

DIPLOMA GROUP LIMITED

ABN 14 127 462 686

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2010

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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 principal activities is included in the review of operations in the director's report.

DIRECTORS

Dominic Di Latte	<i>Chairman</i>
Nick Di Latte	<i>Managing Director</i>
John Norup	<i>Executive Director</i>
Ian Olson	<i>Non Executive Director</i>
Carl Lancaster	<i>Non Executive Director</i>

COMPANY SECRETARY

Simon Oaten

PRINCIPAL REGISTERED

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AUDITORS

Ernst & Young
The Ernst & Young Building
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BANKERS

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152 – 158 St Georges' Tce
Perth WA 6000

In respect of the half-year ended 31 December 2010, 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.

Dominic Di Latte (Chairman)
Nick Di Latte (Managing Director)
John Norup (Executive Director)
Ian Olson (Non-executive Director)
Carl Lancaster (Non-executive Director)

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 Development

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

REVIEW AND RESULTS OF OPERATIONS

Diploma Group Limited (the Group) recorded a net loss after tax of \$0.644 million for the period ended 31 December 2010 equating to a loss of \$0.004 cents per share (December 2009: profit of \$5.290 million). Revenue was also down 51% compared to the same time last year to \$61.612 million.

DIVIDENDS

Fully franked dividends for the financial year ended 30 June 2010, that were paid on 30 April 2010 and 29 October 2010, totalled \$2.734 million (2009: \$1.200 million paid on 1 December 2009).

No dividend was declared for the half-year ended 31 December 2010.

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 17 and forms part of the Directors' Report.

EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial period, the Directors are not aware of any other 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
25 February 2011

In accordance with a resolution of the Directors of Diploma Group Limited, I 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 2010 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
25 February 2011

	Note	6 months 31 Dec 2010 \$'000	6 months 31 Dec 2009 \$'000
Continuing operations			
Revenue	3	61,612	126,885
Other revenue		28	145
Cost of sales		(58,167)	(114,471)
Gross profit		3,473	12,559
Other income		1,473	407
Administration expenses		(2,967)	(2,776)
Marketing and advertising expenses		(951)	(308)
Occupancy expenses		(431)	(371)
Finance costs		(151)	(162)
Other expenses	4	(1,045)	(1,339)
Share of loss from equity accounted investment		-	(26)
(Loss)/profit before income tax		(599)	7,984
Income tax expense		(45)	(2,694)
Net (loss)/profit attributable to members of Diploma Group Limited		(644)	5,290
Other comprehensive expense			
Foreign currency translation		(232)	(257)
Income tax on items of other comprehensive income		-	-
Other comprehensive expense for the period, net of tax		(232)	(257)
Total comprehensive (expense)/income for the period		(876)	5,033
(Loss)/earnings per share (cents per share)			
Basic (loss)/earnings per share		(0.42)	4.41
Diluted (loss)/earnings per share		(0.42)	4.41

	Note	31 Dec 2010 \$'000	30 Jun 2010 \$'000
Current Assets			
Cash and cash equivalents	6	2,412	5,410
Trade and other receivables		28,361	31,411
Inventories	7	83,946	39,120
Other assets		638	38
Total Current Assets		115,357	75,979
Non-Current Assets			
Trade and other receivables		-	6,074
Inventories	7	12,308	22,972
Property, plant and equipment		1,736	1,725
Equity accounted investments		702	466
Deferred tax assets		-	1,188
Intangible asset		1,550	1,840
Total Non-Current Assets		16,296	34,265
Total Assets		131,653	110,244
Current Liabilities			
Trade and other payables		52,816	33,354
Interest bearing loans and borrowings		39,812	21,079
Current tax payable		218	4,862
Provisions		3,154	2,809
Total Current Liabilities		96,000	62,104
Non-Current Liabilities			
Trade and other payables		1,440	7,718
Interest bearing loans and borrowings		2,050	9,192
Provisions		162	85
Deferred tax liability		3,450	-
Total Non-Current Liabilities		7,102	16,995
Total Liabilities		103,102	79,099
NET ASSETS		28,551	31,145
Equity			
Issued capital		15,345	15,545
Retained earnings		12,648	14,826
Reserves		558	774
TOTAL EQUITY		28,551	31,145

	Issued Capital \$'000	Retained Profits \$'000	Employee equity benefits reserve \$'000	Foreign currency translation reserve \$'000	Total \$'000
Balance at 1 July 2010	15,545	14,826	573	201	31,145
Exchange differences on translation of foreign operations	-	-	-	(232)	(232)
Net expense recognised directly in equity	-	-	-	(232)	(232)
Profit/(loss) for the period	-	(644)	-	-	(644)
Total comprehensive income/(expense) for the period	-	(644)	-	(232)	(876)
Transactions with owners in their capacity as owners:					
Share buy back	(200)	-	-	-	(200)
Share-based payment	-	-	16	-	16
Equity dividends	-	(1,534)	-	-	(1,534)
Balance at 31 December 2010	15,345	12,648	589	(31)	28,551

	Issued Capital \$'000	Retained Profits \$'000	Employee equity benefits reserve \$'000	Foreign currency translation reserve \$'000	Total \$'000
Balance at 1 July 2009	1,085	7,185	497	352	9,119
Exchange differences on translation of foreign operations	-	-	-	(257)	(257)
Net expense recognised directly in equity	-	-	-	(257)	(257)
Profit for the period	-	5,290	-	-	5,290
Total comprehensive income for the period	-	5,290	-	(257)	5,033
Transactions with owners in their capacity as owners:					
Share-based payment	-	-	63	-	63
Equity dividends	-	(1,200)	-	-	(1,200)
Balance at 31 December 2009	1,085	11,275	560	95	13,015

	31 Dec 2010 \$'000	31 Dec 2009 \$'000
Cash flows from Operating Activities		
Receipts from customers	72,209	129,545
Payments to suppliers and employees	(83,613)	(90,421)
Interest received	28	87
Interest paid	(151)	(162)
Income tax paid	(50)	(683)
Net cash flows (used in)/from operating activities	<u>(11,577)</u>	<u>38,366</u>
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(136)	(16)
Contribution to equity accounted investments	(236)	(301)
Net cash flows used in investing activities	<u>(372)</u>	<u>(317)</u>
Cash Flows from Financing Activities		
Repayment of borrowings	-	(45,133)
Proceeds from borrowings	7,391	5,906
Payment for redemption of shares	(200)	-
Dividends paid	(1,534)	(149)
Net cash flows from/(used in) financing activities	<u>5,657</u>	<u>(39,376)</u>
Net decrease in cash and cash equivalents	(6,292)	(1,327)
Cash and cash equivalents at beginning of period	<u>5,410</u>	<u>5,864</u>
Cash and cash equivalents at the end of period	6 <u>(882)</u>	<u>4,537</u>

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

This half-year financial report is a general purpose condensed financial report, which has been prepared for the half-year ended 31 December 2010 in accordance with the requirements of the Corporations Act 2001 and AASB 134 "Interim Financial Reporting".

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 this report be read in conjunction with the 30 June 2010 annual financial report, and all public announcements made by Diploma Group Limited and its controlled entities during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations of the ASX listing rules.

The half-year financial report has been prepared on a 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. Apart from the changes in accounting policy noted below, the accounting policies and method of computation are the same as those adopted in the most recent annual financial report.

New Accounting Standards and Interpretations

Changes in accounting policy and disclosures.

From 1 July 2010, the Group has adopted the Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2010. Adoption of these standards and Interpretations did not have any effect on the financial position or performance of the Group.

The Group has not elected to early adopt any new standards or amendments.

2 OPERATING SEGMENTS

Identification of reportable segments

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

2 OPERATING SEGMENTS (continued)**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 reported in the 30 June 2010 annual report.

Major customers

The Group has a number of external customers to which it provides construction and development services. The most significant client accounts for 42% (31 December 2009: Nil) of external revenue within the Construction operating segment.

The next most significant client accounts for less than 10% of external revenue.

	Construction \$'000	Property Development \$'000	Unallocated Items \$'000	Total Operations \$'000
Period ended 31 December 2010				
Revenue				
Revenue from external customers	48,223	13,389	-	61,612
Other revenue from external customers	20	8	-	28
Inter-segment revenues	29,126	-	-	29,126
Total segment revenue	77,369	13,397	-	90,766
Segment net operating profit/(loss) after tax	1,645	(1,534)	(755)	(644)
Interest revenue	20	8	-	28
Interest expense	(50)	(1)	(100)	(151)
Depreciation and amortisation	(124)	-	-	(124)
Income tax expense	-	-	(45)	(45)
Segment assets	16,070	83,290	32,293	131,653
Segment liabilities	40,626	46,445	16,031	103,102

2 OPERATING SEGMENTS (continued)

	Construction \$'000	Property Development \$'000	Unallocated Items \$'000	Total Operations \$'000
Period ended 31 December 2009				
Revenue				
Revenue from external customers	75,002	51,941	-	126,943
Other revenue from external customers	-	-	87	87
Inter-segment revenues	19,991	-	-	19,991
Total segment revenue	94,993	-	-	19,991
Segment net operating profit after tax				
	3,411	4,566	(2,687)	5,290
Interest revenue	65	21	1	87
Interest expense	(77)	-	(85)	(162)
Depreciation and amortisation	(75)	(34)	(14)	(123)
Income tax expense	-	-	(2,694)	(2,694)
Segment assets	49,950	93,432	3,581	146,963
Segment liabilities	42,350	89,478	(16,010)	115,818

	31 Dec 2010 \$'000	31 Dec 2009 \$'000
3 REVENUE		
Construction contract revenue	48,223	75,002
Revenue from sale of development properties	13,389	51,883
	61,612	126,885
4 OTHER EXPENSES		
Depreciation expense	124	123
Bad debts expense	-	728
Insurance	-	225
Foreign exchange loss	673	-
Other expenses	248	263
	1,045	1,339

	31 Dec 2010 \$'000	30 Jun 2010 \$'000
5 DIVIDENDS PAID AND PROPOSED		
(a) Dividends declared and paid during the half-year on ordinary shares:		
Final franked dividend for the financial year ended 30 June 2010, \$0.01 cents – paid 29 October 2010 (2009: \$0.02 cents)	<u>1,534</u>	<u>1,200</u>
(b) Dividends proposed and not yet recognised as a liability:		
Interim franked dividend for the half-year ended 31 December 2010 (30 June 2010: 0.01 cents)	<u>-</u>	<u>1,200</u>
6 CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	2,412	4,527
Cash held in trust	-	883
	<u>2,412</u>	<u>5,410</u>
Reconciliation to statement of cash flows		
For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:		
Cash at bank and in hand	2,412	4,527
Cash held in trust	-	883
Bank overdraft	<u>(3,294)</u>	<u>-</u>
	<u>(882)</u>	<u>5,410</u>
7 INVENTORIES		
Development projects complete – at cost	20,319	23,488
Development projects under construction – at cost	55,465	22,972
Construction work in progress – amounts due from customers	<u>20,470</u>	<u>15,632</u>
	<u>96,254</u>	<u>62,092</u>
Aggregate carrying amount of inventories		
Current	83,946	39,120
Non-current	<u>12,308</u>	<u>22,972</u>

8 CONTINGENT LIABILITIES AND ASSETS

There has been no significant change to the nature or exposure of the contingent liabilities since that reported in the 30 June 2010 annual report.

9 EVENTS AFTER THE BALANCE SHEET DATE

Since the end of the financial period, the Directors are not aware of any other 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.

To the members of Diploma Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Diploma Group Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and the 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 of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

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 Interim and other Financial Reports 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 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001*. 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:

- a. the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 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



Gavin A Buckingham
Partner
Perth
25 February 2011

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

In relation to our review of the financial report of Diploma Group Limited for the half-year ended 31 December 2010, 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.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Gavin Buckingham'.

Gavin A Buckingham
Partner
Perth
25 February 2011