

DIPLOMA GROUP LIMITED

ABN 14 127 462 686

ANNUAL FINANCIAL REPORT

30 JUNE 2014

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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 2014.

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 geospatial business. He is a member of the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors. During the past three years Ian 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 Audit Committee and is a member of the Remuneration Committee.

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 Committee.

Nick has held no other directorships in the past three years.

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 chairs the Remuneration Committee and is a member of the Audit Committee.

Carl has held no other directorships in the past three years.

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 held senior finance roles with GRD Limited and before that Multiplex Limited. He commenced his career at KPMG based both in the Perth and UK offices.

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 2014.

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 2014 financial year, Diploma Group generated a net profit after tax of \$4.7 million (2013: net profit after tax of \$1.6m). This was an improvement in net profit after tax on the prior year of 194%. Revenue for the year totalled \$195.3 million (2013: \$163.4 million).

The Group during the year completed a successful capital raising whereby it raised \$9.1m via a placement of 22 million shares and then a 8 for 5 renounceable rights issue completed at 3 cents per share. This raising was used to pay down corporate debt of the Group and also free up bond facilities along with further strengthening the balance sheet.

During the year the construction division completed 7 projects with a combined contract value of circa \$267 million and secured another 4 totalling \$77m. The division has 9 active projects on hand with Heads of Agreements in place on a further 4 projects set to commence later in the year. Work on hand for the division totals \$180m.

The properties division successfully completed its One on Aberdeen development during the year. This development was the first undertaken in joint venture with the Department of Housing and all lots in the \$73m project were pre-sold. Settlements commenced on 25 July 2014 with over 65% already settled and the remaining lots expected to be completed in the next few weeks.

Abode, also a joint venture with the Department of Housing reached 100% presales during the year and construction of this development is well underway and due for completion in Feb 15. The remaining four projects in the property division, being two residential developments and two Quest Serviced apartments have all secured finance and are due for completion throughout FY 15 and FY16.

Earnings Per Share

The Group had a weighted average number of shares on issue during the year of 394,366,565. Basic earnings per share from continuing operations (EPS) for 2014 is 1.19 cents (2013: 1.02 cents). Diluted earnings per share from continuing operations for 2014 is 1.19 cents (2013: 1.02 cents).

STATEMENT OF FINANCIAL POSITION

The Consolidated Statement of Financial Position at 30 June 2014 has a current net working capital surplus of \$3.2 million (2013: \$0.2 million deficiency).

CASH FLOWS

The net cash flows used in operating activities totalled \$11.4 million.

MATTERS SUBSEQUENT TO THE REPORTING PERIOD

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

The Group has no unissued ordinary shares under options and no shares were issued in Diploma Group Limited on the exercise of options during the year..

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 2014 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

(ii) Executives

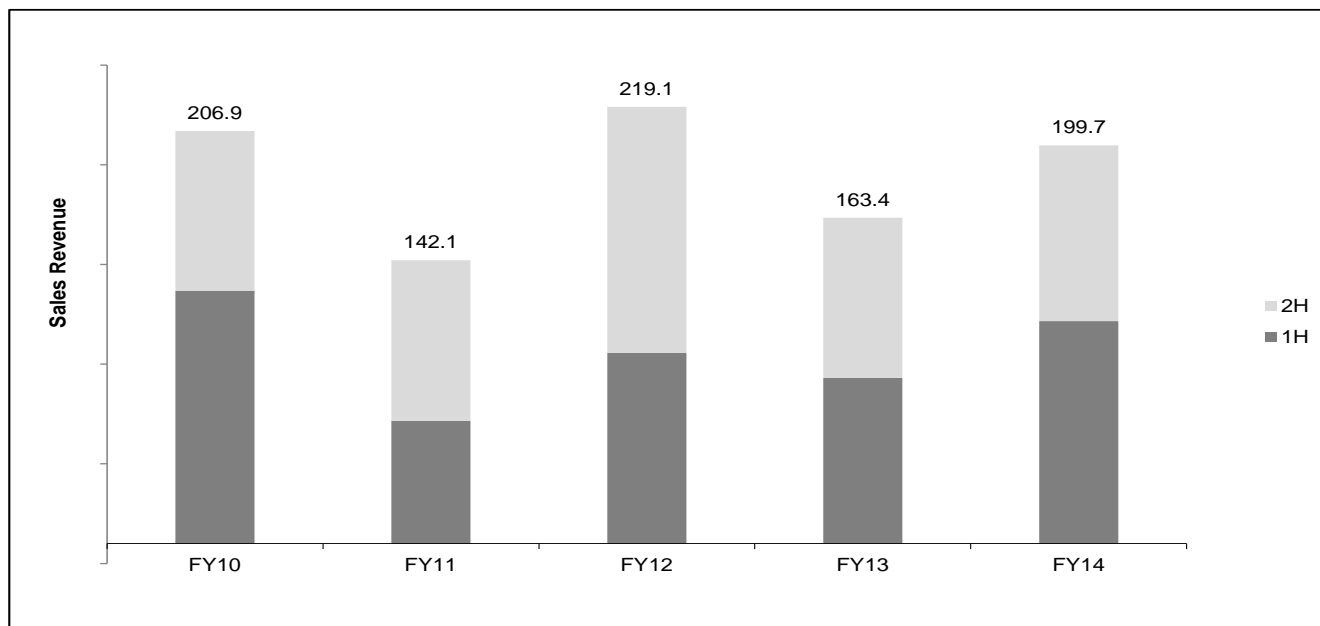
Name	Position	
S Oaten	Chief Financial Officer & Company Secretary	- appointed 10 September 2007

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 Governance

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.

Short Term incentives

Objective

The short term incentives (“STI”) program is designed to align the targets of the business units with the targets of those executives responsible for meeting those targets.

Structure

STI payments are granted to executives based on specific annual targets and key performance indicators being achieved. The sole key performance indicator is profit contribution.

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 employee share plan is to reward senior executives in a manner that aligns this element of remuneration with the creation of shareholder wealth. Equity-based benefits are not linked to performance but rather, due to their long-term nature, are designed to retain staff.

Structure

Diploma Employee Shares

Shares issued pursuant to this Plan (Incentive Shares) are for services rendered by eligible employees and Directors. The Company feels that incentive shares are effective consideration to eligible employees and Directors for their ongoing commitment and contribution to the Company. Where the Company offers to issue Incentive Shares to an employee, the Company may offer to provide the employee a limited recourse, interest free loan to be used for the purposes of subscribing for the Incentive Shares in the Company.

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 2013 AGM

Instructions received, for those that were entitled to vote on the 2013 Remuneration report, were 93% in favour and 7% 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 2014	Short-Term Benefits			Post Employment Benefits	Share Based Payments	Total			
	Salary & Fees \$	Cash Bonus \$	Non Monetary Benefits \$	Super-annuation \$	Leave Entitlements \$	Employee Shares \$		Performance Related	Consisting of Options
Directors									
N D Di Latte (i)	295,007	179,993	3,593	17,775	-	37,172	533,540	34%	7%
I P Olson	100,000	-	-	-	-	-	100,000	-	-
C Lancaster	55,046	-	-	5,092	-	-	60,138	-	-
Executives									
S A Oaten	350,000	-	3,885	18,931	-	14,869	387,685	-	4%
Total	800,053	179,993	7,478	41,798	-	52,041	1,081,363		

(i) The cash bonus paid to Mr Di Latte represents 73% of his total entitlement with the balance forfeited.

DIRECTORS' REPORT

June 2013	Short-Term Benefits			Post Employment Benefits	Share Based Payments	Total		Performance Related	Consisting of Options
	Salary & Fees \$	Cash Bonus \$	Non Monetary Benefits \$	Super-annuation \$	Leave Entitlements \$	Options \$	\$		
Directors									
D B Di Latte	495,000	-	-	16,470	-	-	511,470	-	-
N D Di Latte	400,000	-	3,593	16,470	65,000	-	485,063	-	-
J M Norup	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		

SHARED BASED COMPENSATION

Issue of shares

Details of shares issued to directors and key management personnel as part of compensation during the year ended 30 June 2014 are set out below:

	Date shares granted	Loan value \$	Loan expiry date	Issue price \$	Balance at start of year	Granted during period	Forfeited during period	Balance at end of year	Vested at end of year
30 June 2014									
Directors									
N D Di Latte	28-Nov-13	440,000	n/a	\$0.044	-	10,000,000	-	10,000,000	-
Executives									
S A Oaten	28-Nov-13	176,000	n/a	\$0.044	-	4,000,000	-	4,000,000	-
Total		616,000			-	14,000,000	-	14,000,000	-

Summary of key loan terms:

- Loan amount: \$0.044 per share
- Interest rate: 0%
- Term of loan: Duration of employment
- Vesting condition for one third: Remains eligible employee for 24 months
- Vesting condition for one third: Remains eligible employee for 36 months
- Vesting condition for one third: Remains eligible employee for 48 months
- Subject to the terms and conditions of the Employee Share Plan as approved by shareholders on 28 November 2013.

The loans are non-recourse except the Shares held by the participant to which the loan relates.

The Board may, in its absolute discretion, agree to forgive a Loan made to a participant. The fair value at grant date of \$308,000 was calculated using the Black Scholes pricing model that took into account the term, the underlying value of the shares, the exercise price, the impact of dilution and the risk-free interest rate.

Model inputs used to value the shares granted included:

- Exercise price: \$0.044
- Market price of shares at grant date: \$0.037
- Expected volatility of the Company's shares: 83%
- Weighted average risk free interest rate: 2.90%
- Time to maturity: 2 - 4 years

D I R E C T O R S ' R E P O R T

The expected volatility during the term of the options is based around assessments of the volatility of similar-sized listed, including newly listed, entities and entities in similar industries at grant date.

The value of the instruments has been expensed to remuneration on a proportionate basis for each financial year from grant date to vesting date. The proportion of the value of the instrument which was expensed to remuneration and accounted for in the share option reserve was \$61,334 for the year ended 30 June 2014.

Options

There were no options on issue during the year and as at the end of 30 June 2014. (2013: No options for the year).

ADDITIONAL DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

Shareholding

The number of shares in the company held during the financial year by each director and other members of the key management personnel of the consolidated entity, including their personally related parties, is set out below:

Shareholdings of Key Management Personnel (consolidated)

June 2014	<i>Balance at 1 Jul 2013</i>	<i>Granted as remuneration</i>	<i>Net Change Other</i>	<i>Balance at 30 Jun 2014</i>	<i>Direct Interest</i>	<i>Indirect Interest</i>
Directors						
N D Di Latte	21,111,333	10,000,000	33,333,333	64,444,666	63,851,477	593,189
I P Olson	130,000	-	208,000	338,000	338,000	-
C Lancaster	40,000	-	64,000	104,000	104,000	-
Executives						
S A Oaten	19,000	4,000,000	81,000	4,100,000	-	4,100,000
Total	21,300,333	14,000,000	33,686,333	68,986,666	64,293,477	4,693,189

Other Transactions and Balances with Key Management Personnel and their related parties

During the year, survey services totalling \$528 (2013: \$7,286) 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 2014 (2013: \$Nil).

Loans to Key Management Personnel

The Group has a loan receivable from the Di Latte Group Pty Ltd at 30 June 2014 totalling \$3,167,992 (2013: \$3,167,992). No payments (2013: \$Nil) or receipts (2013: \$Nil) were made against this loan during the year. The loan is repayable on demand and interest free.

The Group repaid during the year a loan payable to Flag Holdings Pty Ltd, a company controlled by Dominic Di Latte (2013: \$5,544,687). Repayments of \$5,691,672 (2013: \$2,187,500) and \$Nil redraws (2013: \$3,001,221) were made against this loan during the year. Interest of \$146,985 was charged during the year and is charged at normal commercial rates on this loan.

Other Transactions and Balances with Key Management Personnel and their related parties

During the year, rent totalling \$455,934 (2013: \$481,042) at normal market rates was paid by Group companies to Wandina Holdings Pty Ltd, of which Mr D Di Latte is a director and controlling shareholder. There was a balance of \$4,627 outstanding at 30 June 2013 (2013: \$121,090).

Employee transactions

Dominic Di Latte, Maria Di Latte, Frank Di Latte and Natalie De Felice are employed by a subsidiary of the Group as construction manager, office manager, development manager and financial controller 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 \$654,606 (2013: \$332,385).

D I R E C T O R S ' R E P O R T

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

	2014 \$'000	2013 \$'000
Assets and liabilities		
<i>Current assets</i>		
Trade and other receivables	3,168	3,001
<i>Non-current assets</i>	-	-
Total assets	3,168	3,001
<i>Current liabilities</i>		
Trade and other payables	5	121
Interest bearing loans and borrowings	-	5,545
<i>Non-current liabilities</i>	-	-
Total liabilities	5	5,666
Revenues and expenses		
Revenue	-	-
Expenses	1,258	1,325
Non-controlling interest	-	-

This concludes the remuneration report, which has been audited

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:

Director	Board of Directors		Audit & Risk Management Committee		Remuneration & Nomination Committee	
	Number Held	Number Attended	Number Held	Number Attended	Number Held	Number Attended
N D Di Latte	9	9	2	2	-	-
I P Olson	9	9	2	2	1	1
C Lancaster	9	9	2	2	1	1

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

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained the following independence declaration from our auditors, BDO Audit (WA) Pty Ltd.



Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

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

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 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of 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.

A handwritten signature in black ink, appearing to read 'P Murdoch', is written over a horizontal line.

Phillip Murdoch
Director

BDO Audit (WA) Pty Ltd
Perth, 1 August 2014

NON-AUDIT SERVICES

The non-audit services provided by the entity's auditors are disclosed in note 25 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 13 to 16 of this full financial report.

ROUNDING OF AMOUNTS

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

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



NICK D DI LATTE
Managing Director & CEO

Perth, Western Australia
1 August 2014

**C O R P O R A T E G O V E R N A N C E S T A T E M E N T
F O R T H E Y E A R E N D E D 3 0 J U N E 2 0 1 4**

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.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

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 issued 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.

C O R P O R A T E G O V E R N A N C E S T A T E M E N T
F O R T H E Y E A R E N D E D 3 0 J U N E 2 0 1 4

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.

**CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2014**

- 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 2014.

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 2014**

	Note	2014 \$'000	2013 \$'000
Continuing operations			
Revenue	3	195,288	163,414
Other revenue	4(a)	4,948	803
Cost of sales		(188,557)	(154,652)
Gross profit		<u>11,679</u>	<u>9,565</u>
Other income		60	578
Administration expenses		(5,052)	(4,553)
Marketing and advertising expenses		(72)	(129)
Occupancy expenses		(536)	(541)
Finance costs	4(d)	(491)	(1,292)
Other expenses	4(b)	(640)	(1,145)
Share of profit/(loss) from equity accounted investment	12(b)	33	(211)
Profit before income tax from continuing operations		<u>4,981</u>	<u>2,272</u>
Income tax expense	8(b)	(282)	(719)
Profit after Income Tax attributable to members of Diploma Group Limited		<u><u>4,699</u></u>	<u><u>1,553</u></u>
Other comprehensive (expense)/income			
Foreign currency translation		-	-
Income tax on items of other comprehensive income		-	-
Other comprehensive (expense)/income for the period, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the period		<u><u>4,699</u></u>	<u><u>1,553</u></u>
Profit for the period is attributable to:			
Non-controlling interest		-	-
Owners of the parent		<u>4,699</u>	<u>1,553</u>
		<u><u>4,699</u></u>	<u><u>1,553</u></u>
Total comprehensive income for the period is attributable to:			
Non-controlling interest		-	-
Owners of the parent		<u>4,699</u>	<u>1,553</u>
		<u><u>4,699</u></u>	<u><u>1,553</u></u>
Earnings per share (cents per share)			
Basic earnings per share	5	1.19	1.02
Diluted earnings per share	5	1.19	1.02
Earnings per share for continuing operations (cents per share)			
Basic earnings per share	5	1.19	1.02
Diluted earnings per share	5	1.19	1.02

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 2014

	Note	2014 \$'000	2013 \$'000
Current Assets			
Cash and cash equivalents	9(a)	6,911	10,284
Trade and other receivables	10	17,994	28,877
Inventories	11	38,833	11,680
Equity accounted investments	12(a)	-	2,218
Other assets	14	-	55
Available for sale financial assets	15	2,477	500
Assets classified as held for sale	16	-	4,071
Total Current Assets		66,215	57,685
Non-Current Assets			
Trade and other receivables	10	-	642
Inventories	11	10,442	12,514
Property, plant and equipment	17	1,334	1,352
Equity accounted investments	12(a)	687	654
Deferred tax assets	8(c)	1,750	2,032
Total Non-Current Assets		14,213	17,194
Total Assets		80,428	74,879
Current Liabilities			
Trade and other payables	18	42,607	49,221
Interest bearing loans and borrowings	19	18,150	6,232
Provisions	20	2,255	2,394
Total Current Liabilities		63,012	57,847
Non-Current Liabilities			
Trade and other payables	18	932	1,667
Interest bearing loans and borrowings	19	191	11,892
Provisions	20	178	169
Deferred tax liabilities	8(c)	-	-
Total Non-Current Liabilities		1,301	13,728
Total Liabilities		64,313	71,575
NET ASSETS		16,115	3,304
Equity			
Issued capital	22	23,936	15,339
Accumulated losses	23	(8,330)	(13,029)
Reserves	23	485	424
Parent interests		16,091	2,734
Non-controlling interests		24	570
TOTAL EQUITY		16,115	3,304

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 2014**

<i>CONSOLIDATED</i>	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 2013	15,339	(13,029)	598	(174)	2,734	570	3,304
Profit for the period		4,699	-	-	4,699	-	4,699
Total comprehensive income for the period		4,699	-	-	4,699	-	4,699
Issue of share capital (Note 22)	9,119	-	-	-	9,119	-	9,119
Expenses relating to new shares issue	(522)	-	-	-	(522)	-	(522)
Share based payments	-	-	61	-	61	-	61
Transactions with owners in their capacity as owners:							
Distributions to non-controlling interest	-	-	-	-	-	(546)	(546)
Balance at 30 June 2014	23,936	(8,330)	659	(174)	16,091	24	16,115

<i>CONSOLIDATED</i>	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:							
Distributions to non-controlling interest	-	-	-	-	-	(976)	(976)
Balance at 30 June 2013	15,339	(13,029)	598	(174)	2,734	570	3,304

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 2014

	Note	2014 \$'000	2013 \$'000
Cash Flows from Operating Activities			
Receipts from customers		233,167	151,448
Payments to suppliers and employees		(244,143)	(142,622)
Interest received		33	67
Interest paid		(491)	(748)
Net cash flows (used in)/generated by operating activities	9(b)	(11,434)	8,145
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(222)	(6)
Proceeds from sale of property, plant and equipment		15	-
Purchase of investments		-	(289)
Net cash flows used in investing activities		(207)	(295)
Cash Flows from Financing Activities			
Proceeds from borrowings		14,179	2,651
Repayment of borrowings		(7,815)	(9,392)
Proceeds from new share issue		5,119	-
Issue costs paid		(522)	-
Net outside equity interest paid		(546)	(976)
Net cash flows generated by/(used in) financing activities		10,415	(7,717)
Net (decrease)/increase in cash held		(1,226)	133
Cash at the beginning of the financial year		8,137	8,004
Cash at the end of the financial year	9(a)	6,911	8,137

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

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 2014 was authorised for issue in accordance with a resolution of the Directors on 1 August 2014.

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.

New and amended standards adopted by the Group

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 10 Consolidated Financial Statements

The consolidated entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

AASB 11 Joint Arrangements

The consolidated entity has applied AASB 11 from 1 July 2013. The standard defines which entities qualify as joint arrangements and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets are accounted for using the equity method. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities, will account for its share of the assets, liabilities, revenues and expenses separately under the appropriate classifications.

AASB 12 Disclosure of Interests in Other Entities

The consolidated entity has applied AASB 12 from 1 July 2013. The standard contains re entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

The consolidated entity has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

1 CORPORATE INFORMATION AND BASIS OF PREPARATION (continued)

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

The consolidated entity has applied AASB 119 and its consequential amendments from 1 July 2013. The standard eliminates the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The standard also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

AASB 127 Separate Financial Statements (Revised), AASB 128 Investments in Associates and Joint Ventures (Reissued) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

The consolidated entity has applied AASB 127, AASB 128 and AASB 2011-7 from 1 July 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities

The consolidated entity has applied AASB 2012-2 from 1 July 2013. The amendments enhance AASB 7 'Financial Instruments: Disclosures' and requires disclosure of information about rights of set-off and related arrangements, such as collateral agreements. The amendments apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement

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(i)).

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combinations

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

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

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

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

(c) Segment Reporting

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".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Inventories (continued)

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

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

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

(h) Available for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised in other comprehensive income through the available-for-sale reserve in equity. Cumulative gain or loss previously reported in the available-for-sale reserve is recognised in profit or loss when the asset is derecognised or impaired.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised in other comprehensive income through the available-for-sale reserve

(i) 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.

(j) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(l) 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.

(m) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Leases (continued)

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.

(n) 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.

(o) 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.

(p) 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.

(q) Employee benefits

Short-term employee benefits

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Employee benefits (continued)

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is 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 currency that match, as closely as possible, the estimated future cash outflows..

(r) 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).

Eligible employees are granted interest free loans to purchase shares in the Company and the Board in its absolute discretion can agree to forgive a loan made to a participant.

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Share-based payment transactions (continued)

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

(s) 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.

(t) Revenue recognition

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.

(u) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax and other taxes (continued)

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax and other taxes (continued)

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.

(v) 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.

(w) 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.

(x) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2014. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments and its consequential amendments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2017 and completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in MSB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the consolidated entity.

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 may increase the disclosures by the consolidated entity.

AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and amends AASB 139 'Financial Instruments: Recognition and Measurement' to permit continuation of hedge accounting in circumstances where a derivative (designated as hedging instrument) is novated from one counter party to a central counterparty as a consequence of laws or regulations. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

AASB 2013-5 Amendments to Australian Accounting Standards - Investment Entities

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and allow entities that meet the definition of an 'investment entity' to account for their investments at fair value through profit or loss. An investment entity is not required to consolidate investments in entities it controls, or apply MSB 3 'Business Combinations' when it obtains control of another entity, nor is it required to equity account or proportionately consolidate associates and joint ventures if it meets the criteria for exemption in the standard. The adoption of these amendments from 1 July 2014 will have no impact on the consolidated entity.

Annual Improvements to IFRSs 2010-2012 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and MSB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

Annual Improvements to IFRSs 2011-2013 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects four Accounting Standards as follows: Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in MSB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

	2014	2013
	\$'000	\$'000
3. REVENUE		
Construction contract revenue	189,214	157,043
Revenue from sale of development properties	6,074	6,371
	195,288	163,414
4. OTHER REVENUE AND EXPENSES		
(a) Other revenue		
Interest revenue	33	67
Sales commission, strata and property management	-	736
Sale of investment property	4,915	-
	4,948	803
(b) Other expenses		
Depreciation expense	240	254
Insurance	5	4
Bad debts expense	81	485
Settlement expenses	-	10
Other expenses	314	392
	640	1,145
(c) Employee benefits expenses		
Wages and salaries (inclusive of superannuation)	17,893	15,616
Share-based payments expense	61	-
Other employee expenses	281	271
	18,235	15,887
(d) Finance costs		
Finance charges payable under finance leases	16	15
Other loans	475	1,277
	491	1,292

5. EARNINGS PER SHARE

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

Profit attributable to members of Diploma from continuing operations	4,707	1,553
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Total number of options on issue not considered dilutive is nil (2013: Nil).

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	394,366,565	152,766,993
<i>Effect of dilutive securities:</i>		
- Share Options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution.	394,366,565	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.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Recovery of deferred tax assets

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

Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as Level 3 is determined by the use of valuation models. These include the use of observable inputs that require adjustments based on unobservable inputs.

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 2014 and beyond.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

6. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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.

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 20.

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 17.

7. DIVIDENDS PAID AND PROPOSED

	2014	2013
	\$'000	\$'000
(a) Recognised amounts		
<i>Declared and paid during the year:</i>		
Dividends on ordinary shares:		
Final franked dividend for 2013: Nil (2012: Nil)	-	-
Interim franked dividend for 2014: Nil (2013: Nil)	-	-
	-	-
(b) Unrecognised amounts		
Dividends on ordinary shares:		
Final franked dividend for 2014: Nil (2013: Nil)	-	-
	-	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

	2014	2013
	\$'000	\$'000
7. DIVIDENDS PAID AND PROPOSED (continued)		
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% (2013: 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
	3,397	3,397
8. INCOME TAX		
(a) Income Tax Expense		
Major components of income tax expense are:		
<i>Current income tax</i>		
Current income tax expense	1,236	346
Adjustments in respect of current income tax of previous years	(1,236)	31
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	1,203	864
Adjustment in respect of deferred taxes of previous years	(921)	(522)
Income tax (benefit)/expense reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	282	719
	282	719
(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:		
Accounting profit before tax from continuing operations	4,981	2,272
At the statutory income tax rate of 30% (2013: 30%)	1,494	682
Adjustments in respect of current income tax of previous years	(1,236)	31
Non-deductible share-based payments	18	-
Other	6	6
Income tax expense reported in the consolidated income statement	282	719
	282	719

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

8. INCOME TAX (continued)	Consolidated Statement of Financial Position		Consolidated Statement of Profit or Loss and Other Comprehensive Income	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
(c) Recognised deferred tax assets and liabilities				
Deferred income tax balances relates to the following:				
Deferred tax liabilities				
Inventory	(3,816)	(1,489)	(2,327)	3,511
Gross deferred income tax liabilities	(3,816)	(1,489)		
Set-off of deferred tax assets	3,816	1,489		
Deferred tax liability per Statement of Financial Position	-	-		
Deferred tax assets				
Employee benefit provisions	683	660	23	(51)
Other provisions and accruals	109	176	(67)	(14)
Other	285	183	102	87
Losses available for offsetting against future taxable income	4,489	2,502	1,987	(3,875)
Deferred income tax (expense)/benefit			(282)	(342)
Gross deferred tax assets	5,566	3,521		
Set-off of deferred tax liabilities	(3,816)	(1,489)		
Deferred tax asset per Statement of Financial Position	1,750	2,032		

(d) Tax losses and unrecognised temporary differences

At 30 June 2014, there are no unrecognised tax losses or temporary differences (2013: Nil).

9. CASH AND CASH EQUIVALENTS	2014	2013
	\$'000	\$'000
Cash at bank and in hand (i)	6,834	10,274
Term deposits maturing within 3 months	77	-
Cash deposits held in trust	-	10
	6,911	10,284

(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:

Cash at bank and in hand	6,834	10,274
Multi option facility (bank overdraft)	-	(2,147)
Term deposits maturing within 3 months	77	-
Cash held in trust	-	10
Cash per the Statement of Financial Position	6,911	8,137

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

	<u>2014</u>	<u>2013</u>
	<u>\$'000</u>	<u>\$'000</u>
9. CASH AND CASH EQUIVALENTS (continued)		
(b) Reconciliation of Net Profit to the Net Cash Flows from Operating Activities		
Profit after tax from continuing operations	<u>4,699</u>	<u>1,553</u>
<i>Add/(less) non-cash items:</i>		
Depreciation, impairment and amortisation expense	240	254
Other receivable and bad debts expense	81	258
Share of net (profit)/loss of investments accounted for using the equity method	(33)	211
Share-based payment expense	61	-
Profit on sale of property, plant and equipment	(15)	-
<i>Change in assets and liabilities:</i>		
Decrease/(increase) in receivables	13,662	(17,351)
Decrease/(increase) in creditors	(7,349)	9,329
(Decrease) in provisions	(130)	(121)
(Increase)/decrease in inventories	(25,081)	13,673
Decrease/(increase) in other assets	2,149	(3)
Decrease in deferred tax asset	282	342
Net cash (outflows)/inflows from operating activities	<u>(11,434)</u>	<u>8,145</u>
(c) Non-cash financing and investing activities		
Proceeds from new share issue	<u>4,000</u>	<u>-</u>
10. TRADE AND OTHER RECEIVABLES		
Current		
Trade receivables	11,823	20,808
Allowance for doubtful debts	(531)	(450)
Retentions receivable	1,836	3,733
Other receivables	1,698	1,785
	<u>14,826</u>	<u>25,876</u>
<i>Related party receivables (a)</i>		
Director related party receivables	3,168	3,001
	<u>17,994</u>	<u>28,877</u>
Non-Current		
Retentions receivable	<u>-</u>	<u>642</u>
(a) Related party receivables		

For terms and conditions of related party receivables refer to Remuneration Report on page 5 and Note 24.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

10. TRADE AND OTHER RECEIVABLES (continued)

(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 28(c) for details of the Group's credit risk exposure and policies.

	Total \$'000	0-30 days \$'000	31-60 days \$'000	61-90 days \$'000	Past Due	
					Not impaired +91 days \$'000	Impaired +91 days \$'000
CONSOLIDATED						
2014	11,823	10,092	-	-	1,200	531
2013	20,808	18,986	416	-	956	450

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. \$81,000 impairment loss (2013: \$390,000) 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.

2014	2013
\$'000	\$'000

Movements in the provision for impairment loss were as follows:

At 1 July	450	60
Charge for the year	81	390
Amounts written off	-	-
Foreign exchange translation	-	-
At 30 June	531	450

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:

	2014		2013	
	\$'000	Days	\$'000	Days
Related party	-	-	-	-
Other	1,200	626	956	427
	1,200	626	956	427

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

	2014 \$'000	2013 \$'000
11. INVENTORIES		
Development projects complete- at cost	-	784
Development projects under construction – at cost	30,500	17,295
Construction work in progress – gross amounts due from customers (note 21)	18,775	6,115
	49,275	24,194
Aggregate carrying amount of inventories:		
Current	38,833	11,680
Non-current	10,442	12,514

(a) Inventory expense

Development inventories recognised as an expense for the year ended 30 June 2014 totalled \$5,484,000 (2013: \$6,299,000) 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 2014 was \$745,000 (2013: \$523,000).

12. EQUITY ACCOUNTED INVESTMENTS

(a) Investment details

Unlisted

Current

Criterion Towers Joint Venture	-	-
15 Aberdeen Street Unit Trust	-	2,218
	-	2,218

Non-current

Helmshore Unit Trust	687	654
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Ownership interest

	%	%
Helmshore Unit Trust	33	33
Criterion Towers Joint Venture	50	50
15 Aberdeen Street Unit Trust	-	25

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

12. EQUITY ACCOUNTED INVESTMENTS (continued)

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

	2014 \$'000	2013 \$'000
Helmshore Unit Trust		
At 1 July 2013	654	665
Investment in project	-	14
Share of profit/(loss) before income tax	33	(25)
At 30 June 2014	<u>687</u>	<u>654</u>
Criterion Towers Joint Venture		
At 1 July 2013	-	-
Investment in project	-	186
Receivable reclassified as equity accounted investment	-	-
Share of (loss)/profit before income tax	-	(186)
At 30 June 2014	<u>-</u>	<u>-</u>
15 Aberdeen Street Unit Trust		
At 1 July 2013	2,218	-
Investment in project	-	89
Equity accounted investment reclassified as asset for sale	(2,218)	2,129
Share of loss before income tax	-	-
At 30 June 2014	<u>-</u>	<u>2,218</u>

(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	84	14,794
Non-current assets	3,016	4,536
	<u>3,100</u>	<u>19,330</u>
Current liabilities	3	7,205
Non-current liabilities	1,035	1,291
	<u>1,038</u>	<u>8,496</u>
Net assets	<u>2,062</u>	<u>10,834</u>
Share of investees' net assets	<u>687</u>	<u>2,872</u>

Extract from the investees' Statement of Profit or Loss and Other Comprehensive Incomes:

Revenue	158	-
Net profit/(loss)	<u>99</u>	<u>(447)</u>

Contingent liabilities and capital commitments relating to the investees

Share of contingent liabilities incurred jointly with other investors	<u>-</u>	<u>-</u>
Share of capital commitments	<u>-</u>	<u>-</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

13. INTERESTS IN OTHER ENTITIES

The legal parent entity within the consolidated entity is Diploma Group Limited, incorporated in Australia. The consolidated financial statements at 30 June 2014 include the following controlled entities:

Name of Controlled Entity ¹	Notes	Principal Activity	Country of Incorporation	Ownership %	
				2014	2013
Diploma Construction (NSW) Pty Ltd		Construction	Australia	100	100
Diploma Construction (WA) Pty Ltd		Construction	Australia	100	100
Joondalup Village Life Pty Ltd		Property Development	Australia	100	100
Proven Joondalup Pty Ltd		Property Development	Australia	100	100
The Diploma 148 Adelaide Tce JV	2	Property Development	Australia	80	80
The Diploma 155 Adelaide Tce JV	2	Property Development	Australia	80	80
Diploma Properties Pty Ltd		Property Development	Australia	100	100
1174 Hay Street Pty Ltd		Property Development	Australia	100	100
24 Flinders Lane Pty Ltd	4	Property Development	Australia	100	100
Weststructure Pty Ltd		Property Development	Australia	100	100
176 Adelaide Tce Pty Ltd		Property Development	Australia	100	100
176 Adelaide Tce Unit Trust		Property Development	Australia	100	100
708 Foundry Road Pty Ltd		Property Development	Australia	100	100
153 Burswood Rd Unit Trust	5	Property Development	Australia	100	100
19 The Crescent Unit Trust		Property Development	Australia	100	100
300 Lord Street Unit Trust		Property Development	Australia	100	100
15 Aberdeen Street Unit Trust	3	Property Development	Australia	-	25
303 Campbell Street Unit Trust		Property Development	Australia	100	100
Diploma Capital Pty Ltd		Property Development	Australia	100	100
Diploma Capital Securities Pty Ltd		Property Development	Australia	100	100
Diploma Head Office Pty Ltd		Property Development	Australia	100	100
Diploma Development Management Pty Ltd		Property Development	Australia	100	100
Allegro Realty Holdings Pty Ltd		Property Development	Australia	100	100
Allegro Realty Pty Ltd		Property Development	Australia	100	100
Diploma TCo Holdings Pty Ltd		Property Development	Australia	100	100
153 Burswood Rd Pty Ltd	6	Property Development	Australia	100	100
303 Campbell Street Pty Ltd		Property Development	Australia	100	100
300 Lord Street Pty Ltd		Property Development	Australia	100	100
15 Aberdeen Street Pty Ltd	3	Property Development	Australia	-	25
19 The Crescent Pty Ltd		Property Development	Australia	100	100
Diploma Acquisition Pty Ltd		Property Development	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. The consolidated financial statements incorporate the assets and liabilities and results of these entities with non-controlling interests in accordance with the accounting policy described in note 1. The non-controlling interests hold 20% of the voting rights in these entities. The financial information of these subsidiaries with non-controlling interests over the last two years is not material to the consolidated entity.
3. The Group sold this entity on 16 June 2014.
4. Formerly known as Rockingham Waterfront Village Pty Ltd
5. Formerly known as 69 Adelaide Tce Unit Trust
6. Formerly known as 69 Adelaide Tce Pty Ltd

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

	2014	2013
	\$'000	\$'000
14. OTHER ASSETS		
Current		
Term deposit	-	55
15. AVAILABLE FOR SALE FINANCIAL ASSETS		
Receivable (a)	1,977	-
Investment in Australian Unit Trust (b)	500	500
	2,477	500

- (a) On 16 June 2014, the Group sold its interest in a development project. The sale allows for an "early settlement fee" which will be paid to the Group once all Lots in the development have settled. The early settlement fee is expected to be received in the next 2 months and is based on the current contracted prices for each lot.
- (b) Investment in the Australian Unit Trust is a residential and commercial unit development located in Subiaco. This development is due for completion in May 2015.

16. ASSETS CLASSIFIED AS HELD FOR SALE

Development property (i)	-	4,071
	-	4,571

- (a) During the last 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. Settlement of the above asset occurred on 22 July 2013.

	2014	2013
	\$'000	\$'000
17. PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment, at cost		
Opening balance net of accumulated depreciation and impairment	1,352	1,600
Additions	222	6
Disposals	-	-
Depreciation for the year	(240)	(254)
Foreign exchange translation	-	-
Closing balance net of accumulated depreciation and impairment	1,334	1,352
Cost	2,988	2,925
Accumulated depreciation and impairment	(1,654)	(1,573)
Net book value of property, plant and equipment	1,334	1,352

Lessee Disclosures:

The carrying value of plant and equipment held under finance leases at 30 June 2014 is \$94,046 (2013 \$94,046). Leased assets are pledged as security for the related finance lease liability. Assets are also encumbered to the extent set out in note 19(c).

Borrowing costs:

There are no borrowing costs capitalised into the cost of any property, plant and equipment at 30 June 2014 (2013: nil).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

	2014 \$'000	2013 \$'000
18. TRADE AND OTHER PAYABLES		
Current		
Trade payables and accruals (a)	39,800	43,814
Gross amounts due to customers – contract work in progress (note 21)	1,254	3,751
Other payables	1,553	1,656
	42,607	49,221
Non-Current		
Trade payables and accruals	932	1,640
Deposits held	-	27
	932	1,667

(a) Trade payables are non-interest bearing and average settlement terms are 30 – 45 days.

19. INTEREST BEARING LOANS AND BORROWINGS

Current		
Multi option facility	-	2,147
Project facilities – other (a)	18,117	4,050
Finance lease liabilities	33	35
Other	-	-
	18,150	6,232
Non-Current		
Working capital facility – related party	-	5,545
Project facilities – other (a)	-	6,270
Finance lease liabilities	191	77
	191	11,892

(a) 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	1,561	9.16%	Dec 14	-
Highgate Project	2,500	5.66%	May 16	-
Adelaide Terrace Projects	2,327	8.58%	Dec 14	-
Campbell Street Project	11,729	6.51%	Oct 15	-
	18,117			-

The loans are subject to various loan to value financial covenants ranging from 50% to 70%. There were no breaches in any of these covenants during the year end 30 June 2014.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

19. INTEREST BEARING LOANS AND BORROWINGS (continued)

(b) Fair values

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

	<u>2014</u>	<u>2013</u>
	<u>\$'000</u>	<u>\$'000</u>
(c) Assets pledged as security		
The carrying amounts of assets pledged as security for current and non-current facilities are:		
Current		
Floating charge		
Cash and cash equivalents	1,250	10,280
Receivables	29,402	39,474
Inventories	20,807	10,404
Other assets	77	2,779
	<hr/>	<hr/>
Total current assets pledged as security	51,536	62,937
Non-Current		
Fixed charge		
Receivables	-	642
Inventories	10,426	12,514
Property, plant and equipment	-	1,352
Other assets	2,863	2,643
	<hr/>	<hr/>
Total non-current assets pledged as security	13,289	17,151
	<hr/>	<hr/>
Total assets pledged as security	64,825	80,088

(d) Terms and conditions

Total working capital facilities available	-	9,000
Total working capital facilities used at reporting date	-	(7,692)
	<hr/>	<hr/>
	-	1,308
	<hr/>	<hr/>
Total project facilities available	33,477	10,450
Total project facilities used at reporting date	(18,341)	(10,320)
	<hr/>	<hr/>
	15,136	130

(e) Interest rate, foreign exchange and liquidity risk

Details regarding interest rate, foreign exchange and liquidity risk are disclosed at note 28.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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	2014 \$'000	2013 \$'000
20. PROVISIONS		
Current		
Employee benefits (a)	1,892	1,808
Maintenance provision (b)	313	536
Other	50	50
	<u>2,255</u>	<u>2,394</u>
Non-Current		
Employee benefits	<u>178</u>	<u>169</u>

(a) Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

Employee benefits obligation expected to be settled after 12 months	<u>616</u>	<u>651</u>
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(b) Maintenance provision

Movements during the year:

Balance at beginning of the year	536	529
Additional provision	149	365
Paid during the year	(372)	(358)
Balance at the end of the financial year	313	536

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, time left in the defects liability period and from historical experience. It is expected that these costs will be incurred within 12 months of the project reaching practical completion.

Total number of full-time equivalent employees as at reporting date	<u>92</u>	<u>93</u>
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21. CONTRACT WORK IN PROGRESS

Construction costs incurred to date	307,552	472,709
Recognised profits to date	19,877	14,086
	327,429	486,795
Less: Progress billings	(309,908)	(484,431)
Net construction work in progress	<u>17,521</u>	<u>2,364</u>
Represented by:		
Gross amounts due to customers – trade and other payables (note 18)	(1,254)	(3,751)
Gross amounts due from customers – inventories (note 11)	18,775	6,115
	<u>17,521</u>	<u>2,364</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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	2014 \$'000	2013 \$'000
22. ISSUED CAPITAL		
Ordinary shares	23,936	15,339
<i>Movement in ordinary shares on issue</i>		
Balance at beginning of year	473,234	152,767
Share buy-back	-	-
	473,234	152,767

	2014		2013	
	Number of Shares	\$'000	Number of Shares	\$'000
(a) Balance at beginning of year	152,766,993	15,339	152,766,993	15,339
Share placement (i)	22,900,000	687	-	-
Share issue (ii)	281,067,189	8,432	-	-
Issue and listing costs (iii)	-	(522)	-	-
Employee share plan shares	16,500,000	-	-	-
Balance at the end of the year	473,234,182	23,936	152,766,993	15,339

- (i) 22,900,000 shares were issued via a placement on 16 August 2013
(ii) 281,067,189 shares were issued under an 8 for 1 renounceable rights issue on 27 September 2013
(iii) The transaction costs represents the costs of issuing shares

(b) 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.

(c) 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 2014 and 30 June 2013 are as follows:

Interest bearing loans and borrowings	18,341	18,124
Less cash and cash equivalents	(6,911)	(10,284)
Net borrowings	11,430	7,840
Trade and other payables	43,539	50,888
Net debt	54,969	58,728
Total equity	16,115	3,304
Total capital	71,084	62,032
Gearing ratio	77.3%	94.5%

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

	<u>2014</u>	<u>2013</u>
	<u>\$'000</u>	<u>\$'000</u>
23. RESERVES AND ACCUMULATED LOSSES		
Reserves		
Share option reserve (a)	659	598
Foreign currency translation reserve	<u>(174)</u>	<u>(174)</u>
	<u>485</u>	<u>424</u>
Accumulated Losses		
Balance at beginning of year	(13,029)	(14,582)
Net profit attributable to members of the Company	<u>4,699</u>	<u>1,553</u>
Balance at end of year	<u><u>(8,330)</u></u>	<u><u>(13,029)</u></u>

(a) Share option reserve

Balance at beginning of year	598	598
Share-based payment	<u>61</u>	<u>-</u>
Balance at end of the year	<u><u>659</u></u>	<u><u>598</u></u>

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

24. RELATED PARTY TRANSACTIONS

Ultimate Parent

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

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

(a) Compensation of Key Management Personnel

Short-term	987	1,370
Post employment	42	278
Share-based payment	<u>52</u>	<u>-</u>
	<u><u>1,081</u></u>	<u><u>1,648</u></u>

25. REMUNERATION OF AUDITORS

Amounts received, or due and receivable, by BDO Audit (WA) Pty Ltd for:

<ul style="list-style-type: none"> ▪ An audit or review of the financial report of the entity and any other entity in the consolidated entity ▪ Other services in relation to the entity and any other entity in the consolidated entity: <ul style="list-style-type: none"> - tax compliance 	102,571	80,000
	<u>10,593</u>	<u>-</u>
	<u><u>113,164</u></u>	<u><u>80,000</u></u>

Amounts received, or due and receivable, by non BDO Australia for:

<ul style="list-style-type: none"> ▪ Other non-audit services 	<u>56,319</u>	<u>28,208</u>
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

26. COMMITMENTS	2014	2013
	\$'000	\$'000
Lease commitments under non-cancellable operating leases, not otherwise provided in the financial statements.		
Within 1 year	441	325
Later than 1 year but not later than 5 years	808	872
Later than 5 years	-	-
	1,249	1,197

The Group has entered into a commercial operating lease with a related party; refer Remuneration Report page 9, for the lease of office premises. This non-cancellable lease has a remaining term of 3 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.

Lease Commitments under Finance Leases		
Not later than one year	49	47
Later than 1 year but not later than 5 years	227	101
Later than 5 years	-	-
	276	148
Less: Future finance charges	(52)	(36)
Present value of future lease payments	224	112
Reconciled to the Statement of Financial Position (note 19)		
Current interest bearing liability	33	35
Non-Current interest bearing liability	191	77
	224	112

(a) Other

The Group has no contractual obligations in respect of its internal development projects (2013: \$Nil).

27. 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 is awaiting reserved decision of the Supreme Court of Western Australia. 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 \$0.4m.

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 2014 totalled \$20,670,158 (2013: \$19,298,822). As at the date of this report the outstanding bonds totalled \$20,670,158. Messrs' D Di Latte and N Di Latte have provided personal guarantees as security against this bond facility.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

28. FINANCIAL RISK MANAGEMENT

- (a) Diploma is exposed to financial risks through the normal course of its business operations. The key risks arising are considered to be interest rate risk, credit risk and 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 (2013: \$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:

	2014 \$'000	2013 \$'000
Financial assets		
Cash	6,911	10,284
Retention receivables	1,836	4,375
	8,747	14,659
Financial liabilities		
Interest bearing liabilities	14,843	6,197
Bank overdraft	-	2,147
	14,843	8,344
Net exposure	(6,096)	6,315

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)	
	2014 \$'000	2013 \$'000
Judgement as to reasonably possible change		
+100 basis points	(61)	(59)
-100 basis points	61	59

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

28. 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:

	2014 \$'000	2013 \$'000
Cash and cash equivalents	6,911	10,284
Trade and other receivables	17,994	29,519
Construction work in progress – gross amounts due from customers	18,775	6,115
	43,680	45,918

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 27.

(d) Liquidity Risk

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

28. 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 2014	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	43,539	43,539	42,607	932	-
Interest bearing liabilities	18,117	19,584	7,631	11,953	-
Finance lease liabilities	224	276	49	227	-
Financial guarantees	-	33,253	33,253	-	-
	61,880	96,652	83,540	13,112	-
30 June 2013					
CONSOLIDATED					
Trade and other payables	50,088	50,888	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	83,197	69,165	14,032	-

29. SEGMENT REPORTING

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

29. SEGMENT REPORTING (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% (2013: 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 \$39,028,833 (2013: \$59,028,833) arising from progress claims by the construction division.

	Construction \$'000	Property Development \$'000	Interdivision Eliminations \$'000	Total Operations \$'000
Year ended 30 June 2014				
Revenue				
Revenue from external customers	189,214	6,074	-	195,288
Other revenue from external customers	19	4,920	-	4,939
Inter-segment revenues	9,444	-	(9,444)	-
Total segment revenue	198,677	10,994	(9,444)	200,227
Segment net operating profit/(loss) after tax	11,832	4,050	(9,444)	6,438
Interest revenue	19	41	-	60
Interest expense	27	-	-	27
Depreciation and amortisation	240	-	-	240
Income tax expense	-	-	-	-
Segment assets	68,058	43,191	(63,646)	47,603
Segment liabilities	71,580	44,620	(63,646)	52,554
Cash flow information				
Net cash flow from operating activities	(2,176)	(13,775)	-	(15,951)
Net cash flow from investing activities	(204)	1	-	(203)
Net cash flow from financing activities	112	13,921	-	14,033

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

29. SEGMENT REPORTING (continued)

	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)

	2014	2013
	\$'000	\$'000

Segment revenue reconciliation to the consolidated statement of profit or loss and other comprehensive income

Total segment revenue	200,227	164,209
Unallocated interest income	9	8
	200,236	164,217

Segment net operating profit after tax reconciliation to the statement of profit or loss and other 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% (2013: 30%) of the segment's net operating profit.

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

Segment net operating profit after tax	6,438	3,623
Other revenue	9	8
Finance costs	(464)	(1,292)
Other expenses	(1,002)	(67)
Income tax expense at 30% (2013: 30%)	(282)	(719)
	4,699	1,553

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

	2014	2013
	\$'000	\$'000

29. SEGMENT REPORTING (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

Segment operating assets	47,603	45,101
Cash and cash equivalents	1,135	2,388
Trade and other receivables	29,109	25,358
Deferred tax assets	2,581	2,032
Total assets per the statement of financial position	80,428	74,879

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

Segment operating liabilities	52,554	55,241
Trade and other payables	10,772	1,345
Interest bearing loans and borrowings	-	13,962
Provisions	987	1,027
Total liabilities per the statement of financial position	64,313	71,575

30. PARENT ENTITY INFORMATION

Parent

Information relating to Diploma Group Limited

Current assets	14,523	13,928
Non-current assets	2,863	5,215
Current liabilities	(11,717)	(8,195)
Non-current liabilities	(41)	(11,837)
	5,628	(889)
Issued capital	82,439	74,245
Accumulated losses	(77,409)	(75,732)
Share option reserve	598	598
Total shareholders' equity	5,628	(889)
(Loss)/profit of parent entity	(1,677)	(2,070)
Total comprehensive loss of the parent entity	(1,677)	(2,070)

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

30. PARENT ENTITY INFORMATION (continued)

Diploma Group Limited has issued the following guarantees at 30 June 2014:

- a loan in the amount of \$1,561,000 (2013: \$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.
- loans in the amount of \$26,865,000 (2013: \$Nil) have been taken out by 303 Campbell Street Pty Ltd to fund development activities. The Group has guaranteed the full amount of this subsidiary's loan.
- a loan in the amount of \$2,500,000 (2013: \$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 \$2,327,000 (2013: \$6,270,000) was taken out by 176 Adelaide Tce Pty Ltd to fund its development activities. The Group has guaranteed the full amount of this subsidiary's loan.

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

31. FAIR VALUE MEASUREMENT

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated - 2014				
<i>Assets</i>				
Available for sale financial asset - Receivable			1,977	1,977
Available for sale financial asset - Investment in unit trust	-	-	500	500
Total assets	-	-	2,477	2,477
<i>Liabilities</i>				
	-	-	-	-
Consolidated - 2013				
<i>Assets</i>				
Investment in unit trusts	-	-	500	500
Total assets	-	-	500	500
<i>Liabilities</i>				
	-	-	-	-

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

Valuation techniques for fair value measurements categorised within Level 3

Unquoted investments and receivable have been valued based on third party financial information on a net asset basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

31. FAIR VALUE MEASUREMENT (continued)

Level 3 assets and liabilities

Movements in Level 3 assets and liabilities during the current and previous financial year are set out below:

Consolidated	Unlisted equity securities \$'000	Contingent receivable \$'000	Total \$'000
Balance at 1 July 2012	500	-	500
Movements	-	-	-
Balance at 30 June 2013	<u>500</u>	<u>-</u>	<u>500</u>
Balance at 1 July 2013	500	-	500
Gains/(losses) recognised in other comprehensive income	-	-	-
Additions	-	1,977	1,977
Balance at 30 June 2014	<u>500</u>	<u>1,977</u>	<u>2,477</u>

The Level 3 assets unobservable inputs and sensitivity are as follows:

Available for sale financial asset - Receivable

The value of this receivable is dependent on the development lots associated with this receivable settling for their current contracted values. All lots in this development are under contract and it is assumed that all will proceed to settlement. If there are a number of contracts that do not proceed to settlement the assumption is the costs to resell these lots will be recovered by forfeited deposits of the original deposits and sales values remain unchanged.

Available for sale financial asset - Investment in unit trust

The value of this investment assumes the remaining unsold stock in this development is sold at a 20% discount. Sales values are not assumed to fall further than this amount, however, if the remaining unsold lots sell at their list price the value of this invest would increase by circa \$180,000.

32. EVENTS OCCURRING AFTER THE REPORTING PERIOD

The Directors are not aware of any 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 2014 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 2014.

On behalf of the Board



NICK D DI LATTE
Managing Director & CEO

Perth, Western Australia
1 August 2014



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INDEPENDENT AUDITOR'S REPORT

To The Members of Diploma Group Limited

Report on the Financial Report

We have audited the accompanying financial report of Diploma Group Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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.

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.



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 2014 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 included in the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Phillip Murdoch
Director

Perth, 1 August 2014

**ADDITIONAL SHAREHOLDER INFORMATION
FOR THE YEAR ENDED 30 JUNE 2014**

As at 29 July 2014 there were 473,234,182 fully paid ordinary shares on issue.

(a) Distribution of Shareholdings

Number of ordinary shares held	Number of Holders
1 - 1,000	31
1,001 - 5,000	83
5,001 - 10,000	47
10,001 - 100,000	271
100,001 and over	225
Total number of holders	<u>657</u>
Number of shareholders holding less than a marketable parcel	<u>175</u>

(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 29 July 2014 are:

Name	Fully Paid Ordinary Shares
ND Properties Pty Ltd	53,851,477
Healthy Holdings Pty Ltd	53,733,334
Up Investments Pty Ltd	53,733,334
Wandina Holdings Pty Ltd	53,733,333
Mr Mark Francis Bradley	24,900,515

(d) Top Twenty Shareholders

The names of the 20 largest holders of fully paid ordinary shares as at 11 July 2014 are listed below:

Rank	Name	Number	%
1	ND Properties Pty Ltd	53,851,477	11.38
2	Healthy Holdings Pty Ltd	53,733,334	11.35
3	Up Investments Pty Ltd	53,733,334	11.35
4	Wandina Holdings Pty Ltd	53,733,333	11.35
5	Mr Mark Francis Bradley	24,900,515	5.26
6	Giromol Pty Ltd	20,000,000	4.23
7	JH Nominees Australia Pty Ltd	19,250,000	4.07
8	UBS Wealth Management Australia Nominees Pty Ltd	14,817,940	3.13
9	Mr Nicola Domenico Di Latte	10,000,000	2.11
10	Klip Pty Ltd	8,756,183	1.85
11	Beirne Trading Pty Ltd	7,561,195	1.60
12	ATD Developments Pty Ltd	6,760,000	1.43
13	HSBC Custody Nominees (Australia) Limited	4,600,000	0.97
14	Mr Jarrad Robert Stuart	4,529,900	0.96
15	Love Super Services Pty Ltd	4,015,843	0.85
16	Mrs Jennifer Oaten	4,000,000	0.85
17	Pershing Australia Nominees Pty Ltd	3,946,112	0.83
18	Fisimia Pty Limited	3,888,888	0.82
19	HSBC Custody Nominees (Australia) Limited – A/C 3	3,412,220	0.72
20	Mr Peter J McMorro & Mrs Bernadine A McMorro	2,829,737	0.60
		<u>358,320,011</u>	<u>75.72</u>

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**

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