DIPLOMA GROUP LIMITED

ABN 14 127 462 686

A N N U A L F I N A N C I A L R E P O R T

3 0 J U N E 2 0 1 3

C O N T E N T S

The Directors of Diploma Group Limited (referred to in these financial statements as “the Group” or “Diploma”) submit the following report in respect of the consolidated entity for the financial year ended 30 June 2013.

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.

Ian P Olson (Independent Non-executive Chairman)

An experienced chartered accountant, 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 and 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 – resigned 26 February 2013

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

Ian chairs the Remuneration and audit committees.

Nick D Di Latte (Managing Director and CEO) ***BA LLB ACSA***

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

Nick’s predominant role is the overall responsibility for the performance of Group activities. In addition to this it has also been to liaise with clients and joint venture partners, from the initial concept and planning stage through to completion. He brings a great deal of experience in the property industry to the fore and continues to work with and oversee both divisions of the Company. Nick holds a Bachelor of Arts degree and a Bachelor of Laws degree, having been admitted to the Supreme Court of Western Australia in February 2002. In 2010, Nick completed the Graduate Diploma of Applied Corporate Governance course. Nick's role further includes the implementation of growth strategies of the Group.

Nick is a member of the Audit committees.

Carl Lancaster (Independent Non-executive)

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

Carl has previously 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.

Dominic B Di Latte (Non-executive Chairman) **–** resigned 31 December 2012

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.

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

John M Norup (Executive Director) – resigned 20 July 2012

John joined the Group in 2005, and during his career he has been directly involved in the management of over $1 billion worth of construction work within Western Australia.

As a Director, John's role was to oversee the Group's construction operations, and was involved in the strategic business planning of the organisation.

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 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**
Nick Di Latte	20,518,144	-	593,189
Ian Olson	130,000	-	-
Carl 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 Group 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

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 2013.

OPERATING AND FINANCIAL REVIEW

Group Overview

The Group originated in 1976 when Dominic Di Latte 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 2013 financial year, Diploma Group generated a net profit after tax of $1.6 million (2012: Net loss after tax $27.1m). This was an improvement in net profit after tax on the prior year of 106%. Total revenue for the year totalled $164.2 million (2012: $220.0 million).

The result includes losses totalling $2.2 million realised on the sale of the last remaining residual stock in the Zenith apartment tower and the sale of an undeveloped site in Midland.

The Group returned to profit as a result of the successful implementation of Phase Two of its Strategic Plan whereby it focused on:

- Maintaining margins through improved oversight of existing contracts.
- Eliminating bid errors through peer/external review of future bids.
- Reduced acceptance of contractual risk with respect to the type of contracts undertaken by the Group.
- Improved cost control over development portfolio by lump sum contract arrangements with external contractors.
- Streamlined management structure with greater direct involvement between project teams and senior management.
- Dedicated divisional leaders for Perth metropolitan contracts and regional contracting works.
- Secure pre-commitments for commercial pipeline.
- Secure presales for residential pipeline by bringing to market affordable/attractive product.
- Introduce new equity model for project funding through syndication of appropriate developments.
- Sell non-core properties if solution cannot be found.
- Continue to work with existing clients to strengthen relationships by focusing on delivery of existing contracts.
- Maintaining strong commitments with all company stakeholders as we execute our strategic planConstruction Division

Construction Division

The construction division completed 4 projects during the year with a combined contract value of circa $90 million and secured another 8 during the year. The Group's wins during the year included the $49 million design and construct for Rio Tinto's Wickham Accommodation Expansion. Other construction contracts secured during FY13 include:

- Rhythm - 215 Hay Street - $9 million
- One on Aberdeen - $39 million
- Ocean Edge Apartments - $35 million
- Haven Apartments - $20 million
- Oceanna Residences - $20 million
- Dan Murphy's Kwinana - $3 million
- Podium Perry Lakes - $17 million
- Wickham Lodge FIFO Stage 1 - $48m

Properties Division

One on Aberdeen (Northbridge) - Construction of One on Aberdeen, Diploma's first JV with the Department of Housing and Works in Northbridge, is well underway. Construction of the 170-lot development is 35% complete with Practical Completion due in May 2014. Less than 5 lots remain available for sale having received a strong presale take up of the $75 million development over the past 12 months. Diploma is both the appointed builder and development manager for the project.

Flex 288 (Highgate) - Diploma has commenced the sales and marketing of its 50% JV mixed-use project in Lord Street Highgate. Consisting of 68 apartments and 5 commercial tenancies, the $36 million development has been designed so as to achieve a price point in the market that will see a high degree of presales with the Group already securing 9 presale deposits with a further 90 expressions of interest already received.

Abode (West Perth) - Forward works have commenced on Diploma's second JV with the Department of Housingwith 82 of the 86 apartments presold from a strong pre sales campaign undertaken during the year. Diploma is the appointed builder and development manager for the project.

176 Adelaide Tce (Perth) - Development approval was obtained in first half FY13 for the proposed 134 key Quest Serviced Apartment tower. An Agreement for Lease has now been executed with the Quest Group headquatered in Melbourne. This $42m end value development in expected to commence construction during FY14 with completion during FY15. It is intended that this asset will be held as an investment on completion.

Flinders Lane Quest (Rockingham) - Development approval was obtained in first half FY13 for this 96 key Quest Serviced Apartment building. An Agreement for Lease has now been executed with the Quest Group. This $24m end value development is expected to commence construction in First half FY14 with completion in FY15. It is intended that this asset will be held as an investment on completion..

Earnings Per Share

The Group had a weighted average number of shares on issue during the year of 152,766,993. Basic earnings per share from continuing operations (EPS) for 2013 is 1.02 cents (2012: loss per share 11.39 cents). Diluted earnings per share from continuing operations for 2013 is 1.02 cents (2012: loss per share 11.39 cents).

STATEMENT OF FINANCIAL POSITION

The Consolidated Statement of Financial Position at 30 June 2013 has a current net working capital deficiency of $0.2 million (2012: $24.1 million deficiency).

CASH FLOWS

The net cash flows generated by operating activities totalled $8.1 million.

MATTERS SUBSEQUENT TO THE REPORTING PERIOD

The project specific debt on the Group's Lord Street project totalling $2.5 million is due for repayment on 30 September 2013. Since year end, the Group received development approval for a 5 storey residential development consisting of 68 apartments. The Group has already secured 9 presale deposits with a further 90 expressions of interest and expects to be able to refinance the facility into a full construction finance facility with the existing provider or other provider prior to 30 September 2013.

On 22 July 2013, the Group sold a development property located at 69 Adelaide Terrace for $4.86 million. The full proceeds from the settlement of this property were used to pay down corporate debt.

Since year end the Group has signed new construction projects totalling $21 million.

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 Group, 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 no unissued ordinary shares under options. During the year 2,240,000 options expired and no options to acquire fully paid ordinary shares in the Company were exercised. No options were forfeited. Refer to note 32 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 2013 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 2014. Such insurance contracts insure against certain liability (subject to specific exclusions) of persons who are or have been directors or executive officers of the Group.

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. 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

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

(i) Directors

Name	Position	
I P Olson	Chairman (Non-executive)	- appointed 10 October 2007
N D Di Latte	Managing Director & CEO	- appointed 2 January 1996
C Lancaster	Director (Non-executive)	- appointed 7 December 2007
D B Di Latte	(Non-executive)	- resigned 31 December 2012
J M Norup	Managing Director Construction (Executive)	- resigned 20 July 2012

(ii) Executives

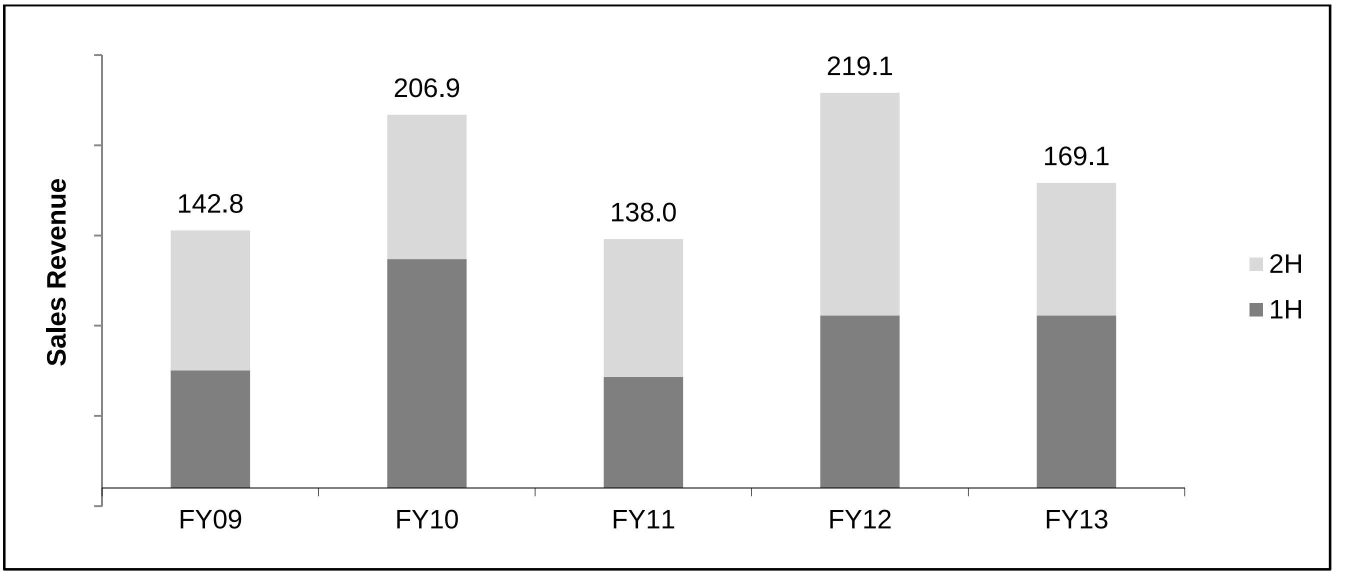
Name	Position	
S Oaten	Chief Financial Officer & Company Secretary	- appointed 10 September 2007

COMPENSATION POLICY

It is the Group'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 Group links the nature and amount of some of the executive Directors' and officers' emoluments to the Group's financial and operational performance.

Group Performance

The Company was incorporated on 10 September 2007 and listed on the Australian Stock Exchange on 5 December 2007. 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's remuneration at competitive market levels.

Structure

In setting the level of remuneration for non-executive Director, the Committee considers advice from external consultants and undertakes its own benchmarking with comparable companies. No advice was provided to the Group by external consultants during the year.

Each Director receives a fee for being a Director of the Group, 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;
- 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.

Post-employment Benefits

Objective

Post-employment benefits include superannuation and any benefits receivable by executives should their employment be terminated by the Group. 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. There are currently no share options on issue to any key management personnel within the Group.

At present the Group does not have a formal plan covering the payment of equity-based executive remuneration; however, it is the Group'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 33 to the financial statements.

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.

VOTING AND COMMENTS MADE AT THE COMPANY'S 2012 AGM

Instructions received, for those that were entitled to vote on the 2012 Remuneration report, were 90% in favour and 10% against.

COMPENSATION OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

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 2013	**Short-Term Benefits**			**Post Employment Benefits**		**Share Based Payments**	**Total**		
	Salary & Fees $	Cash Bonus $	Non Monetary Benefits $	Super-annuation $	Leave Entitlements $	Options $	$	Performance Related	Consisting of Options
Directors									
D B Di Latte (i)	495,000	-	-	16,470	-	-	511,470	-	-
N D Di Latte	400,000	-	3,593	16,470	65,000	-	485,063	-	-
J M Norup (ii)	32,917	-	-	2,629	155,759	-	191,305	-	-
I P Olson	80,000	-	-	-	-	-	80,000	-	-
C Lancaster	55,046	-	-	4,954	-	-	60,000	-	-
Executives									
S A Oaten	300,000	-	3,885	16,470	-	-	320,355	-	-
Total	**1,362,963**	**-**	**7,478**	**56,993**	**220,759**	**-**	**1,648,193**		

(i) Mr Di Latte resigned from the Board on 31 December 2012
(ii) Mr Norup resigned from the Group on 20 July 2012

June 2012	Short-Term Benefits			Post Employment Benefits		Share Based Payments	Total		
	Salary & Fees $	Cash Bonus $	Non Monetary Benefits $	Super-annuation $	Leave Entitlements $	Options $	$	Performance Related	Consisting of Options
Directors									
D B Di Latte	356,048	-	2,980	19,511	87,559	-	466,098	-	-
N D Di Latte	475,000	-	6,200	15,666	-	-	496,866	-	-
J M Norup	448,333	-	1,991	15,666	-	-	465,990	-	-
I P Olson	60,000	-	-	-	-	-	60,000	-	-
C Lancaster	60,000	-	-	-	-	-	60,000	-	-
Executives									
S A Oaten	300,000	-	3,939	15,666	-	1,845	321,450	-	1%
Total	**1,699,381**	**-**	**15,110**	**66,509**	**87,559**	**1,845**	**1,870,404**		

COMPENSATION OPTIONS: GRANTED, VESTED AND LAPSED DURING THE YEAR

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. No options were granted to executives or key management personnel during the prior year nor did any vest. 2,240,000 options expired during the year.

SHARES ISSUED ON EXERCISE OF COMPENSATION OPTIONS

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.

End of Audited Remuneration Report

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 (i)	6	5	-	-	-	-
N D Di Latte	10	10	1	1	-	-
J M Norup (ii)	-	-	-	-	-	-
I P Olson	10	10	1	1	-	-
C Lancaster	10	10	1	1	-	-

(i) Dominic Di Latte resigned from the Board on 31 December 2012
(ii) John Norup resigned from the Board on 20 July 2012

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, BDO Audit (WA) Pty Ltd.

BDO

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

2 August 2013

Board of Directors
Diploma Group Limited
140 Abernethy Road
BELMONT WA 6104

Dear Sirs,

DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF DIPLOMA GROUP LIMITED

As lead auditor of Diploma Group Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Diploma Group Limited and the entities it controlled during the period.

Phillip Murdoch
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

NON-AUDIT SERVICES

The non-audit services provided by the entity's auditors are disclosed in note 26 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 Group's Corporate Governance Statement is contained on pages 12 to 15 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
2 August 2013

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 Group 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
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.

There is a corporate governance section on the Group'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 Group'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 Group;
- 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 Group 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 Group fairly and accurately set out the financial position and financial performance of the Group 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 Group 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
N D Di Latte	January 1996	Chief Executive	No
I P Olson	October 2007	Non-executive Chairman	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 Group'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)
C Lancaster

For details of the Group'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 Group 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 Group 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 Group. 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 to 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 Group'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 Group'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 in 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 Group. 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 Group 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 Group's risk management and internal compliance and control systems is operating effectively and efficiently in all material respects.

External Auditors

The Group's current external auditors are BDO Audit (WA) Pty Ltd. 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.

BDO'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 2013.

Continuous Disclosure

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

The Group is committed to:

- Ensuring that stakeholders have the opportunity to access externally available information issued by the Group;
- Providing full and timely information to the market about the Group'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 Group 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 Group 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.

Diversity Policy

The Board of Directors recognise that fostering a culture that respects and values diversity will enrich our perspective, foster harmony in the workforce and improve performance. The Board recognises that this will increase the likelihood of becoming a valued service provider in our market sector.

The Board of Directors is committed to ensuring the group establishes measurable objectives for diversity, assess annually the objectives set for achieving diversity; and annually assesses the progress made towards achieving the objectives set.
The Board understands that diversity means the differences in gender, race, culture, age, family or carer status, religion and disability that exist among the workforce. The diversity policy is implemented through all levels of the workforce by the more expansive company policies including policies including the Human Resources policy.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 $'000	2012 $'000
Continuing operations			
Revenue	3	**163,414**	219,072
Other revenue	4(a)	**803**	923
Cost of sales		**(154,652)**	(228,667)
Gross profit /(loss)		**9,565**	(8,672)
Other income		**578**	539
Administration expenses		**(4,553)**	(5,436)
Marketing and advertising expenses		**(129)**	(600)
Occupancy expenses		**(541)**	(802)
Finance costs	4(d)	**(1,292)**	(687)
Other expenses	4(b)	**(1,145)**	(3,814)
Share of (loss) from equity accounted investment	12(b)	**(211)**	(4,837)
Profit/(loss) before income tax from continuing operations		**2,272**	(24,309)
Income tax (expense)/ benefit	8(b)	**(719)**	7,280
Net profit/(loss) attributable to members of Diploma Group Limited		**1,553**	(17,029)
(Loss) for the year from discontinued operations	16	**-**	(10,072)
Profit /(loss) for the year after income tax		**1,553**	(27,101)
Other comprehensive (expense)/income			
Foreign currency translation		**-**	(53)
Income tax on items of other comprehensive income		**-**	-
Other comprehensive (expense)/income for the period, net of tax		**-**	(53)
Total comprehensive income/(loss) for the period		**1,553**	(27,154)
Profit /(loss) for the period is attributable to:			
Non-controlling interest		**-**	372
Owners of the parent		**1,553**	(27,473)
		1,553	(27,101)
Total comprehensive income/(loss) for the period is attributable to:			
Non-controlling interest		**-**	372
Owners of the parent		**1,553**	(27,526)
		1,553	(27,154)
Earnings/(loss) per share (cents per share)			
Basic earnings/(loss) per share	5	**1.02**	(17.98)
Diluted earnings/(loss) per share	5	**1.02**	(17.98)
Earnings per share for continuing operations (cents per share)			
Basic earnings/(loss) per share	5	**1.02**	(11.39)
Diluted earnings/(loss) per share	5	**1.02**	(11.39)

This Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	2013 $'000	2012 $'000
Current Assets			
Cash and cash equivalents	9	**10,284**	13,002
Trade and other receivables	10	**28,816**	18,565
Inventories	11	**11,680**	13,244
Equity accounted investments	12(a)	**2,218**	-
Other assets	14	**616**	613
Assets classified as held for sale	15	**4,071**	-
Total Current Assets		**57,685**	45,424
Non-Current Assets			
Trade and other receivables	10	**642**	-
Inventories	11	**12,514**	24,623
Property, plant and equipment	18	**1,352**	1,600
Equity accounted investments	12(a)	**654**	665
Deferred tax assets	8(c)	**2,032**	2,374
Total Non-Current Assets		**17,194**	29,262
Total Assets		**74,879**	74,686
Current Liabilities			
Trade and other payables	19	**49,221**	39,963
Interest bearing loans and borrowings	20	**6,232**	27,060
Provisions	21	**2,394**	2,500
Total Current Liabilities		**57,847**	69,523
Non-Current Liabilities			
Trade and other payables	19	**1,667**	2,140
Interest bearing loans and borrowings	20	**11,892**	112
Provisions	21	**169**	184
Deferred tax liabilities	8(c)	**-**	-
Total Non-Current Liabilities		**13,728**	2,436
Total Liabilities		**71,575**	71,959
NET ASSETS		**3,304**	2,727
Equity			
Issued capital	23	**15,339**	15,339
Accumulated losses	24	**(13,029)**	(14,582)
Reserves	24	**424**	424
Parent interests		**2,734**	1,181
Non-controlling interests		**570**	1,546
TOTAL EQUITY		**3,304**	2,727

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 2013

CONSOLIDATED	**Issued Capital $'000**	**(Accumulated Losses) $'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 2012	15,339	(14,582)	598	(174)	1,181	1,546	2,727
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-
Net expense recognised directly in equity	-	-	-	-	-	-	-
Profit for the period	-	1,553	-	-	1,553	-	1,553
Total comprehensive income for the period	-	1,553	-	-	1,553	-	1,553
Transactions with owners in their capacity as owners:							
OEI payment	-	-	-	-	-	(976)	(976)
Balance at 30 June 2013	15,339	(13,029)	598	(174)	2,734	570	3,304

CONSOLIDATED	**Issued Capital $'000**	**(Accumulated Losses)/Ret-ained 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 2011	15,339	12,891	590	(121)	28,699	1,174	29,873
Exchange differences on translation of foreign operations	-	-	-	(53)	(53)	-	(53)
Net expense recognised directly in equity	-	-	-	(53)	(53)	-	(53)
(Loss) / profit for the period	-	(27,473)	-	-	(27,473)	372	(27,101)
Total comprehensive (loss)/ income for the period	-	(27,473)	-	(53)	(27,526)	372	(27,154)
Transactions with owners in their capacity as owners:							
Share-based payment	-	-	8	-	8	-	8
Balance at 30 June 2012	15,339	(14,582)	598	(174)	1,181	1,546	2,727

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 2013

	Note	2013 $'000	2012 $'000
Cash Flows from Operating Activities			
Receipts from customers		**151,448**	225,702
Payments to suppliers and employees		**(142,622)**	(204,401)
Interest received		**67**	538
Interest paid		**(748)**	(687)
Income tax paid		**-**	-
Net cash flows generated by operating activities	9(b)	**8,145**	21,152
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		**(6)**	(236)
Purchase of investments		**(289)**	(42)
Net cash flows used in investing activities		**(295)**	(278)
Cash Flows from Financing Activities			
Proceeds from borrowings		**2,651**	6,248
Repayment of borrowings		**(9,392)**	(17,312)
Net outside equity interest paid		**(976)**	-
Net cash flows used in financing activities		**(7,717)**	(11,064)
Net increase in cash held		**133**	9,810
Cash at the beginning of the financial year		**8,004**	(1,806)
Cash at the end of the financial year	9(a)	**8,137**	8,004

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 for-profit 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 2013 was authorised for issue in accordance with a resolution of the Directors on 29 July 2013.

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.

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 2011 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 2013. 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. These are outlined in the table below.

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 9 (issued December 2009 and amended December 2010)	Financial Instruments	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. Under AASB 9, there are three categories of financial assets: • Amortised cost • Fair value through profit or loss • Fair value through other comprehensive income. ***…continued over page…***	Annual reporting periods beginning on or after 1 January 2015	Adoption of AASB 9 is only mandatory for the year ending 30 June 2016. The entity has not yet made an assessment of the impact of these amendments. ***…continued over page…***

1 CORPORATE INFORMATION AND BASIS OF PREPARATION (continued)

New accounting standards and interpretations (continued)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 9 (issued December 2009 and amended December 2010) - cont	Financial Instruments	***…continued on from previous page…*** The following requirements have generally been carried forward unchanged from AASB 139 *Financial Instruments: Recognition and Measurement* into AASB 9: • Classification and measurement of financial liabilities; and • Derecognition requirements for financial assets and liabilities. • However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.		***…continued on from previous page…*** The entity does not have any financial liabilities measured at fair value through profit or loss. There will therefore be no impact on the financial statements when these amendments to AASB 9 are first adopted.
AASB 10 (issued August 2011)	Consolidated Financial Statements	Introduces a single 'control model' for all entities, including special purpose entities (SPEs), whereby all of the following conditions must be present: • Power over investee (whether or not power used in practice) • Exposure, or rights, to variable returns from investee • Ability to use power over investee to affect the entity's returns from investee.	Annual reporting periods beginning on or after 1 January 2013	The impact of the standard on the Group has not yet been determined.
AASB 10 (issued August 2011)	Consolidated Financial Statements	Introduces the concept of 'de facto' control for entities with less than a 50% ownership interest in an entity, but which have a large shareholding compared to other shareholders. This could result in more instances of control and more entities being consolidated.	Annual reporting periods beginning on or after 1 January 2013	The impact of the standard on the Group has not yet been determined.
AASB 10 (issued August 2011)	Consolidated Financial Statements	Potential voting rights are only considered when determining if there is control when they are substantive (holder has practical ability to exercise) and the rights are currently exercisable. This may result in possibly fewer instances of control.	Annual reporting periods beginning on or after 1 January 2013	The impact of the standard on the Group has not yet been determined.
AASB 10 (issued August 2011)	Consolidated Financial Statements	Additional guidance included to determine when decision making authority over an entity has been delegated by a principal to an agent. Factors to consider include: • Scope of decision making authority • Rights held by other parties, e.g. kick-out rights • Remuneration and whether commensurate with services provided • Decision maker's exposure to variability of returns from other interests held in the investee.	Annual reporting periods beginning on or after 1 January 2013	No material impact.

1 CORPORATE INFORMATION AND BASIS OF PREPARATION (continued)

New accounting standards and interpretations (continued)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 11 (issued August 2011)	Joint Arrangements	Joint arrangements will be classified as either 'joint operations' (where parties with joint control have rights to assets and obligations for liabilities) or 'joint ventures' (where parties with joint control have rights to the net assets of the arrangement). Joint arrangements structured as a separate vehicle will generally be treated as joint ventures and accounted for using the equity method (proportionate consolidation no longer allowed). However, where terms of the contractual arrangement, or other facts and circumstances indicate that the parties have rights to assets and obligations for liabilities of the arrangement, rather than rights to net assets, the arrangement will be treated as a joint operation and joint venture parties will account for the assets, liabilities, revenues and expenses in accordance with the contract.	Annual reporting periods beginning on or after 1 January 2013	No material impact.
AASB 13 (issued September 2011)	Fair Value Measurement	Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements.	Annual reporting periods beginning on or after 1 January 2013	The entity has yet to conduct a detailed analysis of the differences between the current fair valuation methodologies used and those required by AASB 13. However, when this standard is adopted for the first time for the year ended 30 June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 July 2013.
AASB 13 (issued September 2011)	Fair Value Measurement	Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, e.g. land and buildings, investment properties etc.	Annual reporting periods beginning on or after 1 January 2013	When this standard is adopted for the first time for the year ended 30 June 2014, additional disclosures will be required about fair values.

1 CORPORATE INFORMATION AND BASIS OF PREPARATION (continued)

New accounting standards and interpretations (continued)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 119 (reissued September 2011)	Employee Benefits	Main changes include: • Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans • Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods • Subtle amendments to timing for recognition of liabilities for termination benefits • Employee benefits expected to be settled (as opposed to due to settled under current standard) wholly within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used wholly within 12 months of end of reporting period will in future be discounted when calculating leave liability.	Annual reporting periods beginning on or after 1 January 2013	The entity currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to AASB 119 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement. When this standard is first adopted for the 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012 as long-term benefits because they are not expected to be settled wholly within 12 months after the end of the reporting period. This will result in a reduction of the annual leave liabilities recognised on 1 July 2012, and a corresponding increase in retained earnings at that date. Comparatives for the year ended 30 June 2013 will also be restated, resulting in a further decrease in the annual leave liability, however, the impact has not yet been determined.
AASB 2012-5 (issued June 2012) - AASB101	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle	**Minimum comparative information** Clarifies the requirements for comparative information as follows: • Only one year's comparative information (i.e. for the preceding period) • Two of each financial statement • Narrative information provided in preceding period's financial statements that continues to be relevant in current period.	Annual reporting periods beginning on or after 1 January 2013	There will be no impact when this amendment is first adopted as the entity only includes comparatives for the preceding period.

1 CORPORATE INFORMATION AND BASIS OF PREPARATION (continued)

New accounting standards and interpretations (continued)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2012-5 (issued June 2012) - AASB101 cont	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle	Comparative information that exceeds minimum requirements can be provided as long as it complies with Australian Accounting Standards. Separate components of financial statements can be provided without including the whole set, for example, including a third statement of comprehensive income only. However, where an additional statement of comprehensive income is included, full comparative information relating to this additional statement of comprehensive income must be provided.	Annual reporting periods beginning on or after 1 January 2013	There will be no impact when this amendment is first adopted as the entity only includes comparatives for the preceding period.
AASB 2012-9 (issued December 2012)	Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039	Deletes Australian Interpretation 1039 Substantive Enactment of Major Tax Bills In Australia from the list of mandatory Australian Interpretations to be applied by entities preparing financial statements under the Corporations Act 2001 or other general purpose financial statements.	Annual reporting periods beginning on or after 1 January 2013	There will be no impact on first-time adoption of this amendment as the group does not account for proposed changes in taxation legislation until the relevant Bill has passed through both Houses of Parliament, which is consistent with the views expressed by the Australian Accounting Standards Board in their agenda decision of December 2012.
AASB 12 (issued August 2011)	Disclosure of Interests in Other Entities	Combines existing disclosures from AASB 127 *Consolidated and Separate Financial Statements*, AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*. Introduces new disclosure requirements for interests in associates and joint arrangements, as well as new requirements for unconsolidated structured entities.	Annual reporting periods beginning on or after 1 January 2013	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities.
AASB 2012-6 (issued September 2012)	Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures	Defers the effective date of AASB 9 to 1 January 2015. Entities are no longer required to restate comparatives on first time adoption. Instead, additional disclosures on the effects of transition are required.	Annual reporting periods beginning on or after 1 January 2015	As comparatives are no longer required to be restated, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required on transition, including the quantitative effects of reclassifying financial assets on transition.

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)).

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 intergroup 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 Profit or Loss and Other 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combinations (continued)

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.

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 Profit or Loss and Other 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 Profit or Loss and Other Comprehensive Income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Development inventories are classified as current inventories when practical completion of the project is forecasted to occur within one year from the date of classification. All other development inventory is deemed to be non-current.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 Profit or Loss and Other 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 Profit or Loss and Other 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.

(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 Profit or Loss and Other 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) Non-current assets held for sale and discontinued operations

Non-current assets and disposals groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is only met when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the Statement of Profit or Loss and Other Comprehensive Income, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes. The resulting profit or loss (after taxes) is reported separately in the Statement of Profit or Loss and Other Comprehensive Income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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.

(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.

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 Profit or Loss and Other 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 substantially retains 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 at 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 Profit or Loss and Other 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 Group does not have a formal plan covering the payment of equity-based executive remuneration. It is the Group'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 Profit or Loss and Other 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 Profit or Loss and Other 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 Profit or Loss and Other 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 Profit or Loss and Other 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, carry forward 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 are 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 impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

		2013 $'000	2012 $'000
3.	**REVENUE**		
	Construction contract revenue	**157,043**	118,369
	Revenue from sale of development properties	**6,371**	100,703
		163,414	219,072
4.	**OTHER REVENUE AND EXPENSES**		
(a)	**Other revenue**		
	Interest revenue	**67**	538
	Sales commission, strata and property management	**736**	385
		803	923
(b)	**Other expenses**		
	Depreciation expense	**254**	394
	Insurance	**4**	376
	Impairment of other receivable	**-**	1,243
	Bad debts expense	**485**	350
	Settlement expenses	**10**	483
	Other expenses	**392**	968
		1,145	3,814
(c)	**Employee benefits expenses**		
	Wages and salaries (inclusive of superannuation)	**15,616**	14,485
	Share-based payments expense	**-**	8
	Other employee expenses	**271**	467
		15,887	14,960
(d)	**Finance costs**		
	Finance charges payable under finance leases	**15**	17
	Other loans	**1,277**	670
		1,292	687

5. EARNINGS PER SHARE

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

	2013	2012
Profit /(loss) attributable to members of Diploma from continuing operations	**1,553**	(17,029)
Loss attributable to members of Diploma from discontinued operations	**-**	(10,072)
	1,553	(27,101)

Total number of options on issue not considered dilutive is nil (2012: 2,240,000).

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.

Weighted Average Number of Shares		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**152,766,993**	152,766,993
Effect of dilutive securities:		
- Share Options	**-**	-
Weighted average number of ordinary shares adjusted for the effect of dilution.	**152,766,993**	152,766,993

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 and tax loses as management considers that it is probable that future taxable profits will be available to utilise those temporary differences and tax loses.

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 un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered probable 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 Profit or Loss and Other 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, including estimates of forecast costs to complete 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 Profit or Loss and Other Comprehensive Income of 2013 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

Recoverability of development projects
In determining the recoverability of development inventory, the Group estimates the future value of unsold development inventory based on actual sales values achieved for comparable development inventory stock. Where there is no historical sales value information the Group relies on independent valuations to determine if development inventory is carried at the lower of cost or net realisable value.

Classification of development inventory
In determining the current and non-current status of development inventory, the Group estimates the expected completion date of each development based on historical experience and actual construction durations for comparable development inventory stock. Development inventories are classified as current inventories when practical completion of the project is forecasted to occur within one year from the date of classification. All other development inventory is deemed to be non-current

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 21.

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 18.

7. DIVIDENDS PAID AND PROPOSED

		2013 **$'000**	2012 $'000
(a)	Recognised amounts		
	Declared and paid during the year:		
	Dividends on ordinary shares:		
	Final franked dividend for 2012: Nil (2011: Nil)	**-**	-
	Interim franked dividend for 2013: Nil (2012: Nil)	**-**	-
		-	-
(b)	**Unrecognised amounts**		
	Dividends on ordinary shares:		
	Final franked dividend for 2013: Nil (2012: Nil)	**-**	-

7. DIVIDENDS PAID AND PROPOSED (continued)	2013 $'000	2012 $'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% (2012: 30%)	**3,397**	3,397
- Franking credits that will arise from the payment of income tax payable as at the end of the financial year	**-**	-
	3,397	3,397
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.	**-**	-
	3,397	3,397

8. INCOME TAX

(a) Income Tax Expense

Major components of income tax expense are:

	2013 $'000	2012 $'000
Current income tax		
Current income tax expense/(benefit)	**346**	(632)
Adjustments in respect of current income tax of previous years	**31**	5
Deferred income tax		
Relating to origination and reversal of temporary differences	**864**	(7,284)
Adjustment in respect of deferred taxes of previous years	**(522)**	631
Income tax (benefit)/expense reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	**719**	(7,280)

(b) Numerical reconciliation of income tax expense and tax at the statutory rate

The income tax expense applicable to accounting (loss)/profit at the statutory income tax rate is reconciled to the income tax expense reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as follows:

	2013 $'000	2012 $'000
Accounting profit/(loss) before tax from continuing operations	**2,272**	(24,309)
(Loss)/profit before tax from discontinued operation	**-**	(10,072)
	2,272	(34,381)
At the statutory income tax rate of 30% (2012: 30%)	**682**	(10,315)
Adjustments in respect of current income tax of previous years	**31**	5
Non-deductible share-based payments	**-**	2
Non-deductible overseas expenses	**-**	3,022
Other	**6**	6
Income tax expense/(benefit)	**719**	(7,280)
Income tax (expense/(benefit) reported in the consolidated income statement	**719**	(7,280)
Income tax attributable to a discontinued operation	**-**	-
	719	(7,280)

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 Profit or Loss and Other Comprehensive Income	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Deferred tax liabilities				
Inventory	**(1,489)**	(5,000)	**3,511**	459
Gross deferred income tax liabilities	**(1,489)**	(5,000)		
Set-off of deferred tax assets	**1,489**	5,000		
Deferred tax liability per Statement of Financial Position	**-**	-		
Deferred tax assets				
Employee benefit provisions	**660**	711	**(51)**	(30)
Other provisions and accruals	**176**	190	**(14)**	(222)
Other	**183**	96	**87**	69
Losses available for offsetting against future taxable income	**2,502**	6,377	**(3,875)**	6,377
Deferred income tax (expense)/benefit			**(342)**	6,653
Gross deferred tax assets	**3,521**	7,374		
Set-off of deferred tax liabilities	**(1,489)**	(5,000)		
Deferred tax asset per Statement of Financial Position	**2,032**	2,374		

(d) Tax losses and unrecognised temporary differences

At 30 June 2013, there are no unrecognised tax losses or temporary differences (2012: Nil).

9. CASH AND CASH EQUIVALENTS

	2013 $'000	2012 $'000
Cash at bank and in hand (i)	**10,274**	12,934
Cash deposits held in trust	**10**	68
	10,284	13,002

(i) $860,302 of the cash at bank is set aside as security for bank guarantees issued by the Group.

(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:

	2013	2012
Cash at bank and in hand	**10,274**	12,934
Multi option facility (bank overdraft)	**(2,147)**	(4,998)
Cash held in trust	**10**	68
Cash per the Statement of Financial Position	**8,137**	8,004

		2013 $'000	2012 $'000
9.	**CASH AND CASH EQUIVALENTS (continued)**		
(b)	**Reconciliation of Net (Loss)/Profit to the Net Cash Flows from Operating Activities**		
	Profit/(loss) after tax from continuing operations	**1,553**	(17,029)
	Loss after tax from discontinued operations	**-**	(10,072)
	(Profit/(loss) after tax	**1,553**	(27,101)
	Add/(less) non-cash items:		
	Depreciation, impairment and amortisation expense	**254**	394
	Net foreign exchange loss /(gain)	**-**	87
	Other receivable and bad debts expense	**258**	1,593
	Share of net loss/(profit) of investments accounted for using the equity method	**211**	4,837
	Share-based payment expense	**-**	8
	Impairment of discontinued assets (i)	**-**	7,643
	Change in assets and liabilities:		
	(Increase)/Decrease in receivables	**(17,351)**	2,409
	(Increase)/Decrease in creditors	**9,329**	(18,026)
	(Decrease) in provisions	**(121)**	(377)
	Decrease in inventories	**13,673**	56,380
	(Decrease)/Increase in current tax liability	**-**	-
	Increase in other assets	**(3)**	(42)
	Decrease/(Increase) in deferred tax asset	**342**	(2,374)
	(Decrease) in deferred tax liability	**-**	(4,279)
	Net cash outflows from operating activities	**8,145**	21,152
(c)	Non-cash financing and investing activities		
	Dividends not paid	**-**	-

(i) This amount includes an impairment charge of $1,564,709 to intangibles which has been written down to zero.

		2013 $'000	2012 $'000
10.	**TRADE AND OTHER RECEIVABLES**		
	Current		
	Trade receivables	**20,808**	7,239
	Allowance for doubtful debts	**(450)**	(60)
	Retentions receivable	**3,733**	80
	Other receivables	**1,724**	1,379
		25,815	8,638
	Related party receivables (a)		
	Director related party receivables	**3,001**	4,240
	Other related party receivables	**-**	5,977
	Allowance for doubtful debts	**-**	(290)
		28,816	18,565
	Non-Current		
	Retentions receivable	**642**	-
	Other receivables	**-**	-
		642	-

10. TRADE AND OTHER RECEIVABLES (continued)

(a) Related party receivables

For terms and conditions of related party receivables refer to notes 25 and 27.

(b) Ageing analysis

Trade receivables are 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 30(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						
2013	**20,808**	**18,986**	**416**	**-**	**956**	**450**
2012	7,239	6,509	-	-	670	60

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. $390,000 impairment loss (2012: $60,000) has been recognised by the Group. The amount was included in the other expense item of the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

	2013 $'000	2012 $'000
Movements in the provision for impairment loss were as follows:		
At 1 July	**60**	627
Charge for the year	**390**	60
Amounts written off	**-**	(627)
Foreign exchange translation	**-**	-
At 30 June	**450**	60

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:

	2013		2012	
	$'000	**Days**	$'000	Days
Related party	**-**	**-**	-	-
Other	**956**	**427**	670	32
	956	**427**	670	32

Other than those identified above there are no other impaired receivables in "Trade and other receivables". The Group 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.

	2013 $'000	2012 $'000
11. INVENTORIES		
Development projects complete- at cost	**784**	4,343
Development projects complete- net realisable value	**-**	1,706
Development projects under construction – at cost	**17,295**	26,496
Construction work in progress – gross amounts due from customers (note 22)	**6,115**	5,322
	24,194	37,867
Aggregate carrying amount of inventories:		
Current	**11,680**	13,244
Non-current	**12,514**	24,623

(a) Inventory expense

Development inventories recognised as an expense for the year ended 30 June 2013 totalled $6,299,000 (2012: $95,555,000) for the Group. This expense has been included in the cost of sales line item as a cost of inventories.

(b) Borrowing costs

During the year borrowing costs capitalised into the cost of inventory at 30 June 2013 was $523,000 (2012: $3,540,000).

12. EQUITY ACCOUNTED INVESTMENTS

(a) Investment details

	2013	2012
Unlisted		
Current		
Criterion Towers Joint Venture	**-**	-
15 Aberdeen Street Unit Trust	**2,218**	-
	2,218	-
Non-current		
Helmshore Unit Trust	**654**	665

Ownership interest	**%**	%
Helmshore Unit Trust	**33**	33
Criterion Towers Joint Venture	**50**	50
15 Aberdeen Street Unit Trust	**25**	100

12. EQUITY ACCOUNTED INVESTMENTS (continued)

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

	2013 $'000	2012 $'000
Helmshore Unit Trust		
At 1 July 2012	**665**	665
Investment in project	**14**	-
Share of loss before income tax	**(25)**	-
At 30 June 2013	**654**	665
Criterion Towers Joint Venture		
At 1 July 2012	**-**	588
Investment in project	**186**	-
Receivable reclassified as equity accounted investment	**-**	4,249
Share of (loss)/profit before income tax	**(186)**	(4,837)
At 30 June 2013	**-**	-
15 Aberdeen Street Unit Trust		
At 1 July 2012	**-**	-
Investment in project	**89**	-
Receivable reclassified as equity accounted investment	**2,129**	-
Share of loss before income tax	**-**	-
At 30 June 2013	**2,218**	-

(c) Summarised Financial Information

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

Extract from the investees' Statement of Financial Positions:		
Current assets	**14,794**	25,772
Non-current assets	**4,536**	3,022
	19,330	28,794
Current liabilities	**7,205**	26,181
Non-current liabilities	**1,291**	1,283
	8,496	27,464
Net assets	**10,834**	1,330
Share of investees' net assets	**2,872**	665
Extract from the investees' Statement of Profit or Loss and Other Comprehensive Incomes:		
Revenue	**-**	17,892
Net loss	**(447)**	(2,126)
Contingent liabilities and capital commitments relating to the investees		
Share of contingent liabilities incurred jointly with other investors	**-**	-
Share of capital commitments	**-**	-

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 2013 include the following controlled entities:

Name of Controlled Entity [1]	Notes	Country of Incorporation	Ownership % 2013	Ownership % 2012
Diploma Construction (NSW) Pty Ltd		Australia	**100**	100
Diploma Construction (WA) Pty Ltd		Australia	**100**	100
Diploma Group LLC	3	UAE	**-**	100
Joondalup Village Life Pty Ltd		Australia	**100**	100
Proven Joondalup Pty Ltd		Australia	**100**	100
The Diploma 148 Adelaide Tce JV	2	Australia	**80**	80
The Diploma 155 Adelaide Tce JV	2	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		Australia	**100**	100
708 Foundry Road Pty Ltd		Australia	**100**	100
69 Adelaide Tce Unit Trust		Australia	**100**	100
19 The Crescent Unit Trust		Australia	**100**	100
300 Lord Street Unit Trust		Australia	**100**	100
15 Aberdeen Street Unit Trust	4	Australia	**25**	100
303 Campbell Street Unit Trust		Australia	**100**	100
Diploma Capital Pty Ltd		Australia	**100**	100
Diploma Capital Securities Pty Ltd		Australia	**100**	100
Diploma Head Office Pty Ltd		Australia	**100**	100
Diploma Development Management Pty Ltd		Australia	**100**	100
Allegro Realty Holdings Pty Ltd		Australia	**100**	100
Allegro Realty Pty Ltd		Australia	**100**	100
Diploma TCo Holdings Pty Ltd		Australia	**100**	100
69 Adelaide Tce Pty Ltd		Australia	**100**	100
303 Campbell Street Pty Ltd		Australia	**100**	100
300 Lord Street Pty Ltd		Australia	**100**	100
15 Aberdeen Street Pty Ltd	4	Australia	**25**	100
19 The Crescent Pty Ltd		Australia	**100**	100
Diploma Acquisition Pty Ltd		Australia	**100**	100

Notes:
1. All controlled entities have a 30 June reporting date.
2. 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.
3. The Group had 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. The Group sold its interest in this entity to its local nominee on 30 November 2012 for $Nil consideration.
4. The Group sold down its interest in this entity on 1 July 2012.

	2013 $'000	2012 $'000
14. OTHER ASSETS		
Current		
Investment in Australian Unit Trust	**500**	500
Term deposit	**55**	52
Prepayments	**61**	61
	616	613

15. ASSETS CLASSIFIED AS HELD FOR SALE

During the current financial year, the Group put up for sale a property development site located at 69 Adelaide Tce that no longer fit its development profile. On 3 December 2012 the Group accepted a conditional offer for sale and on 28 June 2013 this offer went unconditional. On this date the asset previously classified as non-current inventory was reclassified as an Asset Held for Sale.

Asset held for sale	**4,071**	-

Settlement of the above asset occurred on 22 July 2013.

16. DISCONTINUED OPERATIONS

On 28 June 2012, the Board of Directors resolved to exit the UAE. The one and only project in the UAE had been on hold at the request of the client since 15 February 2012. The uncertainty around the project made it difficult for management to derive any real growth and profitability from the segment. As at 30 June 2012, the UAE operations were classified as a disposal group held for sale and as a discontinued operation. The assets of the UAE operations were written down to fair value less costs to sell of nil. There were no liabilities associated with the sale of these operations. The Group disposed of this entity, for $Nil consideration, on 30 November 2012. The results of the UAE for the period to 30 November 2012 are presented below:

Revenue	**-**	6,693
Cost of sales	**-**	(7,478)
Gross (loss)/profit	**-**	(785)
Administration expenses	**-**	(1,176)
Marketing and advertising expenses	**-**	(199)
Occupancy expenses	**-**	(38)
Finance costs	**-**	(11)
Other expenses	**-**	(220)
Impairment loss recognised on the re-measurement to fair value less costs to sell	**-**	(7,643)
Loss before tax from a discontinued operation	**-**	(10,072)
Tax expense	**-**	-
	-	(10,072)

The net cash flows incurred by the UAE operations are as follows:

Operating	**-**	(2,448)
Investing	**-**	(2)
Financing	**-**	(11)
Net cash (outflow)/inflow	**-**	(2,461)

Loss per share (cents per share)		
Basic loss per share	**-**	(6.59)
Diluted loss per share	**-**	(6.59)

	2013 $'000	2012 $'000
17. INTANGIBLE ASSETS		
Opening Balance	**-**	1,487
Additions	**-**	-
Fair value adjustment	**-**	(1,565)
Foreign exchange movement	**-**	78
Closing Balance	**-**	-

Impairment testing
The recoverable amounts of the UAE licences were determined based on a value in use calculation. The intangible asset formed part of the assets of the discontinuing UAE operations and management recognised an impairment charge of $1,565,000 against the intangible asset previously carried at this amount. The charge was recorded within the loss from discontinuing operations in the income statement in the prior year.

18. PROPERTY, PLANT AND EQUIPMENT

	2013 $'000	2012 $'000
Plant and equipment, at cost		
Opening balance net of accumulated depreciation and impairment	**1,600**	1,758
Additions	**6**	236
Disposals	**-**	-
Depreciation for the year	**(254)**	(394)
Foreign exchange translation	**-**	-
Closing balance net of accumulated depreciation and impairment	**1,352**	1,600
Cost	**2,925**	2,968
Accumulated depreciation and impairment	**(1,573)**	(1,368)
Net book value of property, plant and equipment	**1,352**	1,600

Lessee Disclosures:
The carrying value of plant and equipment held under finance leases at 30 June 2013 is $94,046 (2012 $119,302). Leased assets are pledged as security for the related finance lease liability. Assets are also encumbered to the extent set out in note 20(d).
Borrowing costs:
There are no borrowing costs capitalised into the cost of any property, plant and equipment at 30 June 2013 (2012: nil).

19. TRADE AND OTHER PAYABLES

	2013 $'000	2012 $'000
Current		
Trade payables and accruals (a)	**43,814**	32,519
Gross amounts due to customers – contract work in progress (note 22)	**3,751**	818
Deposits held	**-**	39
Other payables	**1,656**	2,956
	49,221	36,332
Related party payables		
Related party trade payables and accruals	**-**	3,580
Other payables	**-**	51
	49,221	39,963

	2013 $'000	2012 $'000
19. TRADE AND OTHER PAYABLES (Continued)		
Non-Current		
Trade payables and accruals	**1,640**	2,140
Deposits held	**27**	-
	1,667	2,140

(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 25 and 27.

20. INTEREST BEARING LOANS AND BORROWINGS

	2013 $'000	2012 $'000
Current		
Multi option facility (a)	**2,147**	4,998
Working capital facility (a), (c)	**-**	2,035
Working capital facility – related party (a)	**-**	4,000
Project facilities – other (b), (c)	**4,050**	15,581
Finance lease liabilities	**35**	14
Other	**-**	213
	6,232	26,841
Related party loans		
Other	**-**	219
	6,232	27,060
Non-Current		
Working capital facility – related party (a)	**5,545**	-
Project facilities – other (b), (c)	**6,270**	-
Finance lease liabilities	**77**	112
	11,892	112

(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	2,147	8.70%	Jun 14	-
Related party facility	5,545	10.00%	Sep 14	-
	7,692			-

20. 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
Rockingham Project	1,550	9.46%	Feb 14	-
Highgate Project	2,500	6.06%	Sep 13	-
Adelaide Terrace Projects	6,270	18.50%	Aug 14	-
	10,320			-

The loans are subject to various loan to value financial covenants ranging from 50%to 75%. There were no breaches in any of these covenants during the year end 30 June 2013.

(c) 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.

(d) Assets pledged as security

The carrying amounts of assets pledged as security for current and non-current facilities are:

	2013 $'000	2012 $'000
Current		
Floating charge		
Cash and cash equivalents	**10,280**	13,002
Receivables	**39,474**	18,565
Inventories	**10,404**	13,244
Other assets	**2,779**	613
Total current assets pledged as security	**62,937**	45,424
Non-Current		
Fixed charge		
Receivables	**642**	-
Inventories	**12,514**	24,623
Property, plant and equipment	**1,352**	1,600
Other assets	**2,643**	665
Total non-current assets pledged as security	**17,151**	26,888
Total assets pledged as security	**80,088**	72,312

	2013 $'000	2012 $'000
20. INTEREST BEARING LOANS AND BORROWINGS (continued)		

(e) Terms and conditions

	2013	2012
Total working capital facilities available	**9,000**	12,000
Total working capital facilities used at reporting date	**(7,692)**	(11,033)
	1,308	967
Total project facilities available	**10,450**	15,721
Total project facilities used at reporting date	**(10,320)**	(15,581)
	130	140

(f) Interest rate, foreign exchange and liquidity risk

Details regarding interest rate, foreign exchange and liquidity risk are disclosed at note 30.

21. PROVISIONS

	2013	2012
Current		
Employee benefits	**1,808**	1,971
Maintenance provision	**536**	529
Other	**50**	-
	2,394	2,500
Non-Current		
Employee benefits	**169**	184

Maintenance provision
Movements during the year:

	2013	2012
Balance at beginning of the year	**529**	707
Additional provision	**365**	-
Paid during the year	**(358)**	(178)
Balance at the end of the financial year	**536**	529

The Group 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.

	2013	2012
Total number of full-time equivalent employees as at reporting date	**93**	108

22. CONTRACT WORK IN PROGRESS

	2013	2012
Construction costs incurred to date	**472,709**	744,109
Recognised profits to date	**14,086**	26,719
	486,795	770,828
Less: Progress billings	**(484,431)**	(766,324)
Net construction work in progress	**2,364**	4,504
Represented by:		
Gross amounts due to customers – trade and other payables (note 19)	**(3,751)**	(818)
Gross amounts due from customers – inventories (note 11)	**6,115**	5,322
	2,364	4,504

23. ISSUED CAPITAL

	2013 $'000	2012 $'000
Ordinary shares	**15,339**	15,339

	No. shares Thousands	No. shares Thousands
Movement in ordinary shares on issue		
Balance at beginning of year	**152,767**	152,767
Share buy-back	**-**	-
	152,767	152,767

(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 Group 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 Group.

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 2013 and 30 June 2012 are as follows:

Interest bearing loans and borrowings	**18,124**	27,172
Less cash and cash equivalents	**(10,284)**	(13,002)
Net borrowings	**7,840**	14,170
Trade and other payables	**50,888**	42,103
Net debt	**58,728**	56,273
Total equity	**3,304**	2,727
Total capital	**62,032**	59,000
Gearing ratio	**94.5%**	95.4%

24. RESERVES AND ACCUMULATED LOSSES

	2013 $'000	2012 $'000
Reserves		
Share option reserve (a)	**598**	598
Foreign currency translation reserve	**(174)**	(174)
	424	424
Retained earnings/(accumulated losses)		
Balance at beginning of year	**(14,582)**	12,891
Net profit/(loss) attributable to members of the Company	**1,553**	(27,473)
Balance at end of year	**(13,029)**	(14,582)

(a) Share option reserve

	2013 $'000	2012 $'000
Balance at beginning of year	**598**	590
Share-based payment	**-**	8
Balance at end of the year	**598**	598

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

25. DIRECTOR AND EXECUTIVE DISCLOSURES

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

(a) Compensation of Key Management Personnel by Category

	2013 $'000	2012 $'000
Short-term	**1,370**	1,714
Post employment	**278**	154
Share-based payment	**-**	2
	1,648	1,870

25. 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 33.

June 2013	*Balance at 1 Jul 2012*	*Granted*	*Exercised*	*Expired*	*Balance at 30 Jun 2013*	*Vested at 30 June 2013 Total*	*Exercisable*	*Not Exercisable*
Directors								
D B Di Latte (i)	-	-	-	-	-	-	-	-
N D Di Latte	-	-	-	-	-	-	-	-
J M Norup (ii)	-	-	-	-	-	-	-	-
I P Olson	-	-	-	-	-	-	-	-
C Lancaster	-	-	-	-	-	-	-	-
Executives								
S A Oaten	250,000	-	-	250,000	-	-	-	-
Total	250,000	-	-	250,000	-	-	-	-

June 2012	*Balance at 1 Jul 2011*	*Granted*	*Exercised*	*Expired*	*Balance at 30 Jun 2012*	*Vested at 30 June 2012 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	250,000	-	-	-	250,000	-	-	-
Total	**250,000**	-	-	-	**250,000**	-	-	-

(c) Shareholdings of Key Management Personnel (consolidated)

June 2013	*Balance at 1 Jul 2012*	*Granted as remuneration*	*On Exercise of Options*	*Net Change Other*	*Balance at 30 Jun 2013*	*Direct Interest*	*Indirect Interest*
Directors							
D B Di Latte (i)	20,993,189	-	-	-	20,993,189	20,400,000	593,189
N D Di Latte	21,041,333	-	-	70,000	21,111,333	20,518,144	593,189
J M Norup (ii)	21,278,189	-	-	-	21,278,189	20,685,000	593,189
I P Olson	30,000	-	-	100,000	130,000	130,000	-
C Lancaster	40,000	-	-	-	40,000	40,000	-
Executives							
S A Oaten	19,000	-	-	-	19,000	19,000	-
Total	**63,401,711**	-	-	**170,000**	**63,571,711**	**61,792,144**	**1,779,567**

June 2012	*Balance at 1 Jul 2011*	*Granted as remuneration*	*On Exercise of Options*	*Net Change Other*	*Balance at 30 Jun 2012*	*Direct Interest*	*Indirect Interest*
Directors							
D B Di Latte	20,993,189	-	-	-	20,993,189	20,400,000	593,189
N D Di Latte	21,041,333	-	-	-	21,041,333	20,448,144	593,189
J M Norup	21,278,189	-	-	-	21,278,189	20,685,000	593,189
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	**63,401,711**	-	-	-	**63,401,711**	**61,622,144**	**1,779,567**

(j) Mr D Di Latte resigned as a Director on 31 December 2012.
(ii) Mr J M Norup resigned as a Director on 20 July 2012.

25. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(d) Loans to Key Management Personnel

The Group has a loan receivable from the Di Latte Group Pty Ltd at 30 June 2013 totalling $3,167,992 (2012: $3,167,992). No payments (2012: $1,449,008) or receipts (2012: $1,449,008) were made against this loan during the year. The loan is repayable on demand.

The Group has a loan payable to Flag Holdings Pty Ltd, a company controlled by Dominic Di Latte, at 30 June 2013 totalling $5,544,687 (2012: $4,224,793). Repayments of $2,187,500 (2012: $Nil) and $3,001,221 redraws (2012: $Nil) were made against this loan during the year. Interest of $506,173 was charged during the year and is charged at normal commercial rates on this loan. The loan is repayable by 30 September 2014.

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

During the year, rent totalling $481,042 (2012: $634,722) 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 balance of $121,090 outstanding at 30 June 2013 (2012: $58,529).

During the year, survey services totalling $7,286 (2012: $152,625) 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 a balance of $Nil outstanding at 30 June 2013 (2012: $15,892).

Employee transactions
Maria Di Latte, Frank Di Latte, Natalie De Felice and Sam Di Latte are employed by a subsidiary of the Group as office manager, development manager, financial controller, and Labourer respectively. They are related parties of the Group by virtue of their close family relationship with Nick Di Latte. Their employment contracts are at normal market rates and conditions with the aggregate remuneration of these related parties totalling $332,385 (2012: $355,763).

Other
During the year the Group repaid $51,000 of a deferred dividend payment to Mr Dominic Di Latte (2012: $568,000). There was a balance of $Nil outstanding at 30 June 2013 (2012: $51,000). No interest was charged on this loan.

<u>Shareholder Agreements</u>
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 2013 the total receivables and payables associated with these joint ventures totalled $Nil (2012: $1,072,932) and $Nil respectively (2012: $3,799,038).

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. 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 2013 no further profit was realised on these projects (2012: $372,405) and during the year payments to minority interest holders totalled $976,685 (2012: $Nil). At 30 June 2013 Diploma had an amount payable of $166,546 (2012: $Nil) owing to ATD Developments Pty Ltd which represents GST withheld on the final apartment sale in this development. No Interest is charged on these amounts.

The anticipated margin on the construction of Sky apartments is a loss of $4,298,734 (2012: loss of $4,282,173) while the anticipated margin on the construction of Rise apartments is a profit of $735,684 (2012: profit $704,359). 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.

25. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

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

	2013 $'000	2012 $'000
Assets and liabilities		
Current assets		
Trade and other receivables	**3,001**	9,927
Non-current assets	**-**	-
Total assets	**3,001**	9,132
Current liabilities		
Trade and other payables	**121**	3,645
Interest bearing loans and borrowings	**5,545**	4,219
Non-current liabilities	**-**	-
Total liabilities	**5,666**	7,864
Revenues and expenses		
Revenue	**-**	414
Expenses	**1,325**	1,143
Non-controlling minority interest	**-**	372

26. REMUNERATION OF AUDITORS

	2013	2012
Amounts received, or due and receivable, by BDO Audit (WA) Pty Ltd for:		
▪ An audit or review of the financial report of the entity and any other entity in the consolidated entity (i)	**80,000**	150,000
▪ Other services in relation to the entity and any other entity in the consolidated entity:		
- accounting services	**-**	-
- tax compliance	**-**	31,100
	80,000	181,100
Amounts received, or due and receivable, by non BDO Australia for:		
▪ Other non-audit services	**28,208**	-

(i) Ernst and Young were the auditors of the Group for the year end 30 June 2012.

27. RELATED PARTY INFORMATION

Ultimate Parent

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

28. COMMITMENTS

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

	2013	2012
Within 1 year	**325**	307
Later than 1 year but not later than 5 years	**872**	1,177
Later than 5 years	**-**	-
	1,197	1,484

28. COMMITMENTS (continued)

The Group has entered into a commercial operating lease with a related party; refer note 25(e), for the lease of office premises. This non-cancellable lease has a remaining term of 4 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.

	2013 $'000	2012 $'000
Lease Commitments under Finance Leases		
Not later than one year	**47**	30
Later than 1 year but not later than 5 years	**101**	110
Later than 5 years	**-**	37
	148	177
Less: Future finance charges	**(36)**	(51)
Present value of future lease payments	**112**	126
Reconciled to the Statement of Financial Position (note 20)		
Current interest bearing liability	**35**	14
Non-Current interest bearing liability	**77**	112
	112	126

(c) Other

The Group has no contractual obligations in respect of its internal development projects (2012: $Nil).

29. CONTINGENT LIABILITIES

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 $1.9m, however, if Diploma is successful in its claim the estimated financial settlement receivable by Diploma inclusive of costs and disbursements is $0.7m.

A supplier has applied to enforce an adjudication awarded against Diploma for work completed on one of its construction projects. Diploma has counterclaimed against this supplier for loss of damage resulting from design dimension discrepancies. In the event the supplier is successful in its claim and Diploma is unsuccessful in their counterclaim then the estimated financial settlement payable by Diploma is $0.4m plus costs, however, if Diploma is successful in its counterclaim the estimated financial settlement receivable by Diploma inclusive of costs and disbursements is $0.8m.

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 2013 totalled $19,298,822 (2012: $18,636,237). As at the date of this report the outstanding bonds totalled $19,298,822. Messrs' D Di Latte, N Di Latte and Norup have provided personal guarantees as security against this bond facility.

30. 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. 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 (2012: $Nil). Trading in derivative instruments is not allowed under the company's policies. 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 to fund the Group's internal development projects and working capital requirements. 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 reporting date, the Group had the following classes of financial assets and financial liabilities exposed to variable interest rate risk:

	2013 **$'000**	2012 $'000
Financial assets		
Cash	**10,284**	13,002
Retention receivables	**4,375**	80
	14,659	13,082
Financial liabilities		
Interest bearing liabilities	**6,197**	21,616
Bank overdraft	**2,147**	4,998
	8,344	26,614
Net exposure	**6,315**	(13,532)

Based on the above exposure to variable interest rate risk at reporting 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	**2013** **$'000**	2012 $'000
+100 basis points	**(59)**	(70)
-100 basis points	**59**	70

30. FINANCIAL RISK MANAGEMENT (continued)

(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 securitize its trade and other receivables.

The group is not significantly exposed to credit risk from its operating activities, however the Board constantly monitors customer receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset. The Group does not hold collateral as security. No material exposure is considered to exist by virtue of the possible non-performance of the counterparties to financial instruments and cash deposits. Credit rating of cash is AA, all funds are held by St George Bank and Bankwest which have government guarantees on deposits.

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.

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. 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:

	2013	2012
	$'000	$'000
Cash and cash equivalents	**10,284**	13,002
Trade and other receivables	**32,887**	18,565
Construction work in progress – gross amounts due from customers	**6,115**	5,322
	49,286	36,889

The Group is also exposed to credit risk to the extent of the financial guarantees it has provided, by way of insurance bonds, on behalf of its controlled entities. Refer to note 29.

(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.

30. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity Risk (continued)

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

30 June 2013	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	**50,088**	**50,088**	**49,221**	**1,667**	**-**
Interest bearing liabilities	**18,012**	**21,377**	**9,112**	**12,265**	**-**
Finance lease liabilities	**112**	**147**	**47**	**100**	**-**
Financial guarantees	**-**	**10,785**	**10,785**	**-**	**-**
	68,212	**82,397**	**69,165**	**14,032**	**-**
30 June 2012					
CONSOLIDATED					
Trade and other payables	42,103	42,103	39,963	2,140	-
Interest bearing liabilities	26,614	27,745	25,877	1,868	-
Finance lease liabilities	126	177	30	110	37
Financial guarantees	-	13,935	13,935	-	-
	68,843	83,960	79,805	4,118	37

31. 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.

31. OPERATING SEGMENT (continued)

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.

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% (2012: 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.

Income tax expense and its associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

Major customers

Revenue from one customer amounted to $59,028,833 (2012: $53,991,000) arising from progress claims by the construction division.

	Construction $'000	Property Development $'000	Interdivision Eliminations $'000	Total Operations $'000
Year ended 30 June 2013				
Revenue				
Revenue from external customers	157,043	6,371	-	**163,414**
Other revenue from external customers	32	763	-	**795**
Inter-segment revenues	-	-	-	**-**
Total segment revenue	157,075	7,134	-	**164,209**
Segment net operating profit/(loss) after tax	4,164	(541)	-	**3,623**
Interest revenue	32	27	-	**59**
Interest expense	20	8	-	**28**
Depreciation and amortisation	253	1	-	**254**
Income tax expense	-	-	-	**-**
Segment assets	59,968	26,595	(41,462)	**45,101**
Segment liabilities	74,056	22,647	(41,462)	**55,241**
Cash flow information				
Net cash flow from operating activities	12,942	4,924	-	**17,866**
Net cash flow from investing activities	(29)	(265)	-	**(294)**
Net cash flow from financing activities	(7,566)	(11,423)	-	**(18,989)**

31. OPERATING SEGMENT (continued)

	Construction $'000	Property Development $'000	Interdivision Eliminations $'000	Total Operations $'000
Year ended 30 June 2012				
Revenue				
Revenue from external customers	118,369	100,703	-	219,072
Other revenue from external customers	472	451	-	923
Inter-segment revenues	9,644	-	-	9,644
Total segment revenue	128,485	101,154	-	229,639
Segment net operating profit/(loss) after tax	(12,797)	(11,512)	-	(24,309)
Interest revenue	472	66	-	538
Interest expense	323	364	-	687
Depreciation and amortisation	392	2	-	394
Income tax expense	-	-	-	-
Segment assets	51,743	20,569	-	72,312
Segment liabilities	62,907	9,052	-	71,959
Cash flow information				
			-	
Net cash flow from operating activities	4,330	18,881	-	23,211
Net cash flow from investing activities	(236)	(42)	-	(278)
Net cash flow from financing activities	-	(11,064)		(11,064)

	2013 $'000	2012 $'000
Segment revenue reconciliation to the consolidated statement of comprehensive income		
Total segment revenue	**164,209**	229,639
Unallocated interest income	**8**	-
	164,217	229,639

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, corporate interest costs and impairment charges. Income tax expenses are calculated as 30% (2011: 30%) of the segment's net operating profit.

Reconciliation of segment net operating profit/(loss) after tax to net profit before tax

	2013 $'000	2012 $'000
Segment net operating (loss)/profit after tax	**3,623**	(24,309)
Other revenue	**8**	-
Finance costs	**(1,292)**	-
Other expenses	**(67)**	-
Income tax (benefit)/expense at 30% (2011: 30%)	**(719)**	7,280
	1,553	(17,029)

31. 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.

Reconciliation of segment operating assets to total assets

	2013 $'000	2012 $'000
Segment operating assets	**45,101**	72,312
Cash and cash equivalents	**2,388**	-
Trade and other receivables	**25,358**	-
Deferred tax assets	**2,032**	2,374
Total assets per the statement of financial position	**74,879**	74,686

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.

Reconciliation of segment operating liabilities to total liabilities

	2013 $'000	2012 $'000
Segment operating liabilities	**55,241**	71,959
Trade and other payables	**1,345**	-
Interest bearing loans and borrowings	**13,962**	-
Provisions	**1,027**	-
Total liabilities per the statement of financial position	**71,575**	71,959

32. PARENT ENTITY INFORMATION

Information relating to Diploma Group Limited

	Parent	
Current assets	**28,264**	18,345
Non-current assets	**5,215**	353
Current liabilities	**(8,195)**	(17,466)
Non-current liabilities	**(11,837)**	(51)
	13,447	1,181
Issued capital	**74,245**	74,245
Accumulated losses	**(61,396)**	(73,662)
Share option reserve	**598**	598
Total shareholders' equity	**13,447**	1,181
(Loss)/profit of parent entity	**(2,070)**	(14,893)
Total comprehensive loss of the parent entity	**(2,070)**	(14,893)

32. 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 2013:

- a loan in the amount of $2,015,000 (2012: $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 (2012: $2,500,000) 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 (2012: $2,500,000).
- a loan in the amount of $6,270,000 (2012: $3,540,000) was taken out by 176 Adelaide Tce Pty Ltd and 69 Adelaide Tce Pty Ltd to fund its development activities. The Group has guaranteed the full amount of this subsidiary's loan.

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

	2013	2012
	$'000	$'000
33. SHARE BASED PAYMENT PLAN		
Expense arising from equity-settled share-based payment transactions	**-**	8

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 these 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 Profit or Loss and Other Comprehensive Income in relation to share options on issue in accordance with *AASB 2 Share-based Payments*.

33. SHARE BASED PAYMENT PLAN (continued)

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

	2013 No. '000	**2013 WAEP**	2012 No. '000	2012 WAEP
Outstanding at the beginning of the year	2,240	0.60	2,240	0.60
Granted during the year	-	-	-	-
Expired during the year	2,240	0.60	-	0.60
Forfeited during the year	-	-	-	-
Outstanding at the end of the year	-	0.60	2,240	0.60
Exercisable at the end of the year	-	0.60	1,800	0.60

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 2013 is Nil years (2012: 0.04 years).

The weighted average fair value of the options granted during the year was $nil (2012: 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.

34. EVENTS OCCURING AFTER THE REPORTING PERIOD

The project specific debt on the Group's Lord Street project totalling $2.5 million is due for repayment on 30 September 2013. Since year end, the Group received development approval for a 5 storey residential development consisting of 68 apartments. The Group has already secured 9 presale deposits with a further 90 expressions of interest and expects to be able to refinance the facility into a full construction finance facility with the existing provider or other provider prior to 30 September 2013.

On 22 July 2013, the Group sold a development property located at 69 Adelaide Terrace for $4.86 million. The full proceeds from the settlement of this property were used to pay down corporate debt.

Since year end the Group has signed new construction projects totalling $21 million.

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.

DIRECTORS' DECLARATION

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 2013 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 and other mandatory professional reporting requirements;

(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 2013.

On behalf of the Board

NICK D DI LATTE
Managing Director & CEO

Perth, Western Australia
2 August 2013

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

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 2013, the consolidated profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 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 judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Opinion

In our opinion:

(a) the financial report of 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 as at 30 June 2013 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report of the directors' report for the year ended 30 June 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Phillip Murdoch
Director

Perth, Western Australia
Dated this 2nd day of August 2013

As at 11 July 2013, 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	25
1,001 - 5,000	88
5,001 - 10,000	65
10,001 - 100,000	222
100,001 and over	79
Total number of holders	479
Number of shareholders holding less than a marketable parcel	206

(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 11 July 2013 are:

Name	Fully Paid Ordinary Shares
ND Properties Pty Ltd	20,518,144
Wandina Holdings Pty Ltd	20,400,000
Nipuron Pty Ltd	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 11 July 2013 are listed below:

Rank	Name	Number	%
1	ND Properties Pty Ltd	20,518,144	13.43
2	Healthy Holdings Pty Ltd	20,400,000	13.35
3	Nipuron Pty Ltd	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	Mr Mark Francis Bradley	9,577,121	6.27
7	NEFCO Nominees Pty Ltd	3,011,112	1.97
8	ATD Developments Pty Ltd	2,600,000	1.70
9	GAB Superannuation Fund Pty Ltd	1,735,136	1.14
10	Love Super Services Pty Ltd	1,544,555	1.01
11	Mr Peter J McMorrow & Mrs Bernadine A McMorrow	1,300,000	0.85
12	Ms Nicole Gallin & Mr Kyle Haynes	1,000,000	0.65
13	Mr Peter James Mitchell Love	1,000,000	0.65
14	Dr Peter Crossley-Meates	1,000,000	0.65
15	Mardol Chemicals Pty Ltd	937,937	0.61
16	Mr David Brian Argyle	935,000	0.61
17	Mr John Francis Corr	900,000	0.59
18	Mr John Edward Barbera	650,000	0.43
19	Dr Mohammed Al Kamil	620,000	0.41
20	Eagle River Holdings Pty Ltd	600,000	0.39
		129,529,005	84.79

CORPORATE DIRECTORY

DIPLOMA GROUP LIMITED	ACN 127 462 686
DIRECTORS	Ian P Olson (Non-executive Chairman) Nick D Di Latte (Chief Executive) Carl Lancaster (Non-executive Director)
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	BDO Audit (WA) Pty Ltd Chartered Accountants 38 Station Street Subiaco Western Australia 6008
BANKERS	St George Bank Level 2 Westralia Plaza 167 St. Georges Terrace 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**
WEBSITE	www.diploma.com.au
EMAIL	info@diploma.com.au