074,220**

There were 330 holders of less than a marketable parcel of ordinary shares ($500).

SHAREHOLDER INFORMATION (CONTINUED)

Twenty largest quoted equity security holders

The Company only has one class of quoted securities, being ordinary shares. The names of the twenty largest holders of ordinary shares, the number of ordinary shares and the percentage of capital held by each holder is as follows:

Name	Number held	Percentage of issued shares
McDonald Jones Homes	32,723,647	22.75%
Simonds Custodians Pty Ltd	32,800,020	22.80%
Simonds Constructions Pty Ltd	25,747,701	17.90%
FJP Pty Ltd	20,370,660	14.16%
National Nominees Limited	6,722,566	4.67%
Moat Investments Pty Ltd	2,089,560	1.45%
Madisson Constructions Pty Ltd	1,572,678	1.09%
Poal Pty Ltd	1,000,000	0.70%
Mast Financial Pty Ltd	1,000,000	0.70%
Jet Invest Pty Ltd	810,095	0.56%
Citicorp Nominees Pty Limited	774,193	0.54%
Mr Robert Stubbs	756,384	0.53%
Gliocas Investments Pty Ltd	684,797	0.48%
Mr Hoang Huy Huynh	600,000	0.42%
Mr Matthew Robert Stubbs & Ms Anna Goulston	551,500	0.38%
Luton Pty Ltd	449,099	0.31%
Pw SMSF Pty Ltd	400,000	0.28%
Sutton Gardner Pty Ltd	350,000	0.24%
April Pamela Waddell	310,000	0.22%
Mr Kim Bee Tan & Mrs Verna Suat Wah Tan	300,000	0.21%
	130,012,900	**90.39%**
Other shareholders	13,828,755	9.61%
Total shareholders	**143,841,655**	**100.00%**

SHAREHOLDER INFORMATION (CONTINUED)

Substantial Shareholders

As at the Reporting Date, the names of the substantial holders of Simonds and the number of equity securities in which those substantial holders and their associates have a relevant interest, as disclosed in substantial holding notices given to Simonds, are as follows:

Name	Number held	Percentage of issued shares
Vallence Gary Simonds	59,521,492	41.38%
McDonald Jones Homes Pty Ltd	32,723,647	22.74%
F.J.P. Pty Ltd	20,370,660	14.16%
Total	**112,615,799**	**78.29%**

Voting Rights

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

Ordinary Shares

At a general meeting of Simonds, every holder of ordinary shares present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each ordinary share held.

Performance Rights

Performance rights do not carry any voting rights.

Unquoted equity securities

5,074,220 unlisted performance rights have been granted to 7 people. There are no people who hold 20% or more performance rights that were not issued or acquired under an employee incentive scheme.

On-market buy-back

The Company is not currently conducting an on-market buy-back.

CORPORATE DIRECTORY

Directors

Iain Kirkwood
Independent, Non-Executive Director and Chairman

Kelvin Ryan
Chief Executive Officer and Managing Director

Neil Kearney
Independent, Non-Executive Director and
Chair of Audit and Risk Committee

Delphine Cassidy
Independent, Non-Executive Director and
Chair of Nomination and Remuneration Committee

Rhett Simonds
Non-Executive Director

Scott Mahony
Non-Executive Director

Piers O'Brien
Non-Executive Director

Mark Simonds
Executive Director

Company Secretary

Paul Taylor

Notice of annual general meeting

The details of the annual general meeting of Simonds Group Limited are:

Date: 24 October 2019
Time: 11:00am (Melbourne time)

Address: Simonds Building, Level 1,
570 St Kilda Road, St Kilda,
Melbourne, VIC 3004

Registered office

Level 1, 570 St Kilda Road,
Melbourne, VIC 3004

Postal Address: Locked Bag 4002,
South Melbourne, VIC 3205

Telephone: +61 3 9682 0700

ABN 54 143 841 801

Email: company.secretary@simonds.com.au

Share register

Boardroom Pty Ltd
Level 12, 255 George Street,
Sydney, NSW 2000

Postal Address: GPO Box 3993,
Sydney, NSW 2001

Telephone: 1300 737 760

International: +61 2 9290 9600

Email: simonds@boardroomlimited.com.au

Auditor

Deloitte Touche Tohmatsu
550 Bourke Street,
Melbourne, VIC 3000

Stock exchange listing

Simonds Group Limited shares are listed on the Australian Securities Exchange (ASX code: SIO)

Corporate website

simondsgroup.com.au

Simonds Group