

# Appendix 4D

## Half-year Report 31 December 2007

**Diploma Group Limited**  
ACN 127 462 686

### Results for announcement to the market

<b>Financial Results</b>		<b>Dec 2007</b>
		<b>\$'000</b>
Revenue from ordinary activities	Up 98% to	38,528
Profit (loss) from ordinary activities after tax attributable to members	Up 378% to	4,810
Net profit (loss) for the period attributable to members	Up 378% to	4,810

<b>Dividends</b>	Amount per Ordinary Security	Franked amount per security	Amount per security of foreign sourced dividend
2008 interim dividend	Nil	Nil	Nil
2007 final dividend *	\$0.02	\$0.02	Nil

Details of dividend reinvestment plan	N/A
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<b>Net Tangible Asset Backing</b>	<b>Dec 2007</b>	<b>Dec 2006</b>
Net tangible asset backing per ordinary security	\$0.05	\$0.02

**\* 2007 final dividend**

The dividend was declared and paid prior to the Group's admission to the Official List of the ASX.

The information required by listing rule 4.2A is contained in both this Appendix 4D and the attached half-year financial report, which has been subject to independent review. This half-yearly reporting information should be read in conjunction with the most recent annual financial report.

**DIPLOMA GROUP LIMITED**

**ABN 14 127 462 686**

**HALF-YEAR FINANCIAL REPORT**

**31 DECEMBER 2007**

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The half-year report covers the consolidated entity comprising Diploma Group Limited (ABN 14 127 462 686) and its subsidiaries (the Group). The Group's functional and presentation currency is AUD (\$). A description of the Group's operations and of its principal activities is included in the review of operations in the director's report.

**DIRECTORS**

Dominic Di Latte *Chairman*  
Nick Di Latte *Managing Director*  
John Norup  
Ian Olsen  
Carl Lancaster

**COMPANY SECRETARY**

Simon Oaten

**PRINCIPAL REGISTERED**

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140 Abernethy Road  
Belmont WA 6104  
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**SHARE REGISTRY**

Computershare Registry Services Pty Ltd  
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45 St Georges Terrace  
Perth WA 6000  
Telephone: (08) 9323 3000  
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**AUDITORS**

Ernst & Young  
The Ernst & Young Building  
11 Mounts Bay Road  
Perth WA 6000

**BANKERS**

BankWest  
199 Balcatta Road  
Balcatta WA 6021

In respect of the half-year ended 31 December 2007, the Directors of Diploma Group Limited (referred to in these financial statements as "the Company" or "Diploma") submit the following report in respect of the consolidated entity.

## DIRECTORS

The names of the Company's directors in office during the whole of the half year until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Dominic Di Latte (Chairman)  
Nick Di Latte (Managing Director)  
John Norup  
Ian Olson (commenced 10 October 2007)  
Carl Lancaster (commenced 7 December 2007)

## NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

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

### Construction

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

### Property Developing

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

## REVIEW AND RESULTS OF OPERATIONS

Diploma Group Limited (the Group) recorded a net profit after tax of \$4.810 million for the period ended 31 December 2007. This compares favourably to the previous corresponding period result of \$1.006 million for 31 December 2006 and represents an increase of 378% during the period.

Looking ahead to 30 June 2008 the Directors believe that Diploma Group Limited is on track to meet its Prospectus forecast of \$7.085 million profit after tax.

The key highlights of the Group for the period are:

- Successful IPO and admission to the Official List of the ASX on 5 December 2007. 18 million shares were offered to the public with the offer being oversubscribed;
- Continued strong performance in the construction division with a number of new projects secured during the period;
- Early settlement of the Diploma Constructions (WA) Pty Ltd and Probuild Constructions (Aust) Pty Ltd Joint Venture. This settlement contributed \$7.600 million in gross profit to the Group; and
- Good progress on existing property development projects with development approval having been received on the Joondalup Village Project.

Key financial highlights of the Group for the period are:

- Net profit after tax was \$4.810 million (December 06: \$1.006 million);
- Revenue increased 93% to \$39.199 million (December 06: \$20.265 million);
- Earnings before interest and tax (EBIT) of \$6.901 million (December 06: \$1.443 million);
- Earnings per share (EPS) of 4.07 cents (December 06: 0.85 cents); and
- As at 31 December 2007 net assets were \$5.971 million (June 07: \$2.026 million);
- As at 31 December 2007 net tangible assets per security was \$0.05 (Dec 06: \$0.02).

At 31 December 2007, the Group had current assets of \$32.687 million and current liabilities of \$37.593 million, which results in negative working capital of \$4.906 million. This has come about because an existing project specific debt facility used to finance the purchase of a piece land relating to our Joondalup Village Apartment development has been classified as current while the land (or inventory) has been classified as non-current. This mismatch in classification occurred due to delays in receipt of appropriate development approvals which in turn delayed the refinancing of this project specific debt. The required development approvals have now been received, (received on 19 February 2008), along with an offer from the existing debt provider regarding the refinancing of this debt as long term. Once negotiations are concluded the Group will be in a positive working capital position.

The net cash out flow from operations of \$18.882 million includes \$17.965 million in cash outflows from property development expenditure. This property development expenditure has been funded primarily by debt and the cash inflow from this debt finance is classified as a financing activity.

#### *Construction Division*

The construction division contributed EBIT to the Group of \$8.115 million (December 06: \$1.423 million). Operating revenue was \$49.700 million (December 06: \$20.238 million) before intercompany eliminations.

The construction portfolio consists of 22 projects with a total contract value estimated at approximately \$340 million across a variety of sectors including residential, commercial and industrial.

The construction division continues to target negotiated contracts with the majority of the current workbook having been negotiated.

13 projects with a value of approximately \$60 million were completed during the period. The work-in-hand was replenished by securing 10 new projects with a value of approximately \$210 million, including Durack Stage 2 office building, Zenith – a 24 residential tower and Joondalup Village apartment project.

#### *Development Division*

The property division contributed \$nil EBIT to the Group as no developments were completed during the period to 31 December 2007. The recognition of both profit and revenue is at settlement of the development.

The Sky and Rise apartment developments are on track for completion by December 2008 and July 2009 respectively.

Development approval was received on 19 February 2008 for the Joondalup Village Apartment project. A sales and marketing campaign will commence immediately along with refinancing of the project which will impact favourably on the current working capital of the Group.

#### **DIVIDENDS**

A fully franked dividend totalling \$1,925,000 was paid on 22 October 2007. This dividend was declared and paid by a subsidiary company of the Group prior to the Group's admission to the Official List of the ASX.

#### **AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is attached at page 22 and forms part of the Directors' Report.

#### **EVENTS SUBSEQUENT TO BALANCE DATE**

Since the end of the period there are no matters or circumstances that have 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.

#### **ROUNDING OF AMOUNTS**

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available under ASIC Class Order 98/0100 issued by the Australian Securities and Investments Commission. The Company is an entity to which the Class Order applies.

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



**Nick Di Latte**  
Director

Perth, Western Australia  
28 February 2008

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:
  - (i) giving a true and fair view of the financial position as at 31 December 2007 and performance for the half year ended on that date of the consolidated entity; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board,



**Nick Di Latte**  
Director

Perth, Western Australia  
28 February 2008

		Consolidated	
		6 months 31 Dec 2007 \$'000	6 months 31 Dec 2006 \$'000
<b>Continuing operations</b>	<b>Note</b>		
Sales revenue	3(a)	38,528	19,478
Other revenue	3(b)	671	787
Cost of sales		(37,102)	(17,682)
Gross Profit		2,097	2,583
Other income		61	-
Administration expenses		(372)	(121)
Marketing and advertising expenses		(48)	(44)
Occupancy expenses		(119)	(55)
Finance costs		(13)	(7)
Other expenses	3(c)	(2,600)	(1,027)
Gain on sale of equity accounted investment	7(b)	7,600	-
Share of profit from equity accounted investment	7(b)	295	114
<b>Profit before income tax</b>		<b>6,901</b>	<b>1,443</b>
Income tax expense		(2,091)	(437)
<b>Net profit attributable to members of Diploma Group Limited</b>		<b>4,810</b>	<b>1,006</b>
<b>Earnings per share (cents per share)</b>			
Basic earnings per share		4.07	0.85
Diluted earnings per share		4.07	0.85

	Note	Consolidated	
		31 Dec 2007 \$'000	30 Jun 2007 \$'000
<b>Current Assets</b>			
Cash and cash equivalents		7,258	3,752
Trade and other receivables		14,173	13,416
Inventories		10,921	1,675
Equity accounted investment	7(a)	-	679
Prepayments		335	189
Total Current Assets		<b>32,687</b>	19,711
<b>Non-Current Assets</b>			
Trade and other receivables		991	1,354
Inventories		11,005	-
Property, plant and equipment		783	730
Deferred tax assets		575	-
Total Non-Current Assets		<b>13,354</b>	2,084
<b>Total Assets</b>		<b>46,041</b>	21,795
<b>Current Liabilities</b>			
Trade and other payables		15,771	13,935
Interest bearing liabilities		14,881	170
Current tax payable		3,271	-
Provisions		1,301	309
Advance billings - Work in progress		2,369	3,576
Total Current Liabilities		<b>37,593</b>	17,990
<b>Non-Current Liabilities</b>			
Interest bearing liabilities		2,433	-
Provisions		44	799
Deferred tax liabilities		-	980
Total Non-Current Liabilities		<b>2,477</b>	1,779
<b>Total Liabilities</b>		<b>40,070</b>	19,769
<b>NET ASSETS</b>		<b>5,971</b>	2,026
<b>Equity</b>			
Issued capital	10	1,085	100
Retained earnings		4,811	1,926
Reserves		75	-
<b>TOTAL EQUITY</b>		<b>5,971</b>	2,026

	Issued Capital		Retained Earnings		Share Benefits Reserve		Total	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>CONSOLIDATED</b>								
<b>Balance at 1 July</b>	100	95	1,926	800	-	-	2,026	895
Profits for the period	-	-	4,810	1,006	-	-	4,810	1,006
Shares issued	1,000	-	-	-	-	-	1,000	-
Share issue costs	(15)	-	-	-	-	-	(15)	-
Share based payment	-	-	-	-	75	-	75	-
Dividends paid	-	-	(1,925)	(531)	-	-	(1,925)	(531)
<b>Balance at 31 December</b>	<b>1,085</b>	<b>95</b>	<b>4,811</b>	<b>1,275</b>	<b>75</b>	<b>-</b>	<b>5,971</b>	<b>1,370</b>

	Note	Consolidated	
		31 Dec 2007 \$'000	31 Dec 2006 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		39,018	19,674
Payments to suppliers and employees		(57,709)	(17,786)
Interest received		197	27
Interest paid		(13)	(7)
Income tax paid		(375)	2
Net cash flows (used in)/from operating activities		<u>(18,882)</u>	<u>1,910</u>
<b>Cash Flows from Investing Activities</b>			
Purchase of property, plant and equipment		(138)	(30)
Proceeds from equity accounted investment	7(c)	8,225	114
Net cash flows from investing activities		<u>8,087</u>	<u>84</u>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of shares		1,000	-
Issue and listing costs paid		(698)	-
Proceeds from borrowings		15,924	671
Dividends paid		(1,925)	(531)
Net cash flows from financing activities		<u>14,301</u>	<u>140</u>
Net increase in cash and cash equivalents		3,506	2,134
Cash and cash equivalents at beginning of period		3,752	111
<b>Cash and cash equivalents at the end of period</b>		<u>7,258</u>	<u>2,245</u>

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the 30 June 2007 annual financial report for Diploma Constructions (WA) Pty Ltd as presented in the Prospectus dated 17 October 2007. It is also recommended that the half year report be considered together with any public announcements made by Diploma Group Limited during the half year ended 31 December 2007 in accordance with the continuous disclosure obligations of the Corporation Act 2001 and the ASX Listing Rules.

### (a) Basis of Preparation

The half-year financial report is a general-purpose condensed financial report, which has been prepared for the half-year ended 31 December 2007 in accordance with the requirements of the Corporations Act 2001 and AASB 134 "Interim Financial Reporting".

The half-year 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.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

### (b) Significant accounting policies

The same accounting policies and methods of computation have been applied by each entity in the consolidated group and are consistent with those adopted and disclosed in the 30 June 2007 annual financial report for Diploma Constructions (WA) Pty Ltd as presented in the Prospectus dated 17 October 2007.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(b) Significant accounting policies (continued)**

Since 1 July 2007, the Group has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2007. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group:

- AASB101 (revised October 2006) *Presentation of Financial Statements*;
- AASB7 Financial Instruments : Disclosures;
- AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132,101,114,117,133,139,1,4,1923 and 1038);
- AASB 2007-1 Amendments to Australian Accounting Standards arising from Interpretation 11 (AASB2);
- AASB 2007-4 *Amendments to Australian Accounting Standards* arising from ED151 and other amendments;
- AASB 2007-7 *Amendments to Australian Accounting Standards* (AASB1,2,4,5,107 and 128);
- Interpretation 10 *Interim Financial Reporting and Impairment*; and
- Interpretation 11 AASB2 – *Group and Treasury Share Transactions*

**(c) Basis of consolidation**

On 10 September 2007, Diploma Group Limited acquired 100,000 shares in Diploma Constructions (WA) Pty Ltd via an equity exchange. This transaction has been accounted for as a reverse acquisition. Accordingly, the consolidated financial statements of Diploma Group Limited have been prepared as a continuation of the consolidated financial statements of Diploma Constructions (WA) Pty Ltd. Diploma Constructions (WA) Pty Ltd, as the deemed acquirer, has accounted for Diploma Group Limited from 10 September 2007. The comparative information presented in the consolidated financial statements is that of Diploma Constructions (WA) Pty Ltd.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

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

**2 SEGMENT INFORMATION**

The primary reporting format for the group is business segments.

**Business Segment**

The following table presents revenue and profit information for business segments for the half years ended 31 December 2007 and 31 December 2006.

	Construction \$'000	Development \$'000	Total Operations \$'000
<b>31 December 2007</b>			
<b>Revenue</b>			
Revenue from external customers	39,002	-	39,002
Other income	61	-	61
Inter-segment revenues	10,637	-	10,637
Total segment revenue	<u>49,700</u>	-	<u>49,700</u>
Inter-segment elimination			(10,637)
Unallocated revenue			<u>197</u>
Total consolidated revenue			<u>39,260</u>
<b>Result</b>			
Segment result	<u>8,115</u>	<u>(2)</u>	8,113
Inter-segment elimination			(413)
Unallocated (expenses)/income			<u>(799)</u>
Net profit before income tax			<u>6,901</u>
<b>31 December 2006</b>			
<b>Revenue</b>			
Revenue from external customers	20,238	-	20,238
Other income	-	-	-
Inter-segment revenues	-	-	-
Total segment revenue	<u>20,238</u>	-	<u>20,238</u>
Inter-segment elimination			-
Unallocated revenue			<u>27</u>
Total consolidated revenue			<u>20,265</u>
<b>Result</b>			
Segment result	<u>1,423</u>	-	1,423
Unallocated (expenses)/income			<u>20</u>
Net profit before income tax			<u>1,443</u>

	<b>31 Dec 2007 \$'000</b>	<b>31 Dec 2006 \$'000</b>
<b>3 REVENUE, INCOME AND EXPENSES</b>		
<b>(a) Sales revenue – construction contracts</b>		
Commercial buildings	23,574	9,192
Apartment buildings	12,941	10,237
Residential homes buildings	2,013	49
	<b>38,528</b>	<b>19,478</b>
<b>(b) Other revenue</b>		
Interest revenue	197	27
Contract labour & administration income	474	760
	<b>671</b>	<b>787</b>
<b>(c) Other expenses</b>		
Employee expenses	1,376	473
Depreciation expense	84	61
Share-based payments expense	75	-
Listing expenses	686	-
Insurance	60	45
Other expenses	319	448
	<b>2,600</b>	<b>1,027</b>

#### **4 BUSINESS COMBINATIONS**

##### **Acquisition of Diploma Constructions (WA) Pty Ltd**

During the reporting period, Diploma Group Limited acquired 100% of the share capital in Diploma Construction (WA) Pty Ltd. The settlement date of the acquisition was 10 September 2007. After this transaction, the shareholders of Diploma Construction (WA) Pty Ltd owned 100% of Diploma Group Limited, making this transaction a “reverse acquisition”.

Hence, for accounting purposes, the parent company is Diploma Construction (WA) Pty Ltd and the subsidiary company is Diploma Group Limited.

The carrying value and fair value of the identifiable assets and liabilities and total consideration paid of the acquired subsidiary, Diploma Group Limited, at the date of acquisition was \$nil.

There was no cash flow effect with regard this transaction at the date of acquisition.

**5 CHANGE IN COMPOSITION OF THE ENTITY****(a) Acquisition of Proven Joondalup Pty Ltd**

On 10 July 2007, a 100% owned subsidiary, Joondalup Village Life Pty Ltd acquired 100% of the voting shares of Proven Joondalup Pty Ltd, an unlisted proprietary company based in Australia which was the owner of 3 separate development sites situated on the north east corner of Joondalup and Lakeside Drives.

The total cost of the acquisition was \$6.8 million and was settled in cash on 10 July 2007. No cash was acquired with the subsidiary nor were any additional costs incurred hence the net cash outflow on acquisition was \$6.8 million.

The total consideration paid of \$6.8 million has been attributed solely to property held by Proven Joondalup Pty Ltd at the date of acquisition.

**(b) Establishment of Controlled Entities - The Diploma 148 Adelaide Terrace Joint Venture and The Diploma 155 Adelaide Terrace Joint Venture**

On 1 August 2007, a subsidiary company, Diploma Construction (WA) Pty Ltd entered into joint venture agreements with each of ATD Developments Pty Ltd (The Diploma 148 Adelaide Terrace Joint Venture) and 155 Adelaide Tce Pty Ltd (The Diploma 155 Adelaide Terrace Joint Venture). These are not joint venture arrangements as defined under Australian Accounting Standards but are controlled entities.

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

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

For further details refer Note 11(b) Related Parties.

**(c) Sale of equity accounted investment - Diploma/Probuild Joint Venture**

For details refer Note 7 Equity Accounted Investment.

**6 DIVIDENDS PAID**

Fully franked dividend for the financial year ended 30 June 2007, paid 22 October 2007 totalled \$1.925 million (30 June 2006: \$0.800 million paid on 31 December 2006).

<b>Consolidated</b>	
<b>31 Dec</b>	30 Jun
<b>2007</b>	2007
<b>\$'000</b>	\$'000

**7 EQUITY ACCOUNTED INVESTMENT****(a) Investment details**

*Unlisted*

Diploma/Probuild Joint Venture	-	679
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**(b) Movements in carrying amount of the Group's equity accounted investment**

	<b>Consolidated</b>
	<b>31 Dec</b>
	<b>2007</b>
	<b>\$'000</b>
Diploma/Probuild Joint Venture	
At 30 June 2007	679
Share of profits before income tax prior to sale of equity accounted investments	295
Profit on disposal of equity accounted investment	7,600
Distributions received to 30 Sep 07	(974)
Consideration received on termination of JV (i)	(7,600)
At 31 December 2007	-

- (i) On the 28 September 2007, Diploma Group and Probuild Constructions (Aust) Pty Ltd (**Probuild**) agreed to cease their joint venture agreement. From this date onwards, the projects subject to the joint venture agreement will be completed by Probuild. In exchange for this, Probuild paid the Company an amount of \$7.6 million, plus GST, which represents the discounted amount of the Group's forecast final profit on the Diploma/Probuild joint venture projects.

**(c) Movement in cash flow statement**

Distributions received to 30 September 2007	974
Consideration received on termination	7,600
	<u>8,574</u>
Disclosed as:	
Cash flow from investing activity	8,225
Cash flow from operating activity	349
	<u>8,574</u>

**8 COMMITMENTS AND CONTINGENCIES**

At 31 December 2007, the Group has a commitment principally in relation to the purchase of property at 1174 Hay Street, West Perth, WA for \$10 million. This commitment is in relation to settlement of the purchase contract due to be effected in October 2008, subject to satisfactory completion of conditions precedent.

**9 GROUP ENTITIES**

*Ultimate parent company*

Legally the ultimate parent company of the group is Diploma Group Limited. Refer Note 4 for the *accounting* parent company.

<i>Parent entity</i>		Country of Incorporation	% Ownership Interest Dec 07	% Ownership Interest Jun 07
Diploma Group Limited				
<i>Significant subsidiaries and other controlled entities</i>				
Diploma Constructions (WA) Pty Ltd	(i)	Australia	100	-
Diploma Properties Pty Ltd	(ii)	Australia	100	-
Joondalup Village Life Pty Ltd		Australia	100	100
Proven Joondalup Pty Ltd	(iii)	Australia	100	-
1174 Hay Street Pty Ltd		Australia	100	100
The Diploma 148 Adelaide Tce JV	(iv)	n/a	80	-
The Diploma 155 Adelaide Tce JV	(iv)	n/a	80	-

- (i) Refer Note 4 Business Combinations.
- (ii) This entity was incorporated on 11 September 2007.
- (iii) Refer Note 5(a) Change in Composition of the Entity.
- (iv) The Group does not hold any equity interests in these two entities, however, it receives the majority of the benefits related to their operations and net assets based on the terms of agreements under which these entities were established. Refer Note 5(b) Change in Composition of the Entity.

**10 ISSUED CAPITAL**

		<b>Consolidated</b>	
		Thousands	\$'000
<i>Movement in ordinary shares on issue</i>			
At 30 June 2007		-	<b>100</b>
Shares issued for subsidiary	(i)	<b>118,000</b>	-
Share issue	(ii)	<b>2,000</b>	<b>1,000</b>
Issue and listing costs		-	<b>(15)</b>
At 31 December 2007		<b>120,000</b>	<b>1,085</b>

- (i) Shares issued on 10 September 2007 with respect to the acquisition of Diploma Constructions (WA) Pty Ltd. See note 4.
- (ii) On 5 December 2007, 2,000,000 shares were issued for cash as part of the listing on the ASX of Diploma Group Limited.

**11 RELATED PARTIES****(a) Directors' interests in the shares and options of the Company and dividends paid**

As at the date of this report, dividends paid to Directors and the interests of the Directors in ordinary shares and unlisted options of the Company were:

<b>Director</b>	<b>Dividends Paid</b>	<b>Shares</b>	<b>Unlisted Options</b>
D. Di Latte	422,500	20,400,000	1,012,000
N. Di Latte	422,500	20,400,000	1,212,000
J. Norup	235,500	20,400,000	1,012,000
I. Olson	-	20,000	200,000
C. Lancaster	-	40,000	-

**(b) Joint Venture Agreements**

On 1 August 2007, a subsidiary company, Diploma Construction (WA) Pty Ltd entered into joint venture agreements with each of ATD Developments Pty Ltd (The Diploma 148 Adelaide Terrace Joint Venture) and 155 Adelaide Tce Pty Ltd (The Diploma 155 Adelaide Terrace Joint Venture).

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

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

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

Diploma Constructions (WA) Pty Ltd has an 80% participating interest in each venture and is entitled to receive and take its share of the profits determined on a pro rata basis in accordance with its participating interest.

Diploma Construction (WA) Pty Ltd has entered into two separate agreements with each of the respective ventures above for the construction of the 'Sky' and 'Rise' apartments. Each of these agreements were made in arm's length transactions both at normal market prices and on normal commercial terms.

During the period the Company received a loan totalling \$7,801,000 from ATD Developments Pty Ltd and 155 Adelaide Tce Pty Ltd towards the development of these projects. Interest on these loans is charged at normal market rates.

**11 RELATED PARTIES (continued)****(c) Other transactions and balances with Directors and their related parties***Sales*

Diploma Constructions (WA) Pty Ltd has a construction contract with Flag Holdings Pty Ltd of which N. Di Latte is a director. During the period the Company provided construction services to Flag Holdings Pty Ltd to the value of \$5,676,000 at normal market prices. At 31 December 2007, the Company had a trade debtor totalling \$2,248,000 due and receivable from Flag Holdings Pty Ltd.

*Other loans*

During the period, a subsidiary company Joondalup Village Life Pty Ltd, received a loan totalling \$2,415,000 from ATD Developments Pty Ltd, of which D. Di Latte, N. Di Latte and J. Norup are directors. The loan is repayable in 18 months and interest is charged at normal commercial rates.

**12 SUBSEQUENT EVENTS**

On 19 February 2008, development approval was received on the Joondalup Village Apartment development. Subsequent to the receipt of this development approval the Group has received an offer of finance from the existing debt provider which, once negotiations are concluded, will allow the existing current debt to be reclassified as non-current. The Company has not yet pre-sold any of the development lots and will only proceed with the development once an appropriate level of pre-sales and finance is in place.

To the members of Diploma Group Limited

## **Report on the Condensed Half-Year Financial Report**

We have reviewed the accompanying condensed half year financial report of Diploma Group Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half year end or from time to time during the half year.

### *Directors' Responsibility for the half year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of Diploma Group Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

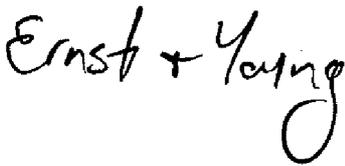
### *Independence*

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

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Diploma Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



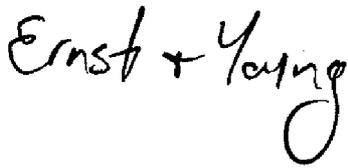
Ernst & Young



P McIver  
Partner  
Perth  
28 February 2008

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

In relation to our review of the half year financial report of Diploma Group Limited for the half-year ended 31 December 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



P McIver  
Partner  
Perth  
28 February 2008