DIPLOMA GROUP LIMITED

ABN 14 127 462 686

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C O N T E N T S

The Directors of Diploma Group Limited (referred to in these financial statements as "the Company" or "Diploma") submit the following report in respect of the consolidated entity for the financial year ended 30 June 2011.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Dominic B Di Latte (Executive Chairman)

Dominic has spent his entire working life in the building industry. He began his career as a tradesman and progressed to become a registered builder, finally starting his own construction company in 1976.

Dominic's success in residential housing led to commercial, retail, medium and high-density residential developments. With obvious hands-on experience, Dominic has an intrinsic understanding of every aspect of the industry. He takes a personal interest in every undertaking. Dominic's passion for building, uncompromising approach to quality and meticulous attention to detail is the foundation of an ethos that flows throughout the Company.

Under Dominic's watch, Diploma has been responsible for numerous successful residential, retail and commercial developments, including Box Building Apartments in Perth's CBD, Arcadia Court in Subiaco, multiple Officeworks Superstores and the sensitive heritage redevelopment of the Leederville Post Office site.

Nick D Di Latte (Managing Director and CEO)

Nick joined the Company in 1996 and has always shared his father's passion for the industry.

Nick's predominant role has been to liaise with clients and joint venture partners, from the initial concept and planning stage through to completion, as well as overall responsibility for the performance of Group activities. He brings a great deal of experience in the property industry to the fore and will continue to work with and oversee both divisions of the Company. A qualified Barrister and Solicitor, having been admitted to the Supreme Court of Western Australia in February 2002, Nick's role includes liaising with clients with respect to new developments as well as involvement with site acquisitions and conceptualisation of commercial and residential projects through to completion. Nick's role further includes the implementation of growth strategies of the Company.

Nick's multi-disciplinary leadership on projects such as Thaymas Apartments, West Perth, Arcadia Court, Subiaco, Ennis Tavern & Commercial Centre, Rockingham, Box Building Apartments, Perth CBD and Clarkson Commercial & Retail Centre, Clarkson will assist the Company to expand its business to the next level.

Nick is a member of the Remuneration and Audit committees.

John M Norup (Executive Director)

As a qualified engineer, John brings a wealth of experience in the WA construction marketplace to the Company.

Joining the Company in 2005, John will have a pivotal role in the next stage of the Company's history as head of the Construction Division.

During his career, John has been directly involved in the management of over $1 billion worth of construction work within Western Australia.

As a Director, John has been overseeing the Company's operations, and is involved in the strategic business planning of the organisation.

John's previous experience as a director of a major national construction business provides the Company with the experience and knowledge of the national construction market. This, combined with the strength of his management team, gives the Company the ability to undertake large and complex projects anywhere within Australia.

John has been engaged in a myriad of projects, such as the HBI plant at Port Hedland, the Dawesville Channel project, Mt Gibson iron ore storage, Kwinana Fertiliser storage facility, Geraldton Hospital, The Vines Resort, Seashells Resort, Broome and Heritage Resort, Shark Bay, to name a few.

Ian P Olson (Non-executive)

As a Chartered Accountant, Ian has been involved in corporate advisory, audit and assurance and management consulting over the past 19 years.

Ian's areas of expertise include corporate finance, external and statutory audit, investigating accountant's and independent expert's reports. During his career, Ian also spent three years working with two major global investment banks in London and New York.

Ian is the owner and Executive Chairman of the King Group, a diversified surveying, drafting, mapping and GIS business. He is a member of the Institute of Chartered Accountants in Australia, the Institute of Company Directors. During the past three years Mr Olson has and still serves as a director of the following other listed companies:

- Gage Roads Brewing Co Limited – appointed 12 November 2007
- Ruralaus Investments Limited – appointed 29 April 2005

Ian's industry experience includes energy and natural resources, engineering and construction, property, manufacturing and retail.

Ian chairs the Remuneration and audit committees.

Carl Lancaster (Non-executive)

Carl holds a Bachelor of Business and is an associate member of the Institute of Chartered Accountants.

Over the last 11 years, Carl has been the head of Real Estate Finance for Macquarie Bank Limited in Western Australia. During his tenure at Macquarie Bank, Carl was responsible for the identification, analysis and mandating of property development projects for which Macquarie Bank provided debt and equity capital.

Carl was a Director of a number of Macquarie Bank subsidiary companies involved in joint venture projects in Western Australia and has particular expertise in the efficient structuring of debt and equity capital for large scale property development projects.

Carl is a member of the Remuneration and Audit committees.

COMPANY SECRETARY

Simon A Oaten

Simon joined the Diploma group on 10 September 2007 and was appointed Chief Financial Officer of the Diploma group on the same date. Simon is a Chartered Accountant with 15 years of construction, engineering and development experience in Australia, South America, Africa and the UK. Prior to his involvement in Diploma, Simon was General Manager Finance of GRD Limited and before that Group Financial Controller of Multiplex Limited. He commenced his career at KPMG, and held senior management positions in both Perth and the UK.

DIRECTORS' SHARE AND OPTION HOLDINGS

The relevant interest of each Director in the share capital of the Company and shares under option as at the date of this report is as follows:

	Direct Interest		Indirect Interest
Director	**Ordinary Shares**	**Options**	**Ordinary Shares**
D B Di Latte	-	-	20,993,189
N D Di Latte	-	-	21,041,333
J M Norup	20,400,000	-	878,189
I P Olson	30,000	-	-
C Lancaster	40,000	-	-

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

Diploma is a commercial construction and property development business, which offers a complete vertically integrated model by managing the entire design process of a project, from initial concept through to final delivery of the end product. The Company has two divisions, which are responsible for carrying out the Company's activities. Within each division Diploma offers a comprehensive range of services that includes:

Construction

- Design capabilities
- Quality construction
- Construction management
- Site supervision and administration
- Joint venture partnerships
- Total service capability from concept drawings through to interior design and
- Engineering

Property Developing

- Feasibility studies
- Site acquisition
- Building design
- Project management
- Joint venture partnerships
- Sales and marketing coordination and
- Facilities management

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the consolidated group during the year.

DIVIDENDS

No dividend has been declared for the year ended 30 June 2011.

OPERATING AND FINANCIAL REVIEW

Group Overview

The Group originated in 1976 when Dominic Di Latte, who is the current Chairman of the Board, established Diploma Homes, a construction company providing construction services largely to the residential building market.

Sensible expansion saw the business grow and move to new premises located in Osborne Park in 1987, before expanding again in 2004 and moving to the current premises in Belmont where it maintains its head office.

The Company was renamed Diploma Construction (WA) Pty Ltd in 2005 and in 2007, following a review of its corporate structure, the Holding Company, Diploma Group Limited was interposed and this entity then listed on the Australian Stock Exchange in December 2007.

Operating Results for the Year

For the 2011 financial year Diploma Group generated earnings before interest, tax and deprecation of $0.952 million and achieved a net loss after tax of $0.401 million.

The company's revenue was $144.616 million. This was a decrease of 30.2% over the corresponding reporting period in 2010.

The following factors contributed to the 2011 financial result:

- Slower than expected take-up of completed stock on the Rise Apartments project, and delayed starts on a number of construction projects
- The inclusion of a foreign exchange loss of $1.023 million
- Completion of 5 construction projects, contributing $45.7 million in revenue prior to intercompany eliminations

- Completion and settlement of three development projects; Foundry Apartments, Cove Apartments and Zenith City Centro. These projects contributed approximately $66.488 million in revenue
- Retirement of approximately $48 million in project-specific debt ($18.8 million from 100% owned projects and $29.2 million from equity accounted projects)

Construction Update

Diploma's construction division specialises in design and construct for residential high-rise, mixed use and commercial property. The Division has built a broad spectrum of medium to large-scale projects, and developed a solid reputation for innovation, safety and timely delivery. The Division is also well regarded for its ongoing work in the specialist areas of sustainable design, and construction and renewal of buildings with heritage-listed components.

The Australian Division completed a total of 5 jobs during 2011, contributing approximately $45.7 million in revenue prior to intercompany eliminations.

Diploma also has a construction presence in the United Arab Emirates, which holds building licences in the emirates of Abu Dhabi, Dubai and Sharjah. The Division is continuing with construction of a $59.2 AED million office development, which is due to be completed in the coming financial year.

Highlights for the Construction Division in 2011 include:

- Achieving practical completion on the Foundry Apartments project within 33 weeks
- Completing Cove Apartments in Joondalup (stage 3) and commencing construction on Edge Apartments (stage 4). In total this development will comprise 189 apartments.
- Completing what is recognised as the largest continuous concrete pour in Western Australia, as part of Queens Garden stage 1

In terms of new work, 9 new projects were started during the year valued at approximately $155 million. Included in this new work is a variety of recreational, retail and hospitality projects, which add to the Division's core workbook of commercial, residential and mixed-use projects.

In total the Construction Division order book contains 17 projects with a total contract value estimated at approximately $522 million.

Property Update

Diploma's property division provides end-to-end property development solutions, including project initiation, feasibility studies, site acquisitions, design and construction management, legals and finance.

The Division successfully delivered three major projects to completion in 2011; Foundry Apartments, Cove Apartments (stage 3 of 4 in Joondalup) and Zenith City Centro, worth a combined value of $113 million.

The Division continues to work towards delivering several other major projects, including the $68 million Eleven78 development (125 apartments), which is due for completion in December 2011.

During 2011 the Division added 7 new projects with an estimated completed value in excess of $252 million (Diploma interest $183 million). Of particular note were the following achievements:

- Receiving Development Approval for the $42 million iSpire development in Perth CBD, consisting of 78 apartments and 24 commercial tenancies.
- Receiving Development Approval for a $60 million, 114-apartment staged development in Rockingham
- Signing Development Management Agreements with the Department of Housing for projects on Campbell Street (75 apartments), and Pier Street (161 apartments) in Perth, valued at a combined $103 million
- Entering into a joint venture for a $35 million development in Highgate.
- The acquisition of two new development sites, in Midland and the Perth CBD.

The Division's total workbook now stands at 10 projects with a combined value of $372 million (Diploma interest $270 million). We anticipate two projects will be delivered in the coming financial year.

Earnings Per Share

The Group had a weighted average number of shares on issue during the year of 152,983,399. Basic loss per share (EPS) for 2011 is 0.26 cents (2010: profit per share 7.94 cents). Diluted loss per share for 2011 is 0.26 cents (2010: profit per share 7.94 cents).

STATEMENT OF FINANCIAL POSITION

The Consolidated Statement of Financial Position at 30 June 2011 has a current net working capital surplus of $13.9 million (2010: $13.9 million).

CASH FLOWS

The net cash flows used in operating activities totalled $8.3 million.

EVENTS SUBSEQUENT TO BALANCE DATE

The project specific debt relating to an associate (Zenith), not recognised on the Group's balance sheet is $22.397 million. $13.071 million of $22.397 million of debt relating to the joint venture partner was refinanced on 26 September 2011. The balance of this project specific debt totalled $9.326 million which represents Diploma's share. Approval for the refinance of Diploma's share of the project specific debt was received on 28 September 2011. The refinanced facility together with subsequent unit sales in the Zenith project will enable Diploma to repay its share of the Zenith project debt and provide the Group with $1.488 million in working capital along with 30% from each subsequent sale. The settlement profile of the currently contracted apartments will generate further cash inflow to the Group with the refinanced facility expected to be cleared by December 2011.

The project specific debt on the Group's Rockingham project (Salt 5) totalling $1.704 million was refinanced on 8 September 2011 and is now due for repayment on 5 April 2012.

Since year end the project specific debt associated with the Cove and Foundry Road projects, totalling $4.618 million has been repaid. The Group has obtained additional funding secured against the remaining unsold stock in these developments totalling $3.1 million.

The repayment date on the project specific debt on the Group's iSpire project totalling $1.500 million was extended to February 2012.

The bank has renewed the corporate facility that was breached at 30 June 2011, for a further term until 31 October 2012. The new facility will include a reduction to the measure of the covenant breached at 30 June 2011 and the limit will be reduced to $5.0 million. The facility had a net drawn down balance 30 June 2011 of $5.518 million and at 29 September 2011 of $3.087 million.

On 2 July 2011, the board of directors entered into a conditional letter of offer for the sale of the Group's rent roll from its residential and strata authorities. A sale agreement was signed on the 20 September 2011 with the sale expected to be completed shortly after this date.

Other than the above, the Directors are not aware of any other matter or circumstance not otherwise dealt with in the financial statements, that has significantly or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

In the opinion of the Directors, disclosure of any further information on likely developments in operations and expected results would be prejudicial to the interests of the Company, the consolidated entity and shareholders.

ENVIRONMENTAL REGULATION

The consolidated entity's operations are subject to environmental regulations under State legislation. Management monitors compliance with environmental regulations. The Directors are not aware of any significant breaches during the period covered by this report.

SHARE OPTIONS

At the date of this report, there were 2,240,000 unissued ordinary shares under options (2,240,000 at balance date).

During the year no options to acquire fully paid ordinary shares in the Company were exercised. 2,710,000 options were forfeited. Refer to Note 30 of the financial statements for further details of the Company's share options.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year the Group has paid premiums in respect of directors' and officers' liability insurance contracts for the year ended 30 June 2011 and since the financial year, the Group has paid or agreed to pay premiums in respect of such insurance contracts for the year ending 30 June 2012. Such insurance contracts insure against certain liability (subject to specific exclusions) of persons who are or have been directors or executive officers of the Company.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

PROCEEDINGS ON BEHALF OF THE COMPANY

There are no proceedings on behalf of the Company under section 237 of the *Corporations Act 2001* in the financial year or at the date of this report.

REMUNERATION REPORT (Audited)

This remuneration report outlines the director and executive remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives, general managers and secretaries of the Parent and the Group.

DETAILS OF KEY MANAGEMENT PERSONNEL (Audited)

Except as noted all key management personnel held their roles during the current and prior years.

(i) Directors

Name	Position	
D B Di Latte	Chairman (Executive)	- appointed 2 January 1976
N D Di Latte	Managing Director & CEO	- appointed 2 January 1996
J M Norup	Managing Director Construction (Executive)	- appointed 29 May 2005
I P Olson	Director (non-executive)	- appointed 10 October 2007
C Lancaster	Director (non-executive)	- appointed 7 December 2007

(ii) Executives

Name	Position	
S Oaten	Chief Financial Officer & Company Secretary	- appointed 10 September 2007

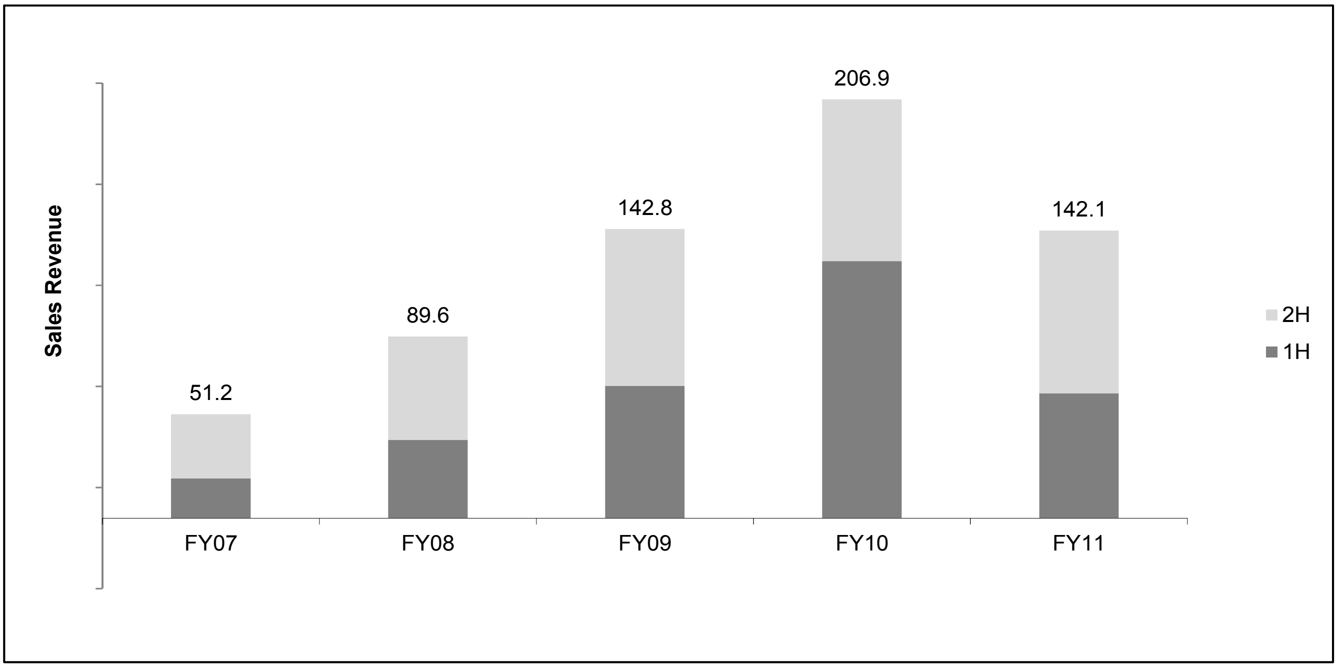
COMPENSATION POLICY (Audited)

It is the Company's objective to attract and retain high quality Directors and executive officers. One aspect of achieving this is by remunerating Directors and executive officers in a manner consistent with employment market conditions. To assist in achieving this objective, the Company links the nature and amount of some of the executive Directors' and officers' emoluments to the Company's financial and operational performance.

Where appropriate the Board obtains independent advice on remuneration packages.

Group Performance

The Company was incorporated on 10 September 2007 and listed on the Australian Stock Exchange on 5 December 2007. The consolidated entity prior to the listing represents the ongoing operations of Diploma Construction (WA) Pty Ltd. The graph below shows the Group's revenue for the past five years (including the current period).



Remuneration and Nomination Committee

The Remuneration and Nomination Committee (the "Committee") of the Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors, the Company Secretary and all other key management personnel.

The Committee assesses the appropriateness of the nature and amount of compensation of key management personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

As part of this function, the Committee can review and make recommendations to the Board on executive remuneration and incentive policy, executive incentive plans, equity-based incentive plans, remuneration of non-executive Directors, and recruitment, retention, performance measurement and termination policies and procedures for Directors, the CEO, the Company Secretary and all senior executives.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive Director and executive compensation is separate and distinct.

Non-executive Director Compensation

Objective

The Committee seeks to attract and retain non-executive Directors of a high calibre, and sets non-executive Director remuneration at competitive market levels.

Structure

In setting the level of non-executive Director remuneration, the Committee considers advice from external consultants and undertakes its own benchmarking with comparable companies.

Each Director receives a fee for being a Director of the Company, with additional fees considered in recognition of specific duties carried out by each Director, such as membership on sub-committees of the Board. The constitution specifies that the aggregate remuneration pool for non-executive Directors is $500,000 per annum. Fees paid to non-executive Directors are reviewed annually.

Non-executive Directors are encouraged to hold shares in the Company. The Committee also considers in certain cases it may be appropriate to include equity-based incentives, including share options, in the remuneration package of non-executive Directors. For details of the structure of equity based compensation refer to the equity based benefits below under Executive Compensation.

Executive Compensation

Objective

The Committee aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the entity so as to:

- reward executives for company, business unit and individual performance against targets set to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link rewards with the strategic goals and performance of the company; and
- ensure total compensation is competitive by market standards.

Structure

Remuneration packaging contains the following key elements:

- Primary benefits – fixed components of salary, fees and non-monetary benefits such as motor vehicle costs, and short-term incentives.
- Post-employment benefits – including superannuation and prescribed benefits.
- Equity-based benefits – includes share options.

Primary Benefits – Fixed Compensation

Objective

The level of fixed primary benefits is reviewed annually by the Committee. The process consists of a review of company-wide, business unit and individual performance, relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

Structure

Executives and senior managers are given the opportunity to receive part of their primary fixed remuneration in a variety of forms other than cash, such as motor vehicle fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating an unreasonable cost or administrative burden for the Group.

Primary Benefits – Short Term Incentive

Senior executive contracts include a provision for the establishment of annual performance criteria upon which a cash performance bonus is to be linked. Diploma did not have a formal executive short-term incentive plan in place during the year and accordingly no cash performance bonuses were paid. There were no short-term incentive payments made to key management personnel in the prior year.

The Committee can approve discretionary cash bonuses to executives and senior managers where superior performance has delivered significant value to the Group, such as through the winning of new projects. During 2011 the Committee determined that no bonuses would be paid (2010: Nil).

Post-employment Benefits

Objective

Post-employment benefits include superannuation and any benefits receivable by executives should their employment be terminated by the Company. The Committee reviews the level of primary benefits annually, with assistance of external advisors if required.

Structure

Australian executives receive statutory superannuation as a minimum, and all executives are given the opportunity to sacrifice additional amounts of their remuneration into superannuation contributions. It is the policy of the Group that termination benefits are only offered to executives employed under contract, unless under a formal redundancy programme.

Equity-based Benefits

Objective

The objective of the consolidated entity's share option plan is to reward senior executives in a manner that aligns this element of remuneration with the creation of shareholder wealth.

Structure

Diploma Share Options

All share options issued are based on loyalty-vesting periods and vested options can only be exercised if the Director or executive is still in the employment of the consolidated entity at the time of exercise. The Board feels that the expiry date and exercise price of options currently on issue to key management personnel (KMP) is sufficient to align the goals of the KMP with those of the shareholders to maximise shareholder wealth without the need for additional performance hurdles.

At present the Company does not have a formal plan covering the payment of equity-based executive remuneration, however, it is the Company's intention to seek Shareholder approval for the issue of options and other securities to executives until such time as a formal plan is approved.

In relation to Directors and named executives, the details of options granted during the year and options that vested during the year are set out below in the section headed 'Compensation Options: Granted and vested during the year'. The value of options forming part of the remuneration of Directors and executives during the year is shown below in the section headed 'Compensation of Directors and Other Key Management Personnel'. Additional details as to share options granted to, exercised by and held by Directors and named executives are contained in Note 31 to the financial statements.

The Company does not have a policy with regard to executives entering into arrangements to hedge their exposures to options or shares granted as part of their remuneration package.

Employment Contracts

Directors and key management personnel of Diploma are employed under contracts of employment with standard commercial terms, such as having no fixed term of expiry, provision for annual review of salary, notice periods for termination of one month and termination payments limited to being payments in lieu of notice.

COMPENSATION OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL (Audited)

The following details the nature and amount of remuneration paid to Directors and other key management personnel of the consolidated entity during the year.

June 2011	Short-Term Benefits			Post Employment Benefits	Share Based Payments	Total		
	Salary & Fees $	Cash Bonus $	Non Monetary Benefits $	Super-annuation $	Options $	$	Performance Related	Consisting of Options
Directors								
D B Di Latte	465,000	-	933	70,199	-	536,132	-	-
N D Di Latte	500,000	-	4,142	15,199	-	519,341	-	-
J M Norup	500,000	-	-	15,199	-	515,199	-	-
I P Olson	60,000	-	-	-	-	60,000	-	-
C Lancaster	60,000	-	-	-	-	60,000	-	-
Executives								
S A Oaten	300,000	-	3,156	15,199	2,400	320,755	-	1%
Total	**1,885,000**	**-**	**8,231**	**115,796**	**2,400**	**2,011,427**		

June 2010	Short-Term Benefits			Post Employment Benefits	Share Based Payments	Total		
	Salary & Fees $	Cash Bonus $	Non Monetary Benefits $	Super-annuation $	Options $	$	Performance Related	Consisting of Options
Directors								
D B Di Latte	459,999	-	2,150	73,823	11,654	547,626	-	2%
N D Di Latte	499,998	-	4,382	13,788	13,957	532,125	-	3%
J M Norup	474,999	-	1,850	13,788	11,654	502,291	-	2%
I P Olson	55,000	-	-	-	2,571	57,571	-	4%
C Lancaster	55,000	-	-	1,800	2,571	59,371	-	4%
Executives								
S A Oaten	290,320	-	2,465	12,778	15,875	321,438	-	5%
Total	**1,835,316**	**-**	**10,847**	**115,977**	**58,282**	**2,020,422**		

COMPENSATION OPTIONS: GRANTED, VESTED AND LAPSED DURING THE YEAR (Audited)

During the current year, no options vested nor were there any granted as equity compensation benefits to any Directors or other key management personnel. No Directors' options lapsed during the year. Mr Oaten had 250,000 options lapse during the year with a value of $Nil. No options were granted to executives or key management personnel during the prior year nor did any vest or lapse.

SHARES ISSUED ON EXERCISE OF COMPENSATION OPTIONS (Audited)

There were no shares issued to Directors or named executives on account of the issue of share options during the year or the prior year.

DIRECTORS' MEETINGS

The number of Directors' meetings and meetings of committees of Directors held in the period each Director held office during the financial year and the number attended by each Director are:

	Board of Directors		Audit & Risk Management Committee		Remuneration & Nomination Committee	
Director	**Number Held**	**Number Attended**	**Number Held**	**Number Attended**	**Number Held**	**Number Attended**
D B Di Latte	10	9	-	-	-	-
N D Di Latte	10	10	1	1	1	1
J M Norup	10	10	-	-	-	-
I P Olson	10	10	1	1	1	1
C Lancaster	10	9	1	1	1	1

The details of the functions and memberships of the committees of the Board are presented in the Corporate Governance Statement.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained the following independence declaration from our auditors, Ernst and Young.

ERNST & YOUNG

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Auditor's Independence Declaration to the Directors of Diploma Group Limited

In relation to our audit of the financial report of Diploma Group Limited for the year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Gavin Buckingham

G Buckingham
Partner
Perth
30 September 2011

NON-AUDIT SERVICES

The non-audit services provided by the entity's auditors are disclosed in Note 24 to the financial statements. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each non-audit service provided means that auditor independence was not compromised.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Diploma support and have adhered to the principles of corporate governance. The Company's Corporate Governance Statement is contained on pages 12 to 16 of this full financial report.

ROUNDING OF AMOUNTS

The Company is a company of the kind specified in Australian Securities and Investment Commission class order 98/0100. In accordance with that class order, amounts in this report and the accompanying financial statements have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

This report is made in accordance with a resolution of the Directors.

NICK D DI LATTE
Managing Director & CEO

Perth, Western Australia
30 September 2011

The Board of Directors of Diploma Group Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board has adopted the 'Principles of Good Corporate Governance and Best Practice Recommendations' established by the ASX Corporate Governance Council and published by the ASX in August 2007, other than in relation to the matters specified below.

Recommendation Reference	Notification of Departure	Explanation for Departure
2.1: A majority of the Board should be independent directors.	There are 2 independent directors and 3 non-independent directors.	The board is of the view that it is structured in such a way so as to add value and is appropriate for the current size and complexity of the business. Diploma Group Limited listed on the Australian Stock Exchange on 5 December 2007 and reviews its Board structure in light of the above recommendations periodically.
2.2: The chairman should be an independent director.	The current chairman, Dominic Di Latte, is not an independent director.	The board considers that Mr Dominic Di Latte is most qualified for the dual roles of executive director and chairman of the Company during its formative period. Diploma Group Limited listed on the Australian Stock Exchange on 5 December 2007 and reviews its Board structure in light of the above recommendations periodically.
4.2: The structure of the Audit Committee should consist of only non-executive directors.	There are 2 non-executive directors and 1 executive director.	Due to the structure and size of the Board the Audit Committee does not consist solely of independent directors. This will be addressed when the Board Structure is reviewed next financial year.
8.2: Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	The two Non-executive directors receive options.	To attract well qualified and experienced Non-executive directors the Company considers the ability to pay options to Non-executive directors an important tool.

There is a corporate governance section on the Company's website which sets out the various policies, charters and codes of conduct which have been adopted to ensure compliance with the "best practice recommendations" referred to above.

A description of the Company's main corporate governance practices are set out below.

The Board of Directors

In accordance with ASX Principle 1, the Board has established a 'Board Charter' which is available on the Company website. This outlines the functions reserved to the Board and those delegated to management and demonstrate that responsibilities and functions of the Board are distinct from management. The key responsibilities of the Board include:

- Appointment, evaluation, rewarding and if necessary the removal of the Managing Director, and Chief Financial Officer (or equivalent) and the Company Secretary;
- In conjunction with management, development of corporate objectives, strategy and operations plans and approving and appropriately monitoring plans, new investments, major capital and operating expenditures, capital management, acquisitions, divestitures and major funding activities;
- Establishing appropriate levels of delegation to the Managing Director to allow him to manage the business efficiently;
- Monitoring actual performance against planned performance expectations and reviewing operating information at a requisite level, to understand at all times the financial and operating conditions of the Company;
- Monitoring the performance of senior management including the implementation of strategy, and ensuring appropriate resources are available;
- Via management, an appreciation of areas of significant business risk and ensuring that the Company is appropriately positioned to manage those risks;
- Overseeing the management of safety, occupational health and environmental matters;
- Satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- Satisfying that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, and internal control processes are in place and functioning appropriately;
- To ensure that appropriate internal and external audit arrangements are in place and operating effectively;
- Having a framework in place to help ensure that the Company acts legally and responsibly on all matters consistent with the code of conduct; and
- Reporting to shareholders.

The Directors in office during the year, and up to the date of this report were:

Name	First Appointed	Position and Status	Independent
D B Di Latte	January 1976	Executive Chairman	No
N D Di Latte	January 1996	Chief Executive	No
J M Norup	May 2005	Executive Director	No
I P Olson	October 2007	Independent, non-executive	Yes
C Lancaster	December 2007	Independent, non-executive	Yes

The skills, experience and expertise of all the Directors in office at the date of the financial report, and their attendance at meetings of the Board and its Committees during the financial year, are summarised in the Directors' Report.

The Directors of Diploma Group Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of their unfettered and independent judgement.

When considering independence, the Board assesses "materiality" on an on-going basis, taking into account both quantitative and qualitative factors. Interests of between 5% and 10% may be material, although qualitative assessment will override the quantitative assessment.

In accordance with these concepts, Messrs Olson and Lancaster are considered independent. This is not a majority and is a departure from the best practice recommendations as discussed above.

Procedures exist to enable Directors to seek independent professional advice, at the Company's expense, in order to execute their duties.

Remuneration and Nomination Committee

The Committee operates under a Charter approved by the Board. The role of the Committee is to:

- Review and make recommendations about remuneration policies for executives and non-executive Directors; and,
- Make assessments and recommendations about the performance and suitability of individual Directors and the Board as a whole.

Members of the Committee during the year were:

I P Olson (Chairman)
N D Di Latte
C Lancaster

For details of the Company's policy relating to Remuneration, plus the amounts of all monetary and non-monetary emoluments paid to Directors and other key management personnel during the year, refer to the remuneration report contained in the Directors' Report.

At present the Company does not have a formal plan covering the payment of equity-based executive remuneration. It is the Company's intention to seek Shareholder approval for the issue of options and other securities to executives until such time as a formal plan is approved. No share options were issue during the year.

With regard to non-executive Directors, remuneration is structured differently to that of executives. While remuneration is typically in the form of fixed cash fees, the Committee may and has recommended that non-executive Directors also be issued with equity-based incentives, such as share options. No schemes for retirement benefits exist, other than statutory superannuation.

The issue of share options to non-executive Directors is a departure from the best practice recommendations. The Board considers that in certain cases it is appropriate to include equity-based incentives in the remuneration package of a non-executive Director, where this aligns with the role undertaken by that Director and is in the best long-term interests of Diploma.

Code of Conduct

The Board acknowledges the need for the highest standards of corporate governance and ethical conduct by all Directors and employees of the consolidated entity. As such, the Company has developed a Code of Conduct which has been fully endorsed by the Board and applies to all Directors and employees. This Code of Conduct is regularly reviewed and updated as necessary to ensure that it reflects the highest standard of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

A fundamental theme is that all business affairs are conducted legally, ethically and with strict observance of the highest standards of integrity and propriety. The Directors and management have the responsibility to carry out their functions with a view to maximising financial performance of the consolidated entity. This concerns the propriety of decision making in conflict of interest situations and quality decision making for the benefit of shareholders.

Refer to the Company website for specific code of conduct.

Securities Trading

The Board has adopted the "Security Dealings Policy" (refer website) (which is driven by the Corporations Act 2001 requirements) that applies to all Directors, officers and employees of the Company. Under this policy and the Corporations Act 2001, it is illegal for Directors, officers or employees who have price sensitive information relating to the Group which has not been published or which is not otherwise 'generally available' to:

- Buy, sell or otherwise deal in Company shares or options (“Company securities”);
- Advise, procure or encourage another person (for example, a family member, a friend, a family Company or trust) to buy or sell Company securities; or
- Pass on information to any other person, if one knows or ought reasonably know that the person may use the information to buy or sell (or procure another person to buy or sell) Company securities.

Corporate Reporting

In accordance with ASX Principle 7, the CEO and Chief Financial Officer (“CFO”) have made the following certifications to the Board:

- That the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Group; and
- That the above statement is founded on a sound system of internal control and risk management which implements the policies adopted by the Board and that the Company's risk management and internal control is operating efficiently in all material respects.

Audit and Risk Management Committee

Members of the Audit Committee during the year were:

I P Olson (Chairman)	- Non-Executive Director
N D Di Latte	- Executive Director
C Lancaster	- Non-Executive Director

The Committee operates under a charter approved by the Board which is posted to the corporate governance section of the website. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes. This includes the safeguarding of assets, the maintenance of proper accounting records and identifying and controlling risks to ensure that they do not have a negative impact on the Company. The Committee also provides the Board with additional assurance regarding the reliability of the financial information for inclusion in the financial reports.

The Audit and Risk Management Committee is also responsible for:

- Ensuring compliance with statutory responsibilities relating to accounting policy and disclosure;
- Liaising with, discussing and resolving relevant issues with the auditors;
- Assessing the adequacy of accounting, financial and operating controls;
- Reviewing half-year and annual financial statements before submission to the Board; and
- Overseeing risk management strategies in relation to currency hedging, debt management, capital management, cash management and insurance.

In accordance with the ASX Principle 7, the Board has established a Risk Management policy, available on the Company website, which is designed to safeguard the assets and interests of the Company and to ensure the integrity of reporting.

The CEO and CFO will inform the Board annually in writing that:

- The sign off given on the financial statements is founded on a sound system of risk management and internal control compliance which implements the policies adopted by the Board.

- The Company's risk management and internal compliance and control systems is operating effectively and efficiently in all material respects.

External Auditors

The Company's current external auditors are Ernst & Young. As noted in the Audit and Risk Management Committee charter, the performance and independence of the auditors is reviewed by the Audit and Risk Management Committee.

Ernst & Young's existing policy requires that its audit team provide a statement as to their independence. This statement was received by the Audit and Risk Management Committee for the period ended 30 June 2011.

Continuous Disclosure

In accordance with ASX Principle 5, the Board has an established disclosure policy which is available on the Company website.

The Company is committed to:

- Ensuring that stakeholders have the opportunity to access externally available information issued by the Company;
- Providing full and timely information to the market about the Company's activities; and
- Complying with the obligations contained in ASX Listing Rules and the Corporations Act 2001 relating to continuous disclosure.

The CEO and the Company Secretary have been nominated as the people responsible for communication with the ASX. This involves complying with the continuous disclosure requirements outlined in ASX Listing Rules, ensuring that disclosure with the ASX is co-ordinated and being responsible for administering and implementing the policy.

Shareholder Communication

In accordance with ASX Principle 6, the Board has established a communications strategy which is available on the Company website.

The Board aims to ensure that the Shareholders, on behalf of whom they act, are informed of all information necessary and kept informed of all major developments affecting the Company in a timely and effective manner. Information is communicated to the market and shareholders through:

- The annual report which is distributed to shareholders on request and is available as an interactive document on the Company's website, www.diploma.com.au
- Half yearly and all ASX announcements which are posted on the Company website;
- The annual general meeting and other meetings so called to obtain approval for Board action as appropriate; and
- Continuous disclosure announcements made to the ASX.

Further, it is a CLERP 9 requirement that the auditor of the Company attends the annual general meeting. This provides shareholders the opportunity to question the auditor concerning the conduct of the audit and the preparation and content of the Auditor's Report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 $'000	2010 $'000
Continuing operations			
Revenue	3	**142,074**	206,935
Other revenue	4(a)	**2,542**	1,531
Cost of sales		**(130,853)**	(183,689)
Gross profit		**13,763**	24,777
Other income		**86**	80
Administration expenses		**(6,167)**	(5,985)
Marketing and advertising expenses		**(2,631)**	(805)
Occupancy expenses		**(649)**	(936)
Finance costs	4(d)	**(747)**	(312)
Other expenses	4(b)	**(2,495)**	(1,976)
Share of profit from equity accounted investment	12(b)	**551**	-
Profit before income tax		**1,711**	14,843
Income tax expense	8(b)	**(938)**	(4,802)
Net profit attributable to members of Diploma Group Limited		**773**	10,041
Other comprehensive (expense)/income			
Foreign currency translation		**(322)**	(152)
Income tax on items of other comprehensive income		**-**	-
Other comprehensive (expense)/income for the period, net of tax		**(322)**	(152)
Total comprehensive income for the period		**451**	9,889
Profit for the period is attributable to:			
Non-controlling interest		**1,174**	-
Owners of the parent		**(401)**	10,041
		773	10,041
Total comprehensive income for the period is attributable to:			
Non-controlling interest		**1,174**	-
Owners of the parent		**(723)**	9,889
		451	9,889
(Loss)/earnings per share (cents per share)			
Basic earnings per share	5	**(0.26)**	7.94
Diluted earnings per share	5	**(0.26)**	7.94

This Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	2011 $'000	2010 $'000
Current Assets			
Cash and cash equivalents	9	**2,099**	5,410
Trade and other receivables	10	**28,478**	31,411
Inventories	11	**76,113**	39,120
Equity accounted investments	12(a)	**588**	-
Other assets	14	**571**	38
Total Current Assets		**107,849**	75,979
Non-Current Assets			
Trade and other receivables	10	**978**	6,074
Inventories	11	**21,531**	22,972
Property, plant and equipment	16	**1,758**	1,725
Equity accounted investments	12(a)	**665**	466
Deferred tax assets	8(c)	**-**	1,188
Intangible assets	15	**1,487**	1,840
Total Non-Current Assets		**26,419**	34,265
Total Assets		**134,268**	110,244
Current Liabilities			
Trade and other payables	17	**56,028**	33,354
Interest bearing loans and borrowings	18	**34,977**	21,079
Current tax payable		**-**	4,862
Provisions	19	**2,913**	2,809
Total Current Liabilities		**93,918**	62,104
Non-Current Liabilities			
Trade and other payables	17	**3,884**	7,718
Interest bearing loans and borrowings	18	**2,166**	9,192
Provisions	19	**148**	85
Deferred tax liabilities	8(c)	**4,279**	-
Total Non-Current Liabilities		**10,477**	16,995
Total Liabilities		**104,395**	79,099
NET ASSETS		**29,873**	31,145
Equity			
Issued capital	21	**15,339**	15,545
Retained earnings		**12,891**	14,826
Reserves	22	**469**	774
Parent interests		**28,699**	31,145
Non-controlling interests		**1,174**	-
TOTAL EQUITY		**29,873**	31,145

This Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

CONSOLIDATED	Issued Capital $'000	Retained Profits $'000	Employee equity benefits reserve $'000	Foreign currency translation reserve $'000	Owners of Parent $'000	Non-controlling interest $'000	Total $'000
Balance at 1 July 2010	15,545	14,826	573	201	31,145	-	31,145
Exchange differences on translation of foreign operations	-	-	-	(322)	(322)	-	(322)
Net expense recognised directly in equity	-	-	-	(322)	(322)	-	(322)
(Loss) / profit for the period	-	(401)	-	-	(401)	1,174	773
Total comprehensive income for the period	-	(401)	-	(322)	(723)	1,174	451
Transactions with owners in their capacity as owners:							
Share buy-back	(206)	-	-	-	(206)	-	(206)
Share-based payment	-	-	17	-	17	-	17
Equity dividends	-	(1,534)	-	-	(1,534)	-	(1,534)
Balance at 30 June 2011	15,339	12,891	590	(121)	28,699	1,174	29,873

CONSOLIDATED							
Balance at 1 July 2009	1,085	7,185	496	353	9,119	-	9,119
Exchange differences on translation of foreign operations	-	-	-	(152)	(152)	-	(152)
Net expense recognised directly in equity	-	-	-	(152)	(152)	-	(152)
Profit for the period	-	10,041	-	-	10,041	-	10,041
Total comprehensive income for the period	-	10,041	-	(152)	9,889	-	9,889
Transactions with owners in their capacity as owners:							
Dividend reinvestment plan	16	-	-	-	16	-	16
Shares issued	15,000	-	-	-	15,000	-	15,000
Transaction costs on share issue	(556)	-	-	-	(556)	-	(556)
Share-based payment	-	-	77	-	77	-	77
Equity dividends	-	(2,400)	-	-	(2,400)	-	(2,400)
Balance at 30 June 2010	15,545	14,826	573	201	31,145	-	31,145

This Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	Note	**2011** **$'000**	2010 $'000
Cash Flows from Operating Activities			
Receipts from customers		**152,039**	217,603
Payments to suppliers and employees		**(159,298)**	(150,318)
Interest received		**100**	170
Interest paid		**(747)**	(312)
Income tax paid		**(363)**	(1,069)
Net cash flows (used in)/generated by operating activities	9(b)	**(8,269)**	66,074
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		**(292)**	(31)
Purchase of investments		**(500)**	-
Proceeds from property, plant and equipment		**-**	9
Contribution to equity accounted investments		**-**	(4)
Net cash flows used in investing activities		**(792)**	(26)
Cash Flows from Financing Activities			
Proceeds from issue of shares		**-**	15,000
Issue costs paid		**-**	(794)
Proceeds from borrowings		**21,776**	-
Repayment of borrowings		**(18,810)**	(78,308)
Payment for redemption of shares		**(206)**	-
Dividends paid		**(915)**	(2,400)
Net cash flows generated by/(used in) financing activities		**1,845**	(66,502)
Net decrease in cash held		**(7,216)**	(454)
Cash at the beginning of the financial year		**5,410**	5,864
Cash at the end of the financial year	9(a)	**(1,806)**	5,410

This Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 CORPORATE INFORMATION AND BASIS OF PREPARATION

Diploma Group Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

The address of the registered office is First floor, 140 Abernethy Road, Belmont, Western Australia 6104.

The financial report of Diploma Group Limited for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the Directors on 28 September 2011.

Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared in accordance with the historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

Statement of Compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Going Concern

For the year ended 30 June 2011, the Group had a cash deficit at the end of the financial year of $1.806 million, a net operating cash outflow of $8.269 million, and project specific debt totalling $12.490 million due for repayment by September 2011. This amount includes $9.326 million of debt relating to an associate (Zenith), not recognised on the Group's balance sheet. The $9.326 million represents Diploma's share of the total project specific debt of $22.397 million. In addition the Group was in breach of a financial covenant on a corporate facility which had a net drawn down balance at 30 June 2011 of $5.518 million.

Notwithstanding the above, the Directors' are of the opinion that, at the date of signing the financial report, the Group is a going concern having regard to the following pertinent matters:

1. $13.071 million of the $22.397 million of debt associated with the Zenith project was refinanced on 26 September 2011. The balance of this project specific debt totalled $9.326 million which represents Diploma's share. Approval for the refinance of Diploma's share of the project specific debt was received on 28 September 2011. The refinanced facility together with subsequent unit sales in the Zenith project will enable Diploma to repay its share of the Zenith project debt and provide the Group with $1.488 million in working capital along with 30% from each subsequent sale. The settlement profile of the currently contracted apartments will generate further cash inflow to the Group with the refinanced facility expected to be cleared by December 2011.
2. The project specific debt on the Group's Rockingham project (Salt 5) totalling $1.704 million was refinanced on 8 September 2011 and is now due for repayment on 5 April 2012 at which point the facility is expected to be refinanced into a construction facility.
3. Since year end the project specific debt associated with the Cove and Foundry Road projects, totalling $4.618 million has been repaid. The Group has obtained additional funding secured against the remaining unsold stock in these developments totalling $3.1 million.
4. The repayment date on the project specific debt on the Group's iSpire project totalling $1.500 million was extended to February 2012 at which point the facility is expected to be refinanced into a construction facility.
5. The Eleven78 project is due for completion by November 2011. 122 of the 126 apartments in this development have been presold either during or post the GFC. This project is expected to settle quickly once complete and is expected to return in excess of $10 million in cash to the Group.

1 CORPORATE INFORMATION AND BASIS OF PREPARATION (continued)

Going Concern (continued)

6. The bank acknowledged the breach at 30 June 2011 and do not intend to take any action. The bank has renewed the facility for a further term until 31 October 2012. The new facility will include a reduction to the measure of the covenant breached and the limit will be reduced to $5.0 million. Furthermore, the same bank has re-affirmed their commitment to the financing of the last stage of the Group's Joondalup (Edge) development due to commence in October 2011.
7. The Group has cash in hand of $2.3 million as at 29 September 2011.

New accounting standards and interpretations

(i) Changes in accounting policy and disclosures.
The accounting policies adopted are consistent with those of the previous financial year. The Group has adopted the new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2010 which had no material impact on the financial statements of the Group.

(ii) Accounting Standards and Interpretations issued but not yet effective.
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2011. Each new or amended Standard will be applicable for the Group from the first period beginning 1 July following the application date of the Standard. The expected impact of the new or amended Standards and Interpretations on the Group has not yet been determined. These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. (a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013	1 July 2013
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	► These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement. ► This Standard shall be applied when AASB 9 is applied.	1 January 2013	1 July 2013

1 CORPORATE INFORMATION AND BASIS OF PREPARATION (continued)

New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other (b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other (c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2011	1 July 2011
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 *Operating Segments* to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1 January 2011	1 July 2011
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) For-profit entities in the private sector that have public accountability (as defined in this Standard) (b) The Australian Government and State, Territory and Local Governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) For-profit private sector entities that do not have public accountability (b) All not-for-profit private sector entities Public sector entities other than the Australian Government and State, Territory and Local Governments	1 July 2013	1 July 2013

1 CORPORATE INFORMATION AND BASIS OF PREPARATION (continued)

New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 1054	Australian Additional Disclosures	This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB. This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas: (a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for financial statements (c) Whether the financial statements are general purpose or special purpose (d) Audit fees (e) Imputation credits	1 July 2011	1 July 2011
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions. Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	1 July 2011
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	1 July 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. Disclosures require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	1 July 2011

1 CORPORATE INFORMATION AND BASIS OF PREPARATION (continued)

New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2013	1 July 2013
AASB 2011-1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]	This Standard amends many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054.	1 July 2011	1 July 2011
AABS 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and Interpretation 112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group.	1 January 2013	1 July 2013
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 Interests in Joint Ventures and Interpretation 113 Jointly- controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group.	1 January 2013	1 July 2013

1 CORPORATE INFORMATION AND BASIS OF PREPARATION (continued)

New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 July 2013
AASB 2011-7	*Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards*	Consequential amendments to AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates* as a result of the adoption of AASB 10 Consolidated Financial Statements, AASB 11 *Joint Arrangements* and AASB 12 *Disclosure of Interests in Other Entities*.	1 January 2013	1 July 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance under Australian Accounting Standards for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under Australian Accounting Standards when fair value is required or permitted by Australian Accounting Standards. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	1 January 2013	1 July 2013
AASB 2011-8	*Amendments to Australian Accounting Standards arising from the Fair Value Measurement Standard*	Consequential amendments to existing Australian Accounting Standards as a result of the adoption of AASB 13 *Fair Value Measurement.*	1 January 2013	1 July 2013
AASB 2011-9	Amendments to Australian Accounting Standards - *Presentation of Items of Other Comprehensive Income* [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	The main change resulting from the amendments relates to the 'Statement of Profit or Loss and Other Comprehensive Income' and the requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not remove the option to present profit or loss and other comprehensive income in two statements. The amendments do not change the option to present items of OCI either before tax or net of tax. However, if the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified to profit or loss and those that will not be reclassified) must be shown separately.	1 July 2012	1 July 2012

1 CORPORATE INFORMATION AND BASIS OF PREPARATION (continued)

New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 119 (Revised)	Employee Benefits	The main changes to accounting for defined benefit plans are: • to eliminate the option to defer the recognition of gains and losses (the 'corridor method'); • requiring remeasurements to be presented in other comprehensive income; and • enhancing the disclosure requirements relating to defined benefit plans for Tier 1 entities. The AASB has provided relief from certain disclosure requirements for entities that adopt Tier 2 Reduced Disclosure Requirements.	1 January 2013	1 January 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Diploma Group Limited and its subsidiaries and special purpose entities (as outlined in note 13) as at and for the period ended 30 June each year (the Group). Interests in associates are equity accounted and are not part of the consolidated Group (see note 2(h) below).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

Special purpose entities are those entities over which the Group has no ownership interest but in effect the substance of the relationship is such that the Group controls the entity so as to obtain the majority of benefits from its operation.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full.

Subsidiaries and special purpose entities are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (see note 2(b)).

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

If the Group loses control over a subsidiary, it

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss

(b) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group’s operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

(c) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services,
- Nature of the production processes,
- Type or class of customer for the products and services,
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Operating segments (continued)

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(d) Foreign currency translation

Both the functional and presentation currency of Diploma Group Limited and its Australian subsidiaries is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Exchange differences arising from the application of the policy are recognised in the Statement of Comprehensive Income.

As at the reporting date the assets and liabilities of foreign operations are translated into the presentation currency of the parent entity at the rate of exchange ruling at the reporting date and the results of operations are translated at the average exchange rates for the period.

The exchange differences arising on the translation are taken directly to a separate component of equity.

On a disposal of a foreign entity, the deferred cumulative amount recognised in equity in relation to that particular foreign operation is recognised in the Statement of Comprehensive Income.

(e) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(f) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised initially at fair value and then subsequently carried at amortised cost less any allowance for impairment.

An allowance for doubtful debts is recognised only when there is objective evidence that the Group will not be able to collect the debts. Financial difficulties of the debtor, default payments and/or debts more than 60 days overdue are considered objective evidence of impairment. Bad debts are written off when identified. The amount of the impairment loss is the receivable carrying amount compared to the present value of the estimated future cash flows, discounted at the original effective interest rate.

(g) Inventories

Development projects
Development projects are stated at the lower of actual cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost includes direct materials, direct labour, borrowing costs, other direct variable costs and allocated overheads necessary to bring inventories to their present location and condition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Inventories (continued)

Costs incurred on development projects are capitalised and are expensed on the same basis as the recognition of sales and profit for development projects. Marketing costs incurred are expensed as incurred. When a development project is completed, subsequent borrowing costs and other holding charges are expensed as incurred.

Contract work in progress
Contract work in progress on construction contracts is stated at cost plus profit recognised to date calculated in accordance with the percentage of completion method, less a provision for foreseeable losses and progress billings received to date.

A contract is not considered complete until the defects liability period has expired and monies withheld have been received. Any expected losses on a contract are recognised immediately in the period the loss becomes foreseeable. That is, when it becomes probable that total contract costs will exceed total contract revenues.

Cost includes all variable and fixed costs directly related to specific construction contracts, those costs related to contract activity in general which can be allocated to specific contracts on a reasonable basis and other costs specifically chargeable under the contract. Costs expected to be incurred under penalty clauses and rectification provisions, and borrowing costs where contracts are classified as qualifying assets are also included.

The gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings, is generally presented as an asset. Progress billings not yet paid by customers and retentions are included within the “Trade and Other Receivables” balance.

The gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses), are generally presented as a liability.

(h) Investments in associates

The Group's investments in its associates are accounted for using the equity method of accounting in the consolidated financial statements and at cost in the parent. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

The Group generally deems they have significant influence if they have over 20% of the voting rights.

Under the equity method, investments in the associates are carried in the consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates.

The Group's share of its associates' post-acquisition profits or losses is recognised in the Statement of Comprehensive Income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's Statement of Comprehensive Income, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Joint ventures

Joint venture entities
The interest in a joint venture entity is accounted for in the consolidated financial statements using the equity method of accounting and is carried at cost by the parent entity. Under the equity method, the Group's share of the results of the joint venture entity is recognised in the Statement of Comprehensive Income, and the share of movements in reserves is recognised in the Statement of Financial Position.

Interests in jointly controlled asset
The Group has an interest in a joint venture that is a jointly controlled asset. The Group recognises its share of the assets, liabilities, expenses and income from the use and output of the jointly controlled asset.

(j) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

Plant and equipment - over 4 to 20 years
Leased equipment - over 20 years
Motor vehicles - over 8 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(k) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired (see note (v) for methodology). The amortisation period and amortisation method for an intangible assets with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level to which the intangible asset relates. Such intangibles are not amortised. The useful life of an intangible with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable (see note (v) for methodology). If not, the change in the useful life assessment from indefinite to definite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

(l) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Leases (continued)

Group as a lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Group as a lessor
Leases in which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

(m) Trade and other payables

Trade and other payables are carried at amortised cost due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for a least 12 months after the Statement of Financial Position date.

Borrowing costs

Borrowing costs are expensed as incurred with the exception of borrowing costs directly associated with construction, purchase or acquisition of a qualifying asset, which are capitalised as part of the cost of the asset.

(o) 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 an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date using a discounted cash flow methodology. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits

Wages, salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave due to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave
The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(q) Share-based payment transactions

The Group provides benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for options over shares (equity-settled transactions).

At present the Company does not have a formal plan covering the payment of equity-based executive remuneration. It is the Company’s intention to seek Shareholder approval for the issue of options and other securities to executives until such time as a formal plan is approved.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Diploma Group Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the Statement of Comprehensive Income is the product of:

(i) the grant date fair value of the award;
(ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
(iii) the expired portion of the vesting period.

The charge to the Statement of Comprehensive Income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Equity-settled awards granted by Diploma Group Limited to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by Diploma Group Limited in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Share-based payment transactions (continued)

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(r) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(s) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised. Where amounts do not meet the recognition criteria, they are deferred and recognised in the period in which the recognition criteria are met.

Revenues are measured at the fair value of the consideration received for the sale of goods and services, net of the amount of Goods and Services Tax, rebates and discounts and after sales within the Group are eliminated.

Revenue is recognised for the major business activities as follows:

Construction contracts
For fixed price contracts, construction contract revenues and expenses are recognised on an individual contract basis using the percentage of completion method. Once the outcome of a construction contract can be estimated reliably, contract revenues and expenses are recognised in the Statement of Comprehensive Income in proportion to the stage of completion of the contract. The stage of completion is measured by reference to actual costs incurred to date as a percentage of estimated total costs for each contract.

Where the outcome of a contract cannot be reliably determined, contract costs are expensed as incurred. Where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred. Where it is probable that a loss will arise from a construction contract, the excess of total expected costs over revenue is recognised as an expense immediately.

Development projects
Revenue from the sale of development projects is recognised in the Statement of Comprehensive Income only when each of the following conditions has been satisfied:

- the transfer of the significant risks and rewards of ownership from the Group to the buyer has occurred;
- there is no continuing managerial involvement by the Group to the degree usually associated with ownership, nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that economic benefits associated with the transaction will flow to the Group; and
- the costs incurred and to be incurred in respect of the transaction can be reliably measured.

The conditions are generally satisfied with the entering into of an unconditional contract in addition to construction being substantially complete.

Interest revenue
Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Dividends
Income from dividends is recognised when the right of the Group to receive payment is established. The Parent Entity receives dividends out of post-acquisition profits from its subsidiaries.

Dividends received from associates, where the equity method of accounting is used, reduce the carrying amount of the investment of the Group in that associate and are not recognised as revenue.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Statement of Financial Position date.

Deferred income tax is provided on all temporary differences at the Statement of Financial Position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each Statement of Financial Position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Statement of Financial Position date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation
Diploma Group Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2007.

The head entity, Diploma Group Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Income tax and other taxes (continued)

Other taxes
Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

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

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(u) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(v) Impairment

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Diploma Group Limited conducts regular internal reviews of asset values, which are used as a source of information to assess for any indicators of impairment. External factors, such as economic conditions are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that have suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

		2011 $'000	2010 $'000
3.	**REVENUE**		
	Construction contract revenue	**103,106**	96,690
	Revenue from sale of development properties	**38,968**	110,245
		142,074	206,935
4.	**OTHER REVENUE AND EXPENSES**		
(a)	**Other revenue**		
	Interest revenue	**100**	170
	Sales commission, strata and property management	**2,442**	1,263
	Rental income	**-**	98
		2,542	1,531
(b)	**Other expenses**		
	Depreciation expense	**271**	240
	Insurance	**366**	530
	Unrealised foreign exchange (gain)/loss	**1,023**	(72)
	Bad debts expense	**592**	744
	Other expenses	**243**	534
		2,495	1,976
(c)	**Employee benefits expenses**		
	Wages and salaries (inclusive of superannuation)	**14,608**	14,423
	Share-based payments expense	**16**	78
	Other employee expenses	**579**	301
		15,203	14,802
(d)	**Finance costs**		
	Finance charges payable under finance leases	**30**	40
	Other loans	**717**	272
		747	312
(e)	**Other items**		
	Operating lease rentals	**465**	488
	Loss on construction projects	**267**	1,847

5. EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	2011	2010
(Loss)/profit attributable to members of Diploma	**(401)**	10,041
Weighted Average Number of Shares		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**152,983,399**	126,483,663
Effect of dilutive securities:		
- Share Options	**-**	-
Weighted average number of ordinary shares adjusted for the effect of dilution.	**152,983,399**	126,483,663

5. EARNINGS PER SHARE (continued)

Total number of options on issue not considered dilutive is 2,240,000 (2010: 4,950,000).

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(a) Significant accounting judgements

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Taxation
The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Consolidated Statement of Comprehensive Income.

Construction contract revenue
The assessment of construction contract revenue in accordance with the Group’s accounting policies requires certain estimates to be made of total contract revenues, total contract costs and the current stage of completion. Management have made estimates in this area, which if ultimately inaccurate will impact the level of revenue recognised in the Consolidated Statement of Comprehensive Income of 2011 and beyond.

Expected construction profits at completion
In determining the gross profit on construction projects the Group has made estimates in relation to the assessment of projects on a percentage of completion basis, in particular with regard to accounting for variations, the timing of profit recognition and the amount of profit recognised. The percentage complete is calculated on actual costs over the sum of actual plus projected costs to complete the contract and profit is recognised from commencement of the project.

6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(b) Significant accounting estimates and assumptions

Share-based payment transactions
The Group measures the cost of share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted. See note 31. The accounting estimates and assumptions relating to share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Maintenance construction provisions
In determining the level of provision required for construction maintenance provisions, during the 'defects period', the Group has made judgements in respect of the complexity of the project, the type of sector the project relates to and the contractual obligations of each project. Historical experience and current knowledge of the construction industry has been used in determining this provision. The related carrying amount is disclosed within 'other' provisions in note 19.

Estimation of useful lives of assets
The estimation of the useful lives of assets has been based on historical experience, lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

If the useful lives of assets were shortened by 20% for each asset, the financial effect on consolidated depreciation expense for the current and the next four financial years would not be material. Depreciation charges are included in note 16.

Impairment of intangibles with indefinite useful lives
The Group determines whether intangibles with indefinite useful lives are impaired at least on an annual basis. The Group relies on independent valuations to determine if the intangibles are impaired as there exists an active market for the trading of intangible assets. No impairment loss was recognised during the year. The assumptions used in this estimation of recoverable amount and the carrying amount of intangibles with indefinite useful lives is discussed in note 15.

7. DIVIDENDS PAID AND PROPOSED

		2011	2010
		$'000	$'000
(a)	**Recognised amounts**		
	Declared and paid during the year:		
	Dividends on ordinary shares:		
	Final franked dividend for 2010: 0.01¢ (2009: 0.01¢)	**1,534**	1,200
	Interim franked dividend for 2011: Nil (2010: 0.01¢)	**-**	1,200
		1,534	2,400
(b)	**Unrecognised amounts**		
	Dividends on ordinary shares:		
	Final franked dividend for 2011: Nil (2010: 0.01¢)	**-**	1,534

7. DIVIDENDS PAID AND PROPOSED (continued)

	2011 $'000	2010 $'000
Franking account balance		
The amount of franking credits available for the subsequent financial year are:		
- Franking account balance as at the end of the financial year at 30% (2010: 30%)	**3,033**	3,690
- Franking credits that will arise from the payment of income tax payable as at the end of the financial year	**364**	-
	3,397	3,690
The amount of franking credits available for future reporting periods:		
- Impact on the franking account of dividends declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period.	**-**	(657)
	3,397	3,033

8. INCOME TAX

(a) Income Tax Expense

Major components of income tax expense are:

	2011 $'000	2010 $'000
Current income tax		
Current income tax expense/(benefit)	**1,972**	4,827
Adjustments in respect of current income tax of previous years	**(6,310)**	36
Deferred income tax		
Relating to origination and reversal of temporary differences	**(1,005)**	(10)
Adjustment in respect of deferred taxes of previous years	**6,281**	(51)
Income tax expense reported in the Consolidated Statement of Comprehensive Income	**938**	4,802

Statement of recognised Income and Expense

	2011 $'000	2010 $'000
Deferred income tax related to items charged or credited directly to equity:		
Capital raising costs	**-**	238

(b) Reconciliation of Income Tax Expense

The income tax expense applicable to accounting profit at the statutory income tax rate is reconciled to the income tax expense reported in the Consolidated Statement of Comprehensive Income as follows:

	2011 $'000	2010 $'000
Accounting profit before tax	**1,711**	14,843
At the statutory income tax rate of 30% (2010: 30%)	**513**	4,453
Adjustments in respect of deferred tax of previous years	**6,281**	36
Adjustments in respect of current income tax of previous years	**(6,310)**	(51)
Non-deductible share-based payments	**5**	23
Non-deductible overseas expenses	**439**	334
Other	**10**	7
Income tax expense	**938**	4,802

8. INCOME TAX (continued)

(c) Recognised deferred tax assets and liabilities

Deferred income tax balances relates to the following:

	Consolidated Statement of Financial Position		Consolidated Statement of Comprehensive Income	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Deferred tax liabilities				
Inventory	**(5,459)**	-	**(5,459)**	-
Unearned income	**-**	-	**-**	(20)
Prepayments	**-**	(11)	**11**	34
Gross deferred income tax liabilities	**(5,459)**	(11)		
Set-off of deferred tax assets	**1,180**	11		
Deferred tax liability per Statement of Financial Position	**(4,279)**	-		
Deferred tax assets				
Employee benefit provisions	**741**	629	**112**	55
Other provisions and accruals	**412**	379	**33**	56
Capital raising costs	**-**	-	**-**	(47)
Other	**27**	-	**27**	(17)
Deferred income tax expense			**(5,276)**	61
Deferred tax asset recognised in equity	**-**	191		
Gross deferred income tax assets	**1,180**	1,199		
Set-off of deferred tax liabilities	**(1,180)**	(11)		
Deferred tax asset per Statement of Financial Position	**-**	1,188		

(d) Tax losses and unrecognised temporary differences

At 30 June 2011, there are no unrecognised tax losses or temporary differences (2010: Nil).

9. CASH AND CASH EQUIVALENTS

	2011	2010
	$'000	$'000
Cash at bank and in hand	**2,099**	4,527
Cash deposits held in trust	**-**	883
	2,099	5,410

(a) Reconciliation to statement of cash flows

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 30 June:

Cash at bank and in hand	**2,099**	4,527
Multi option facility (bank overdraft)	**(3,905)**	-
Cash held in trust	**-**	883
Cash per the Statement of Financial Position	**(1,806)**	5,410

	2011 $'000	2010 $'000
9. CASH AND CASH EQUIVALENTS (continued)		
(b) Reconciliation of Net Profit to the Net Cash Flows from Operating Activities		
Net profit	**773**	10,041
Add/(less) non-cash items:		
Depreciation, impairment and amortisation expense	**271**	240
Net foreign exchange loss /(gain)	**1,023**	(72)
Bad debts expense	**592**	744
Share of net profit of investments accounted for using the equity method	**(551)**	-
Share-based payment expense	**17**	77
Change in assets and liabilities:		
Decrease in receivables	**7,435**	9,228
Increase /(Decrease) in creditors	**16,982**	(15,320)
Increase in provisions	**168**	352
(Increase)/Decrease in inventories	**(35,551)**	57,148
(Decrease)/Increase in current tax liability	**(4,862)**	3,794
(Increase)/Decrease in other assets	**(33)**	140
(Decrease)/Increase in deferred tax	**5,467**	(298)
Net cash outflows from operating activities	**(8,269)**	66,074
(c) Non-cash financing and investing activities		
Dividends not paid	**619**	1,273
Dividend reinvestment plan	**-**	16

10. TRADE AND OTHER RECEIVABLES

	2011 $'000	2010 $'000
Current		
Trade receivables	**4,865**	6,690
Allowance for doubtful debts	**(627)**	(722)
Retentions receivable	**324**	1,723
Other receivables	**7,528**	2,516
	12,090	10,207
Related party receivables (a)		
Related party trade receivables	**-**	15,518
Related party retentions receivable	**-**	775
Director related party receivables	**10,906**	2,569
Other related party receivables	**5,482**	2,342
	28,478	31,411
Non-Current		
Retentions receivable	**369**	-
Other receivables	**609**	6,074
	978	6,074

10. TRADE AND OTHER RECEIVABLES (continued)

(a) Related party receivables

For terms and conditions of related party receivables refer to notes 23 and 25.

(c) Ageing analysis

Trade receivables are generally raised monthly, and have 30-day payment terms from date of invoice. However, there is a variety of terms of trade within the Group, and some trade receivables have terms less than 30 days. Refer to note 28(c) for details of the Group's credit risk exposure and policies.

				Past Due		
	Total $'000	0-30 days $'000	31-60 days $'000	61-90 days $'000	Not impaired +91 days $'000	Impaired +91 days $'000
CONSOLIDATED						
2011	**4,865**	**3,764**	**173**	**156**	**145**	**627**
2010	22,208	18,023	9	21	3,433	722

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $627,000 (2010: $722,000) has been recognised by the Group. This amount has been included in the other expense item of the Consolidated Statement of Comprehensive Income.

	2011 $'000	2010 $'000
Movements in the provision for impairment loss were as follows:		
At 1 July	**722**	-
Charge for the year	**627**	744
Amounts written off	**(722)**	
Foreign exchange translation	**-**	(22)
At 30 June	**627**	722

No amounts of the trade receivables that are considered past their due date but which are not considered impaired have been re-negotiated with the Group's customers. The Group does not hold any collateral as security for any of its trade receivables, and does not have a policy of on-selling its receivables to other entities in any way.

The weighted average number of days past due but not impaired for trade receivables is as follows:

	2011 $'000	2011 Days	2010 $'000	2010 Days
Related party	**-**	**-**	3,082	797
Other	**145**	**145**	351	426
	145	**145**	3,433	759

Other than those identified above there are no other impaired receivables in "Trade and other receivables". The Company has been in direct contact with each debtor past their due date and is satisfied that payment will be received in full.

10. TRADE AND OTHER RECEIVABLES (continued)

(c) Fair value

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The long term receivables are interest bearing and therefore their fair value approximates their carrying value.

11. INVENTORIES

	2011 $'000	2010 $'000
Development projects complete- at cost	**30,416**	23,488
Development projects under construction – at cost	**38,177**	22,972
Construction work in progress – gross amounts due from customers (Note 20)	**29,051**	15,632
	97,644	62,092
Aggregate carrying amount of inventories:		
Current	**76,113**	39,120
Non-current	**21,531**	22,972

(a) Construction work in progress

Subsequent to year end $26,470,000 of this balance has been invoiced and received

(b) Inventory expense

Inventories recognised as an expense for the year ended 30 June 2011 totalled $37,549,000 (2010: $94,324,000) for the Group. This expense has been included in the cost of sales line item as a cost of inventories.

(c) Borrowing costs

During the year borrowing costs capitalised into the cost of inventory at 30 June 2011 was $3,297,000 (2010: $4,953,000).

12. EQUITY ACCOUNTED INVESTMENTS

(a) Investment details

	2011	2010
Unlisted		
Current		
Criterion Towers Joint Venture	**588**	-
Non-current		
Helmshore Unit Trust	**665**	466

Ownership interest	%	%
Helmshore Unit Trust	**33**	33
Criterion Towers Joint Venture	**50**	50

12. EQUITY ACCOUNTED INVESTMENTS (continued)

(b) Movements in the Carrying Amount of the Group's Investment in Equity Accounted Investees

	2011	2010
	$'000	$'000
Helmshore Unit Trust		
At 1 July 2010	**466**	462
Investment in project	**236**	4
Share of loss before income tax	**(37)**	-
At 30 June 2011	**665**	466
Criterion Towers Joint Venture		
At 1 July 2010	**-**	393
Reclassified as receivable	**-**	(393)
Share of profit before income tax	**588**	-
At 30 June 2011	**588**	-

(c) Summarised Financial Information

The following table summarises the aggregate financial information relating to the Group's equity accounted investees:

	2011	2010
Extract from the investees' Statement of Financial Positions:		
Current assets	**41,244**	46,126
Non-current assets	**3,022**	3,026
	44,266	49,152
Current liabilities	**39,536**	46,024
Non-current liabilities	**1,283**	1,730
	40,819	47,754
Net assets	**3,447**	1,398
Share of investees' net assets	**1,385**	466
Extract from the investees' Statement of Comprehensive Incomes:		
Revenue	**27,634**	98
Net Profit/(Loss)	**1,432**	-
Contingent liabilities and capital commitments relating to the investees		
Share of contingent liabilities incurred jointly with other investors	**-**	-
Share of capital commitments	**-**	23,765

As at 30 June 2011, Criterion Towers Joint Venture and the Helmshore Unit Trust had capital commitments which relate to the construction of the Zenith and Mandurah Projects.

13. CONTROLLED ENTITIES

The legal parent entity within the consolidated entity is Diploma Group Limited, incorporated in Australia. The consolidated financial statements at 30 June 2011 include the following controlled entities:

Name of Controlled Entity [1]	Notes	Country of Incorporation	Ownership % 2011	Ownership % 2010
Diploma Construction (NSW) Pty Ltd		Australia	100	100
Diploma Construction (WA) Pty Ltd		Australia	100	100
Diploma Group LLC	4	UAE	100	100
Joondalup Village Life Pty Ltd		Australia	100	100
Proven Joondalup Pty Ltd		Australia	100	100
The Diploma 148 Adelaide Tce JV	3	Australia	80	80
The Diploma 155 Adelaide Tce JV	3	Australia	80	80
Diploma Properties Pty Ltd		Australia	100	100
1174 Hay Street Pty Ltd		Australia	100	100
Rockingham Waterfront Village Pty Ltd		Australia	100	100
Weststructure Pty Ltd		Australia	100	100
176 Adelaide Tce Pty Ltd		Australia	100	100
176 Adelaide Tce Unit Trust	2	Australia	100	-
708 Foundry Road Pty Ltd		Australia	100	100
69 Adelaide Tce Unit Trust	2	Australia	100	-
19 The Crescent Unit Trust	2	Australia	100	-
300 Lord Street Unit Trust	2	Australia	100	-
15 Aberdeen Street Unit Trust	2	Australia	100	-
303 Campbell Street Unit Trust	2	Australia	100	-
374 – 396 Murray Street Holdings Unit Trust	2	Australia	100	-
374 – 396 Murray Street Unit Trust	2	Australia	100	-
Diploma Capital Pty Ltd	2	Australia	100	-
Diploma Capital Securities Pty Ltd	2	Australia	100	-
Diploma Head Office Pty Ltd	2	Australia	100	-
Diploma Development Management Pty Ltd	2	Australia	100	-
Allegro Realty Holdings Pty Ltd	2	Australia	100	-
Allegro Realty Pty Ltd	2	Australia	100	-
Diploma TCo Holdings Pty Ltd	2	Australia	100	-
69 Adelaide Tce Pty Ltd	2	Australia	100	-
303 Campbell Street Pty Ltd	2	Australia	100	-
300 Lord Street Pty Ltd	2	Australia	100	-
15 Aberdeen Street Pty Ltd	2	Australia	100	-
19 The Crescent Pty Ltd	2	Australia	100	-
374 – 396 Murray Street Holdings Pty Ltd	2	Australia	100	-
374 – 396 Murray Street Pty Ltd	2	Australia	100	-
Diploma Acquisition Pty Ltd	2	Australia	100	-

Notes:
1. All controlled entities have a 30 June reporting date.
2. These companies were incorporated during the year.
3. The Group controls these entities and has an 80% beneficial interest in the operations and assets based on the terms of agreements under which these entities were established.
4. The Group has a 100% beneficial interest in Diploma Group LLC. 51% of the issued shares are held by an individual in a capacity as a nominee for the Company.

	2011 $'000	2010 $'000
14. OTHER ASSETS		
Current		
Investment in Australian Unit Trust	**500**	-
Prepayments	**71**	38
	571	38

	2011 $'000	2010 $'000
15. INTANGIBLE ASSETS		
Opening Balance	**1,840**	1,956
Additions	**-**	-
Foreign exchange movement	**(353)**	(116)
Closing Balance	**1,487**	1,840

The intangible asset relates to the procurement of three United Arab Emirates building licences in the Emirates of Abu Dhabi, Sharjah and Dubai and are carried at cost less any accumulated impairment losses. They have been determined to have an indefinite useful life. The licences are renewable each year without significant cost provided the entity meets certain requirements. Given the ability of the entity to meet these requirements without significant cost and that they have a readily available market the Group has determined that this asset has an indefinite useful life. The licences are subject to impairment testing on an annual basis or whenever there is an indication of impairment.

Impairment testing
A market exists in the United Arab Emirates for the trading of building licences. For the purpose of impairment testing, an independent market valuation of the building licences held by the Group was received from Key Business Group for Investment LLC (Key Business) at 30 June 2011. Key Business is a company based in the UAE which specialises in company formation and investing in the UAE. The recoverable amount determined based on fair value less cost to sell exceeds the carrying value of the intangible assets and as a result no impairment loss is recognised.

16. PROPERTY, PLANT AND EQUIPMENT

	2011 $'000	2010 $'000
Plant and equipment, at cost		
Opening balance net of accumulated depreciation and impairment	**1,725**	1,946
Additions	**292**	31
Disposals	**-**	(9)
Depreciation for the year	**(271)**	(240)
Foreign exchange translation	**12**	(3)
Closing balance net of accumulated depreciation and impairment	**1,758**	1,725
Cost	**2,732**	2,452
Accumulated depreciation and impairment	**(974)**	(727)
Net book value of property, plant and equipment	**1,758**	1,725

Lessee Disclosures:
The carrying value of plant and equipment held under finance leases at 30 June 2011 is $150,607 (2010 $619,554). Leased assets are pledged as security for the related finance lease liability. Assets are also encumbered to the extent set out in Note 18(c).

Borrowing costs:
There are no borrowing costs capitalised into the cost of any property, plant and equipment at 30 June 2011 (2010: nil).

	2011 $'000	2010 $'000
17. TRADE AND OTHER PAYABLES		
Current		
Trade payables and accruals (a)	**38,648**	25,664
Gross amounts due to customers – contract work in progress (Note 20)	**445**	3,979
Deposits held	**6,694**	649
Other payables	**2,601**	2,192
	48,388	32,484
Related party payables		
Related party trade payables and accruals (c)	**7,021**	-
Other payables (c)	**619**	870
	56,028	33,354
Non-Current		
Trade payables and accruals	**1,645**	-
Other payables	**1,645**	1,644
Deposits held	**594**	6,074
	3,884	7,718

(a) Trade payables are non-interest bearing and average settlement terms are 30 – 45 days.
(b) Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.
(c) For terms and conditions of related party payables refer to Notes 23 and 25.

	2011 $'000	2010 $'000
18. INTEREST BEARING LOANS AND BORROWINGS		
Current		
Multi option facility	**9,905**	-
Working capital facility (a), (c)	**2,612**	-
Project facilities – related party	**-**	10,840
Project facilities – other (b), (c)	**22,413**	5,144
Finance lease liabilities	**22**	264
Other	**25**	4,831
	34,977	21,079
Non-Current		
Project facilities – other (b), (c)	**2,040**	9,182
Finance lease liabilities	**126**	10
	2,166	9,192

(a) Working capital facilities

The working capital facilities are with certain banks and credit financial institutions and are secured by registered mortgages over individual unsold apartment lots along with fixed and floating charges over all the assets and undertakings of the special purpose entities that undertook the developments. The terms and conditions of these facilities are as follows:

	Amount Utilised $'000	Interest Rate	Loan Term	Personal Guarantee $'000
Multi option facility	9,905	7.08%	Jun 12	-
Cove and Foundry Road unsold stock	2,612	21.00%	Jun 12	-
	12,517			-

18. INTEREST BEARING LOANS AND BORROWINGS (continued)

(b) Project facilities

The Group draws down on certain project facilities as a result of entering into development and construction projects. These project facilities are with certain banks and credit financial institutions and are secured by registered mortgages over the property of the individual developments along with fixed and floating charges over all the assets and undertakings of the special purpose entities undertaking the developments. The terms and conditions of the project facilities are as follows:

	Amount Utilised $'000	Interest Rate	Loan Term	Personal Guarantee $'000	
Joondalup Project	4,852	6.66%	Jun 12	-	
Eleven 78 Project	9,924	7.55%	May 12	5,075	(i)
Rockingham Project	1,704	8.33%	Aug 11	-	
Highgate Project	2,500	8.08%	Dec 11	-	
iSpire Project	1,500	8.83%	Aug 11	-	
Foundry Road Project	832	6.83%	Nov 11	-	
69 Adelaide Tce Project	1,101	8.08%	Mar 12	-	
69 Adelaide Tce Project	2,040	8.83%	Nov 12	-	
	24,453			5,075	

(i) The personal guarantee has been provided by Mr N Di Latte and is capped at this amount.

(b) Fair values

The carrying value of interest bearing liabilities is assumed to approximate their fair value because these balances are arm's length transactions at normal commercial rates of interest.

	2011 $'000	2010 $'000
(c) Assets pledged as security		
The carrying amounts of assets pledged as security for current and non-current facilities are:		
Current		
Floating charge		
Cash and cash equivalents	**2,099**	1,380
Receivables	**31,520**	2,017
Inventories	**72,865**	7,616
Other assets	**1,160**	-
Total current assets pledged as security	**107,644**	11,013
Non-Current		
Fixed charge		
Receivables	**670**	6,074
Inventories	**21,531**	22,530
Property, plant and equipment	**1,719**	-
Other assets	**3,562**	-
Total non-current assets pledged as security	**27,482**	28,604
Total assets pledged as security	**135,126**	39,617

Personal guarantees

In addition to the assets pledged as security, a personal guarantee has been provided by a director of the Company. Refer Note 18(a)

18. INTEREST BEARING LOANS AND BORROWINGS (continued)

	2011 $'000	2010 $'000
(d) Terms and conditions		
Total working capital facilities available	**17,000**	-
Total working capital facilities used at reporting date	**(12,517)**	-
	4,483	-
Total project facilities available	**33,689**	15,680
Total project facilities used at reporting date	**(24,453)**	(14,327)
	9,236	1,353

(e) Interest rate, foreign exchange and liquidity risk
Details regarding interest rate, foreign exchange and liquidity risk are disclosed at Note 28

(f) Defaults and breaches
During the current year the Company breached a financial covenant whereby it was required to maintain a minimum gearing ratio of 25% calculated as shareholder funds divided by total tangible assets. The bank has renewed the corporate facility for a further term until 31 October 2012. The new facility will include a reduction to the measure of the covenant breached at 30 June 2011 and the limit will be reduced to $5.0 million. The facility had a net drawn down balance at 30 June 2011 of $5.518 million and at 29 September 2011 of $3.087 million.

19. PROVISIONS

	2011 $'000	2010 $'000
Current		
Employee benefits	**2,131**	2,012
Maintenance provision	**707**	712
Other	**75**	85
	2,913	2,809
Non-Current		
Employee benefits	**148**	85

Maintenance provision
Movements during the year:

	2011 $'000	2010 $'000
Balance at beginning of the year	712	565
Additional provision	-	147
Paid during the year	(5)	-
Balance at the end of the financial year	707	712

The Company has recognised a provision for expected defect & maintenance claims on construction projects completed. The provision is based on a number of variables including the original contract value, complexity of the project and from historical experience. It is expected that these costs will be incurred within 12 months of the project reaching practical completion.

	2011	2010
Total number of full-time equivalent employees as at reporting date	**135**	102

20. CONTRACT WORK IN PROGRESS

	2011 $'000	2010 $'000
Construction costs incurred to date	**626,650**	496,162
Recognised profits to date	**40,267**	30,265
	666,917	526,427
Less: Progress billings	**(638,311)**	(514,774)
Net construction work in progress	**28,606**	11,653
Represented by:		
Gross amounts due to customers – trade and other payables (Note 17)	**(445)**	(3,979)
Gross amounts due from customers – inventories (Note 11)	**29,051**	15,632
	28,606	11,653

21. ISSUED CAPITAL

	2011 $'000	2010 $'000
Ordinary shares	**15,339**	15,545

	No. shares Thousands	$'000
Movement in ordinary shares on issue		
Balance at beginning of year	**153,367**	15,545
Share buy-back	**(600)**	(206)
	152,767	15,339

(i) Between 5 November 2010 and 17 December 2010, 600,000 shares were bought back and cancelled at a cost of $206,000. The shares were acquired at an average price of $0.34, with prices ranging from $0.32 to $0.34. There is no current on market buy-back

(a) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company

(b) Capital management

When managing capital, the Board's objective is to ensure the Company continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Board also aims to maintain a capital structure that ensures the lowest weighted average cost of capital available to the Company.

Management effectively manages the consolidated entity's capital by assessing the consolidated entity's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include management of debt levels, distributions to shareholders and share issues.

The Board monitors capital through the gearing ratio (net debt / total capital). The gearing ratios for the years ended 30 June 2011 and 30 June 2010 are as follows:

	2011	2010
Interest bearing loans and borrowings	**37,143**	30,271
Less cash and cash equivalents	**(2,541)**	(5,410)
Net borrowings	**34,602**	24,861
Trade and other payables	**59,912**	41,072
Net debt	**94,514**	65,933
Total equity	**29,873**	30,907
Total capital	**124,387**	96,840
Gearing ratio	**76.0%**	68.1%

22. RESERVES

	2011 $'000	2010 $'000
Share option reserve (a)	**590**	573
Foreign currency translation reserve (b)	**(121)**	201
	469	774

(a) Share option reserve

	2011 $'000	2010 $'000
Balance at beginning of year	**573**	496
Share-based payment	**17**	77
Balance at end of the year	**590**	573

The share option reserve is used to record the value of non-cash equity benefits provided to employees as part of their remuneration.

(b) Foreign currency translation reserve

	2011 $'000	2010 $'000
Balance at beginning of year	**201**	353
Exchange fluctuations arising on translation of foreign operations	**(322)**	(152)
Balance at end of the year	**(121)**	201

The foreign currency translation reserve records exchange differences arising from the translation of the financial statements of foreign operations.

23. DIRECTOR AND EXECUTIVE DISCLOSURES

Details of Key Management Personnel are disclosed in the Directors' Report.

(a) Compensation of Key Management Personnel by Category

	2011 $'000	2010 $'000
Short-term	**1,893**	1,846
Post employment	**116**	116
Share-based payment	**2**	58
	2,011	2,020

23. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(b) Option Holdings of Key Management Personnel (consolidated)

The following tables set out the details of Diploma Group Limited share options held by key management personnel during the current year. Full details of the terms and conditions of these options are contained in Note 31.

June 2011	Balance at 1 Jul 2010	Granted	Exercised	Expired (1)	Balance at 30 Jun 2011	Vested at 30 June2011 Total	Exercisable	Not Exercisable
Directors								
D B Di Latte	-	-	-	-	-	-	-	-
N D Di Latte	-	-	-	-	-	-	-	-
J M Norup	-	-	-	-	-	-	-	-
I P Olson	-	-	-	-	-	-	-	-
C Lancaster	-	-	-	-	-	-	-	-
Executives							-	-
S A Oaten	500,000	**-**	**-**	**(250,000)**	250,000	-	-	-
Total	**500,000**	**-**	**-**	**(250,000)**	**250,000**	**-**	**-**	**-**

June 2010	Balance at 1 Jul 2009	Granted	Exercised	Expired (2)	Balance at 30 Jun 2010	Vested at 30 June 2010 Total	Exercisable	Not Exercisable
Directors								
D B Di Latte	1,012,000	-	-	(1,012,000)	-	-	-	1,012,000
N D Di Latte	1,212,000	-	-	(1,212,000)	-	-	-	1,212,000
J M Norup	1,012,000	-	-	(1,012,000)	-	-	-	1,012,000
I P Olson	200,000	-	-	(200,000)	-	-	-	200,000
C Lancaster	200,000	-	-	(200,000)	-	-	-	200,000
Executives								
S A Oaten	500,000	-	-	-	500,000	-	-	500,000
Total	**4,136,000**	**-**		**(3,636,000)**	**500,000**	**-**	**-**	**4,136,000**

(1) Options expired on 18 October 2010
(2) Options expired on 31 October 2009

(c) Shareholdings of Key Management Personnel (consolidated)

June 2011	Balance at 1 Jul 2010	Granted as remuneration	On Exercise of Options	Net Change Other (3)	Balance at 30 Jun 2011	Direct Interest	Indirect Interest
Directors							
D B Di Latte	20,473,189	-	-	520,000	20,993,189	-	20,993,189
N D Di Latte	20,473,189	-	-	568,144	21,041,333	-	21,041,333
J M Norup	20,758,189	-	-	520,000	21,278,189	20,400,000	878,189
I P Olson	30,000	-	-	-	30,000	30,000	-
C Lancaster	40,000	-	-	-	40,000	40,000	-
Executives							
S A Oaten	19,000	-	-	-	19,000	19,000	-
Total	**61,793,567**	**-**	**-**	**1,608,144**	**63,401,711**	**20,489,000**	**42,912,711**

June 2010	Balance at 1 Jul 2009	Granted as remuneration	On Exercise of Options	Net Change Other (4)	Balance at 30 Jun 2010	Direct Interest	Indirect Interest
Directors							
D B Di Latte	20,400,000	-	-	73,189	20,473,189	-	20,473,189
N D Di Latte	20,400,000	-	-	73,189	20,473,189	-	20,473,189
J M Norup	20,400,000	-	-	358,189	20,758,189	20,400,000	358,189
I P Olson	30,000	-	-	-	30,000	30,000	-
C Lancaster	40,000	-	-	-	40,000	40,000	-
Executives							
S A Oaten	19,000	-	-	-	19,000	19,000	-
Total	**61,289,000**	**-**	**-**	**504,567**	**61,793,567**	**20,489,000**	**41,304,567**

(3) Messer's D Di Latte, N Di Latte & J Norup purchased shares by way of on-market trades through a director related subsidiary on 23/3/10, 4/4/10 and 8/4/10..
(4) Messer's D Di Latte, N Di Latte & J Norup purchased shares by way of on-market trades through a director related subsidiary on 10/10/09.

23. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(d) Loans to Key Management Personnel

During the year, the Group provided short term funding to Di Latte Group Pty Ltd. The total loaned to the Di Latte Group and the total amount repaid during the year was $385,290 and $200,000 respectively. This resulted in a year end receivable balance of $2,753,886 (2010: $2,568,596). Interest is charged at normal commercial rates on this loan and it is repayable on demand.

During the year, the Group transferred AED $5,290,000 [AUD $1,521,342] (2010: Nil) to a bank account domiciled in the UAE and controlled by Mr John Norup. The cash transferred was security for a bank guarantee issued by Mr Norup's bank on behalf of the Group in relation to a construction project in the UAE. The loan is repayable at completion of the UAE project along with any accrued interest.

(e) Other Transactions and Balances with Key Management Personnel and their related parties

During the year, rent totalling $503,485 (2010: $487,512) at normal market rates was paid by Group companies to Wandina Holdings Pty Ltd, of which Messrs D Di Latte and N Di Latte are directors and controlling shareholders. There was a nil balance outstanding at 30 June 2011 (2010: nil).

During the year, survey services totalling $26,306 (2010: $34,699) were provided at normal market rates by Midland Survey Services to Diploma Construction (WA) Pty Ltd. Ian Olson is the owner of this business. There was no balance outstanding at 30 June 2011 (2010: $34,699).

During the year, consulting services of Nil (2010: $86,983) at normal market rates was paid by Group companies to Lancaster Estate Pty Ltd, of which Carl Lancaster is a director and primary shareholder. There was a nil balance outstanding at 30 June 2011 (2010: nil).

Employee transactions
Maria Di Latte, Frank Di Latte and Natalie De Felice are employed by a subsidiary of the Company as office manager, development manager and financial controller respectively. They are related parties of the Group by virtue of their close family relationship to Dominic and Nick Di Latte. Their employment contracts are at normal market rates and conditions with the aggregate remuneration of these related parties totalling $333,909 (2010: $449,210)

Other
Messrs D Di Latte, N Di Latte and J Norup deferred receipt of their dividend payments during the year. At 30 June 2011, the Company had a payable totalling $619,000 (2010: $870,000) due to these shareholders in respect of this dividend. No interest is charged on this loan and it is payable on demand.

Shareholder Agreements
A subsidiary company, Diploma Construction (WA) Pty Ltd has a shareholder agreement with each of ATD Developments Pty Ltd (The Diploma 148 Adelaide Terrace Joint Venture) and 155 Adelaide Tce Pty Ltd (The Diploma 155 Adelaide Terrace Joint Venture). The Group controls these ventures and has an 80% beneficial interest in the operations, assets and liabilities of the ventures based on the terms of agreements under which these ventures were established. At 30 June 2011 the total receivables and payables associated with these joint ventures totalled, $4,930,816 (2010: Nil) and $7,021,066 respectively (2010: Nil).

The Diploma 148 Adelaide Terrace Joint Venture relates to the Sky Apartment project at 148 Adelaide Terrace, Perth and the Diploma 155 Adelaide Terrace Joint Venture relates to the Rise Apartment project at 155 Adelaide Terrace, Perth.

ATD Developments Pty Ltd and 155 Adelaide Terrace Pty Ltd are each related parties of Diploma Construction and the Company by virtue of being owned and controlled by three of the directors of the Company, namely Dominic Di Latte, Nick Di Latte and John Norup.

Under the joint venture agreements, the parties agreed to plan, design, finance, develop and market the activities related to the development of Sky and Rise Apartments respectively.

Diploma Construction (WA) Pty Ltd is entitled to receive and take its share of the profits determined on a priority payment basis in accordance with its beneficial interest. At 30 June 2011 the total amount of profit attributable to the minority interest holders totalled $1,174,022 (2010: Nil). Interest is charged at normal commercial rates on this amount and it is payable on demand.

23. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(e) Other Transactions and Balances with Key Management Personnel and their related parties (continued)

Shareholder Agreements (continued)
Diploma Construction (WA) Pty Ltd entered into two separate agreements with each of the respective ventures above for the construction of the 'Sky' and 'Rise' apartments. Each of these agreements were made in arm's length transactions both at normal market prices and on normal commercial terms. At 30 June 2011, the Company had construction work in progress inventories totalling $8,580,572 (2010: trade and retentions receivable $3,856,664).

The anticipated margin on the construction of Sky apartments is a loss of $1,542,011 (2010: loss of $1,550,000) while the anticipated margin on the construction of Rise apartments is a profit of $163,644 (2010: profit $450,000). Net profit or loss on these construction projects is recorded in the accounts of Diploma Construction (WA) Pty Ltd which is then eliminated on consolidation. The Sky and Rise apartments are anticipating profits on the overall property development projects of which 20% of the net profit is attributable to ATD Developments Pty Ltd and 155 Adelaide Terrace Pty Ltd (director-related entities) for the respective projects.

During the year the Company repaid $19,886,052 (2010: $61,154,000) of the development loans from ATD Developments Pty Ltd and 155 Adelaide Tce Pty Ltd. At 30 June 2011 the Company had a loan payable from 155 Adelaide Tce Pty Ltd in the amount of $Nil (2010: $13,380,543) and the Company had a loan receivable from ATD Developments Pty Ltd of $1,699,996 (2010: loan payable $4,830,584). No interest is charged on these loans. The rate charged at 30 June 2010 on the loans payable was 6.9%.

Joint Ventures
The Group has a 50% interest in the assets, liabilities and profit of the Criterion Towers Joint Venture (CTJV) (2010: 50%). Diploma Construction (WA) Pty Ltd has entered into a separate construction agreement with CTJV. This agreement was made in an arm's length transaction at normal market prices and on normal commercial terms. At 30 June 2011, the Company had construction work in progress inventories totalling $7,315,779 (2010: $1,821,019) along with a loan receivable of $5,482,211 (2010: $4,797,316).

(f) Amounts recognised at the reporting date in relation to other transactions with KMP

	2011 $'000	2010 $'000
Assets and liabilities		
Current assets		
Trade and other receivables	**16,388**	6,426
Inventories	**15,896**	-
Non-current assets		
Trade and other receivables	**-**	-
Total assets	**32,284**	6,426
Current liabilities		
Trade and other payables	**7,640**	905
Interest bearing loans and borrowings	**-**	18,211
Non-current liabilities		
Interest bearing loans and borrowings	**-**	-
Total liabilities	**7,640**	19,116
Revenues and expenses		
Revenue	**-**	-
Expenses	**864**	1,059
Non-controlling minority interest	**1,174**	-

24. REMUNERATION OF AUDITORS

	2011	2010
Amounts received, or due and receivable, by Ernst & Young Australia for:		
▪ An audit or review of the financial report of the entity and any other entity in the consolidated entity	**150,000**	130,000
▪ Other services in relation to the entity and any other entity in the consolidated entity:		
- accounting services	**25,000**	-
- tax compliance	**35,040**	12,850
	210,040	142,850
Amounts received, or due and receivable, by non Ernst & Young Australia for:		
▪ Other non-audit services	**4**	27,400

25. RELATED PARTY INFORMATION

Ultimate Parent

The Ultimate Parent Entity of the consolidated entity is Diploma Group Limited, incorporated and domiciled in Australia.

26. COMMITMENTS

Lease commitments under non-cancellable operating leases, not otherwise provided in the financial statements.

	2011	2010
Within 1 year		
Later than 1 year but not later than 5 years	**307**	307
Later than 5 years	**1,534**	1,534
	257	564
	2,098	2,405

The Company has entered into a commercial operating lease with a related party, refer Note 23(e), for the lease of office premises. This non-cancellable lease has a remaining term of 6 years with an option to extend for a further 5 years at the end of the term. This extension period has not been disclosed as a commitment. The lease includes an escalation clause which enables upward revision of the rental payments on an annual basis according to prevailing market conditions.

26. COMMITMENTS (continued)

	2011 $'000	2010 $'000
Lease Commitments under Finance Leases		
Not later than one year	**39**	278
Later than 1 year but not later than 5 years	**119**	10
Later than 5 years	**58**	-
	216	288
Less: Future finance charges	**(68)**	(14)
Present value of future lease payments	**148**	274
Reconciled to the Statement of Financial Position (Note 18)		
Current interest bearing liability	**22**	264
Non-Current interest bearing liability	**126**	10
	148	274

(c) Other

The Group has contractual obligations in respect of its internal development projects totalling $35.9m (2010: $70.4m). The full amount (2010: $42.6m) is expected to be completed within 12 months from balance date and the remainder of $Nil (2010: $27.8m) within 5 years from balance date.

The Group has contractual obligations in respect of its sponsorship and marketing programme. The contractual obligations of this programme totals $245k of which the total amount is payable within the next 12 months.

27. CONTINGENT LIABILITIES

The Group has an offshore entity in the United Arab Emirates which was established by way of introduction from a local sponsor. Should the Group terminate the services of the sponsor of Diploma Group LLC, who currently also acts as nominee shareholder for the Group (Refer Note 13), the Group will be obliged to make a termination payment of AED $5 million or AUD $1.3 million (2010: AED $5 million or AUD $1.7 million).

Diploma has instituted a claim for damages against a supplier of rebar for overcharging and/or over-invoicing/undersupply of rebar. The supplier has counterclaimed for underpayment of these invoices. The matter has currently been adjourned to enable the parties' respective experts to agree on the quantity of rebar delivered to Diploma. In the event Diploma is unsuccessful in its claim and the supplier is successful in their counterclaim then the estimated financial settlement inclusive of costs and disbursements payable by Diploma is $2.0m plus 2.5% per annum interest, however, if Diploma is successful in its claim the estimated financial settlement receivable by Diploma inclusive of costs and disbursements is $1.5m.

Insurance bonds
Contingent liabilities and contingent assets exist in respect of insurance bonds issued to clients and guarantees received by Diploma from its subcontractors in lieu of cash retentions. The bonds issued to clients are secured by indemnities. All of the guarantees and bonds are received and issued in Diploma's ordinary course of business.

Insurance bonds outstanding at 30 June 2011 totalled $16,673,316 (2010: $12,591,813). As at the date of this report the outstanding bonds totalled $13,480,741. Messer's D Di Latte, N Di Latte and Norup have provided personal guarantees as security against this bond facility.

28. FINANCIAL RISK MANAGEMENT

(a) Diploma is exposed to financial risks through the normal course of its business operations. The key risks arising are considered to be interest rate risk, credit risk, liquidity risk and foreign currency risk. The Group's financial instruments exposed to such risks are primarily cash, trade receivables, bank loans, finance leases and trade payables.

Under Board approved policies, Diploma seeks to manage its exposure to these key financial risks and so minimise the potential for adverse effects on its financial performance. Diploma allows the use of derivative financial instruments as part of its risk management policy, being interest rate swaps and forward currency hedges, however, has no open contracts at year end (2011: $Nil). Trading in derivative instruments is not allowed under the company's policies.

28. FINANCIAL RISK MANAGEMENT (continued)

The Board sets the broad framework for managing the risks below, including setting limits and guidelines for the use of derivative financial instruments. Primary responsibility for identification and control of financial risks is with the Chief Executive Officer and Chief Financial Officer under the authority of the Board.

(b) Interest Rate Risk

The Group is exposed to interest rate risk in relation to the variable market interest rates of some of its borrowings, and in relation to investment of its surplus cash.

The Group's interest bearing borrowings are used solely to fund the Group's internal development projects. At the commencement of each project an analysis of the term and rate provided for the project specific borrowing is undertaken and allowance is made to cover potential rate rises and/or an increase in the term of the loan, within the project costing. The Group manages its finance costs using a mix of fixed and variable debt which is reviewed on a project by project basis.

At balance date, the Group had the following classes of financial assets and financial liabilities exposed to variable interest rate risk:

	2011 $'000	2010 $'000
Financial assets		
Cash	**2,099**	5,410
Retention receivables	**693**	2,498
	2,792	7,908
Financial liabilities		
Interest bearing liabilities	**30,453**	25,167
Bank overdraft	**3,905**	-
	34,358	25,167
Net exposure	**(31,566)**	(17,259)

Based on the above exposure to variable interest rate risk at balance date the following sensitivity analysis illustrates the nominal impact to current profit and equity if interest rates were assumed to move by a reasonably foreseeable amount, but all other pertinent variables are held constant.

	Post Tax Profit / Equity Increase/(Decrease)	
Judgement as to reasonably possible change	2011 $'000	2010 $'000
+100 basis points	**(221)**	(121)
-100 basis points	**221**	121

(c) Credit Risk

The consolidated entity minimises credit risk by undertaking a review of the financial position and the viability of the underlying project prior to entering into material contracts. The Group trades only with recognised, creditworthy third parties and as such, collateral is not generally requested nor is it the Group's policy to securitise its trade and other receivables.

Credit risk in relation to its Construction business is also managed through the use of regular progress claims on all construction projects designed to maintain a neutral or positive net cash position and through the use of 30-day payment terms. The credit risk of the business, other than cash, is not concentrated in any individual customer and is spread across a number of sectors including residential, commercial and industrial solely within the West Australian market. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

28. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit Risk (continued)

Financial instruments other than receivables that potentially subject the consolidated entity to concentrations of credit risk consist principally of cash deposits. The consolidated entity places its cash deposits with high credit-quality financial institutions, both within Australia and the UAE. The Group's cash deposits all mature within three months and attract a rate of interest at normal short-term money market rates.

The maximum credit risk the consolidated entity is exposed to is represented by the carrying value of its financial assets in the Statement of Financial Position as summarised below:

	2011 $'000	2010 $'000
Cash and cash equivalents	**2,099**	5,410
Trade and other receivables	**29,456**	11,484
Construction work in progress – gross amounts due from customers	**29,051**	15,632
	60,606	32,526

The Company is also exposed to credit risk to the extent of the financial guarantees it has provided, by way of bank guarantees, on behalf of its controlled entities. Refer to Note 27

(d) Liquidity Risk

Diploma's objective is to match the terms of its funding sources to the terms of the assets or operations being financed. The group uses a combination of trade payables, finance leases, operating leases, bank loans and other long-term borrowings to provide its necessary debt funding

The Group aims to hold sufficient reserves of cash or cash equivalents to help manage the fluctuations in working capital requirements and provide the flexibility for investment into long-term assets without the need to raise debt.

The Group's borrowings are used solely to fund project specific internal developments and are established once a pre-determined level of presales relating to the specific development has been achieved. The term of each borrowing is matched to the expected life of the development project.

The following are the remaining contractual maturities of the Group's financial liabilities including, where applicable, future interest payments

30 June 2011	**Carrying Amount $'000**	**Contractual Cash Flows $'000**	**1 year or less $'000**	**1-2 years $'000**	**2 years or more $'000**
CONSOLIDATED					
Trade and other payables	**59,912**	**59,912**	**56,028**	**3,884**	**-**
Interest bearing liabilities	**36,970**	**39,520**	**30,747**	**8,773**	**-**
Finance lease liabilities	**148**	**216**	**39**	**119**	**58**
	97,030	**99,648**	**86,814**	**12,776**	**58**
30 June 2010					
CONSOLIDATED					
Trade and other payables	41,072	41,072	33,354	7,718	-
Interest bearing liabilities	25,167	26,843	17,034	9,809	-
Finance lease liabilities	274	288	278	10	-
	66,513	68,203	50,666	17,537	-

28. FINANCIAL RISK MANAGEMENT (continued)

(e) Foreign Currency Risk

The Group has certain foreign currency exposures arising from sales or purchases by a controlled entity in a currency other than the applicable functional currency. There were no material sales and purchases during the year so this exposure is not considered significant. When the controlled entity is in full operation the exposure will still be considered as not significant given the majority of the Group's sales and purchases will be denominated in the functional currency of the entity making the sale

Should the company identify an expected payment in a currency other than Australian dollars, the Group's policy is to use forward currency contracts to mitigate currency exposure. At 30 June 2011 the Group had no forward currency contracts in place (2010: nil).

The Group's Statement of Financial Position can also be affected by movements in the cross rates between the Australian dollar (being the Group's presentational currency) and the currency used by its foreign subsidiary in the United Arab Emirates. Exchange differences on translation of the foreign subsidiary are recognised in the foreign currency translation reserve. Exchange differences arising on receivables or payables in the foreign subsidiary are recognised in the Consolidated Statement of Comprehensive Income as they do not form part of the entity's net investment in this foreign operation. The Group does not have a policy of actively mitigating this potential exposure

29. OPERATING SEGMENTS

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources. The operating segments are identified by management based on the nature of the services provided. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis. The reportable segments are based on aggregated operating segments determined by the similarity of the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

Types of products and services

Construction
Construction projects across the commercial, retail, industrial, residential, hospitality and engineering sectors.

Property development
Development projects in the commercial, retail and residential sectors.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period except as detailed below:

Proportionate consolidation of associate(s) results
Operating results and share of assets and liabilities, of the associates are proportionately consolidated for the purposes of internal reporting whereas for the preparation of the financial statements they are equity accounted.

Inter-entity sales
Inter-entity sales are recognised based on current market conditions. The price is set on a project by project basis and aims to reflect what the business operation could achieve if they sold their services to external parties at arm's length.

Corporate charges
Corporate charges comprise non-segmental expenses such as head office expenses and interest. Corporate charges are allocated to each business segment on a proportionate basis linked to the number of employees in each segment so as to determine a segmental result.

29. OPERATING SEGMENT (continued)

Segment loans payable and loans receivable
Segment loans are initially recognised at the consideration received excluding transaction costs. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates.

Income tax expense
Income tax expense is calculated based on the segment operating net profit using a notional charge of 30% (2010: 30%).

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Dividend revenue.
- Finance costs - including adjustments on provisions due to discounting.
- Impairment of assets.

Major customers

The Group has no one customer that accounts for greater then 10% of external revenue.

	Construction $'000	Property Development $'000	Unallocated Items $'000	Total Operations $'000
Year ended 30 June 2011				
Revenue				
Revenue from external customers	103,106	38,968	-	142,074
Other revenue from external customers	58	2,484	-	2,542
Inter-segment revenues	48,535	-	-	48,535
Total segment revenue	151,699	41,452	-	193,151
Segment net operating profit/(loss) after tax	2,652	(1,455)	(424)	773
Interest revenue	58	42	-	100
Interest expense	410	504	-	914
Depreciation and amortisation	270	1	-	271
Income tax expense	1,137	(623)	424	938
Segment assets	65,948	69,680	(1,360)	134,268
Segment liabilities	52,956	51,861	(422)	104,395
Cash flow information				
Net cash flow from operating activities	14,541	(22,447)	(363)	(8,269)
Net cash flow from investing activities	-	(500)	(292)	(792)
Net cash flow from financing activities	(560)	2,405	-	1,845

29. OPERATING SEGMENT (continued)

	Construction $'000	Property Development $'000	Unallocated Items $'000	Total Operations $'000
Year ended 30 June 2010				
Revenue				
Revenue from external customers	96,691	110,245	-	206,936
Other revenue from external customers	80	212	-	292
Inter-segment revenues	34,647			34,647
Total segment revenue	131,418	110,457	-	241,875
Segment net operating profit after tax	3,007	9,815	-	12,822
Interest revenue	-	-	170	170
Interest expense	-	-	(312)	(312)
Depreciation and amortisation	(151)	(63)	(26)	(240)
Income tax expense	(1,753)	(4,207)	1,158	(4,802)
Segment assets	36,973	79,612	19,362	135,947
Investment in associate (1)	-	-	466	466
Segment liabilities	33,739	63,566	3,287	100,592
Cash flow information				
Net cash flow from operating activities	10,911	65,840	(10,677)	66,074
Net cash flow from investing activities	(14)	281	(293)	(26)
Net cash flow from financing activities	(14,376)	(63,454)	11,328	(66,502)

(1) Investments in associates is reported as unallocated. The segment accounting policy is to use the proportionate consolidation method for associates. Therefore the share of the associate's revenue and net assets is included in the appropriate segment. As a result, investment in associates is classified as unallocated to avoid any double counting.

	2011 $'000	2010 $'000
Segment revenue reconciliation to the consolidated statement of comprehensive income		
Total segment revenue	**193,151**	241,875
Proportionately consolidated revenue	**-**	(32)
Inter-segment revenue elimination	**(48,535)**	(34,647)
Other revenue from continuing activities	**-**	7
	144,616	207,203

Revenue is attributed to geographic location based on the location of the customers. The company has revenue from the United Arab Emirates of $4.046 million with all other revenue attributed to Australia.

Segment net operating profit after tax reconciliation to the statement of comprehensive income

The executive management committee meets on a monthly basis to assess the performance of each segment by analysing the segment's net operating profit after tax. A segment's net operating profit after tax excludes non operating income and expense such as dividends received, gains and losses on disposal of assets and impairment charges. Income tax expenses are calculated as 30% (2010: 30%) of the segment's net operating profit

Reconciliation of segment net operating profit after tax to net profit before tax

	2011	2010
Segment net operating profit after tax	**773**	12,822
Income tax expense at 30% (2010: 30%)	**938**	5,960
Corporate charges	**-**	(1,572)
Other inter-segment eliminations	**-**	(2,367)
Total net profit before tax per the statement of comprehensive income	**1,711**	14,843

29. OPERATING SEGMENT (continued)

Segment assets reconciliation to the statement of financial position

In assessing the segment performance on a monthly basis, the executive management committee analyses the segment result as described above and its relation to segment assets. Segment assets are those operating assets of the entity that the management committee views as directly attributing to the performance of the segment. These assets include plant and equipment, receivables, inventory and intangibles and exclude deferred tax assets.

	2011 $'000	2010 $'000
Reconciliation of segment operating assets to total assets		
Segment operating assets	**135,628**	135,947
Inter-segment eliminations	**-**	(2,769)
Proportionately consolidated assets	**-**	(24,052)
Deferred tax assets	**(1,360)**	1,118
Total assets per the statement of financial position	**134,268**	110,244

Segment liabilities reconciliation to the statement of financial position

Segment liabilities includes trade and other payables and debt. The Group has a centralised finance function that is responsible for raising debt and capital for the entire operations. Each entity or business uses this central function to invest excess cash or obtain funding for its operations.

Segment operating liabilities	**104,817**	100,592
Inter-segment eliminations	**-**	(2,769)
Proportionately consolidated liabilities	**-**	(23,586)
Income tax payable	**(422)**	5,100
Total liabilities per the statement of financial position	**104,395**	79,337

30. PARENT ENTITY INFORMATION

	Parent	
	2011 $'000	2010 $'000
Information relating to Diploma Group Limited		
Current assets	**30,133**	20,840
Non-current assets	**693**	59,537
Current liabilities	**(14,725)**	(2,875)
Non-current liabilities	**(35)**	(20)
	16,066	77,482
Issued capital	**74,245**	74,191
Retained (loss)/earnings	**(58,769)**	2,717
Share option reserve	**590**	574
Total shareholders' equity	**16,066**	77,482
(Loss)/profit of parent entity	**(59,952)**	(992)
Total comprehensive income of the parent entity	**(59,952)**	(992)

30. PARENT ENTITY INFORMATION (continued)

The Group has provided guarantees to its subsidiaries which commit the Group to make payments on behalf of these entities upon their failure to perform under the terms of the relevant contract.

Diploma Group Limited has issued the following guarantees at 30 June 2011:

- a loan in the amount of $2,015,000 (2010: $2,015,000) has been taken out by Rockingham Waterfront Village Pty Ltd to fund the purchase of land. The Group has guaranteed the full amount of this subsidiary's loan.
- a loan in the amount of $2,500,000 (2010: $Nil) has been taken out by 300 Lord St Pty Ltd to fund its development activities. The Group had guaranteed the subsidiary's loan to $2,500,000 (2010: Nil).
- a loan in the amount of $1,500,000 (2010: $Nil) was taken out by 176 Adelaide tce Pty Ltd to fund its development activities. The Group has guaranteed the full amount of this subsidiary's loan.
- a loan in the amount of $2,040,000 (2010: $Nil) was taken out by 69 Adelaide tce Pty Ltd to fund its development activities. The Group has guaranteed the full amount of this subsidiary's loan.
- a loan in the amount of $3,515,000 (2010: $3,515,000) has been taken out by Proven Joondalup Pty Ltd to fund its development activities. The Group has guaranteed the full amount of this subsidiary's loan.
- a loan in the amount of $10,150,000 (2010: $10,150,000) has been taken out by 1174 Hay St Pty Ltd to fund its development activities. The Group has guaranteed the subsidiary's loan to $5,075,000 (2010: $5,075,000).

At balance date, the Directors have determined the probability of any loss or default on any of these financial guarantees to be nil

	2011 $'000	2010 $'000
31. SHARE BASED PAYMENT PLAN		
Expense arising from equity-settled share-based payment transactions	**16**	78

Share Option Plan

Directors, executives and certain members of staff of the consolidated entity hold options over the ordinary shares of the Company. The options have all been issued for nil consideration. Exercise of the options are subject to loyalty requirements. The options cannot be transferred without the Company's prior approval and will not be quoted on the ASX. The options do not provide dividend or voting rights to the holders prior to exercise.

Vested options are only exercisable if the relevant employee or executive is employed by or on behalf of the consolidated entity, or its associates, at the time the options are exercised.

An expense is recognised in the Statement of Comprehensive Income in relation to share options on issue in accordance with *AASB 2 Share-based Payments*.

The table below illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options issued during the year.

	2011 No. '000	**2011 WAEP**	2010 No. '000	2010 WAEP
Outstanding at the beginning of the year	**4,950**	**0.60**	12,340	0.60
Granted during the year	**-**	**-**	-	-
Expired during the year	**(2,710)**	**0.60**	(5,810)	0.60
Forfeited during the year	**-**	**-**	(1,580)	0.60
Outstanding at the end of the year	**2,240**	**0.60**	4,950	0.61
Exercisable at the end of the year	**1,800**	**0.60**	1,800	0.60

31. SHARE BASED PAYMENT PLAN (continued)

These options are exercisable subject only to continuous employment during the vesting period and the weighted average remaining contractual life for the share options outstanding as at 30 June 2011 is 0.13 years (2010: 0.49 years).

The weighted average fair value of the options granted during the year was $Nil (2010: Nil).

The fair value of options listed above has been measured at grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted.

	2011	2010
The following table lists the inputs into the Black-Scholes model:		
Dividend yield (%)	**6.75**	6.75
Expected volatility (%)	**26.84**	26.84
Risk-free interest rate (%)	**7.25**	7.25
Weighted average life of option (years)	**0.13**	0.49
Option exercise price ($)	**0.60**	0.61
Weighted average share price at measurement date ($)	**0.50**	0.44

32. SUBSEQUENT EVENTS

The project specific debt relating to an associate (Zenith), not recognised on the Group's balance sheet is $22.397 million. $13.071 million of $22.397 million of debt relating to the joint venture partner was refinanced on 26 September 2011. The balance of this project specific debt totalled $9.326 million which represents Diploma's share. Approval for the refinance of Diploma's share of the project specific debt was received on 28 September 2011. The refinanced facility together with subsequent unit sales in the Zenith project will enable Diploma to repay its share of the Zenith project debt and provide the Group with $1.488 million in working capital along with 30% from each subsequent sale. The settlement profile of the currently contracted apartments will generate further cash inflow to the Group with the refinanced facility expected to be cleared by December 2011.

The project specific debt on the Group's Rockingham project (Salt 5) totalling $1.704 million was refinanced on 8 September 2011 and is now due for repayment on 5 April 2012.

Since year end the project specific debt associated with the Cove and Foundry Road projects, totalling $4.618 million has been repaid. The Group has obtained additional funding secured against the remaining unsold stock in these developments totalling $3.1 million.

The repayment date on the project specific debt on the Group's iSpire project totalling $1.500 million was extended to February 2012.

The bank has renewed the corporate facility that was breached at 30 June 2011, for a further term until 31 October 2012. The new facility will include a reduction to the measure of the covenant breached at 30 June 2011 and the limit will be reduced to $5.0 million. The facility had a net drawn down balance 30 June 2011 of $5.518 million and at 29 September 2011 of $3.087 million.

On 2 July 2011, the board of directors entered into a conditional letter of offer for the sale of the Group's rent roll from its residential and strata authorities. A sale agreement was signed on the 20 September 2011 with the sale expected to be completed shortly after this date.

Other than the above, the Directors are not aware of any other matter or circumstance not otherwise dealt with in the financial statements, that has significantly or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

D I R E C T O R S ' D E C L A R A T I O N

In accordance with a resolution of the directors of Diploma Group Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

  (h) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1; and

(c) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2011.

On behalf of the Board

NICK D DI LATTE
Managing Director & CEO

Perth, Western Australia
30 September 2011

Ernst & Young

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Independent auditor's report to the members of Diploma Group Limited

Report on the Financial Report

We have audited the accompanying financial report of Diploma Group Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1. The financial report of Diploma Group Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position at 30 June 2011 and of its performance for the year ended on that date; and

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

2. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 10 of the director's report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Diploma Group Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

G Buckingham
Partner
Perth
30 September 2011

[illegible]

As at 31 August 2011, there were 152,766,993 fully paid ordinary shares on issue.

(a) Distribution of Shareholdings

Number of ordinary shares held	Number of Holders
1 - 1,000	23
1,001 - 5,000	101
5,001 - 10,000	78
10,001 - 100,000	282
100,001 and over	85
Total number of holders	569
Number of shareholders holding less than a marketable parcel	103

(b) Voting Rights

Voting rights of members are governed by the Company's Constitution. In summary, on a show of hands, every member present in person or by proxy shall have one vote and upon a poll every such attending member shall be entitled to one vote for every share held. All fully paid ordinary shares issued by the Company carry one vote per share.

(c) Substantial Shareholders

The Company's Substantial Shareholders and the number of securities in which they have an interest as disclosed by notices received under section 671B of the *Corporations Act 2001* as at 6 September 2011 are:

Name	Fully Paid Ordinary Shares
ND Properties Pty Ltd	20,448,144
Wandina Holdings Pty Ltd	20,400,000
John Mosegaard Norup	20,400,000
UP Investments Pty Ltd	20,400,000
Healthy Holdings Pty Ltd	20,400,000

(d) Top Twenty Shareholders

The names of the 20 largest holders of fully paid ordinary shares as at 6 September 2011 are listed below:

Rank	Name	Number	%
1	ND Properties Pty Ltd	20,448,144	13.39
2	Healthy Holdings Pty Ltd	20,400,000	13.35
3	Mr John Mosegaard Norup	20,400,000	13.35
4	UP Investments Pty Ltd	20,400,000	13.35
5	Wandina Holdings Pty Ltd	20,400,000	13.35
6	UBS Nominees Pty Ltd	6,993,707	4.58
7	NEFCO Nominees Pty Ltd	3,011,112	1.97
8	ATD Developments Pty Ltd	2,600,000	1.70
9	Mr Paul Gabriel Sharbanee	2,187,419	1.43
10	GAB Superannuation Fund Pty Ltd	1,735,136	1.14
11	Ms Nicole Gallin & Mr Kyle Haynes	1,500,000	0.98
12	Ice Cold Investments Pty Ltd	1,000,000	0.65
13	Mr Peter J McMorrow & Mrs Bernadine A McMorrow	1,000,000	0.65
14	Mr David Brian Argyle	935,000	0.61
15	Mikado Corporation Pty Ltd	900,000	0.59
16	Mardol Chemicals Pty Ltd	637,937	0.42
17	Eagle River Holdings Pty Ltd	600,000	0.39
18	JPKW Pty Ltd	549,300	0.36
19	Zero Nominees Pty Ltd	545,000	0.36
20	Mr Mario G Franco & Mrs Immacolata Franco	540,000	0.35
		126,782,755	82.97

CORPORATE DIRECTORY

DIPLOMA GROUP LIMITED
ACN 127 462 686

DIRECTORS	Dominic B Di Latte (Executive Chairman) Nick D Di Latte (Chief Executive) John M Norup Ian P Olson Carl Lancaster
COMPANY SECRETARY	Simon A Oaten
REGISTERED OFFICE	Level 1, 140 Abernethy Road Belmont, Western Australia 6104 Tel: 61 8 9475 3500 Fax: 61 8 9475 3501
SHARE REGISTRY	**Australia** Computershare Investor Services Pty Ltd Level 2, 45 St Georges Terrace Perth Western Australia 6000 Tel: 61 8 9323 2000 Fax: 61 8 9323 2033 You can check details of your shareholding conveniently and simply through visiting our Registrar's website at www.computershare.com and clicking on the Investor Centre button (you will need your HIN/SRN).
AUDITORS	Ernst & Young Chartered Accountants 11 Mounts Bay Road Perth Western Australia 6000
STOCK EXCHANGE	**Australia** Australian Stock Exchange Limited Exchange Plaza 2 The Esplanade Perth Western Australia 6000 Trading Code Ordinary Shares: **DGX**
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