

**DIPLOMA GROUP LIMITED**

**ABN 14 127 462 686**

**HALF-YEAR FINANCIAL REPORT**

**31 DECEMBER 2015**

Corporate Directory	2
Directors' Report	3
Directors' Declaration	5
Consolidated Statement of Profit or Loss and Other Comprehensive Income	6
Consolidated Statement of Financial Position	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash Flows	9
Notes to the Consolidated Half-Year Financial Statements	10
Independent Auditor's Review Report	15
Auditor's Independence Declaration	17

The half-year report covers the consolidated entity comprising Diploma Group Limited (ABN 14 127 462 686) and its subsidiaries (the Group). The 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**

Nick Di Latte	<i>Executive Chairman &amp; CEO</i>
Jason Ferris	<i>Non Executive Director</i>
Jeffery Hill	<i>Non Executive Director</i>

**COMPANY SECRETARY**

Simon Oaten

**PRINCIPAL REGISTERED**

First Floor  
140 Abernethy Road  
Belmont WA 6104  
Telephone: (08) 9475 3500  
Facsimile: (08) 9475 3501  
Email: [info@diploma.com.au](mailto:info@diploma.com.au)  
Website: [www.diploma.com.au](http://www.diploma.com.au)

**SHARE REGISTRY**

Computershare Registry Services Pty Ltd  
Level 11, 172 St Georges Terrace  
Perth WA 6000  
Telephone: 1300 787 272  
Facsimile: (08) 9323 2033

**AUDITORS**

BDO Audit (WA) Pty Ltd  
38 Station Street  
Subiaco WA 6008

**BANKERS**

St George Bank  
Level 2, Westralia Plaza  
167 St Georges Terrace  
Perth WA 6000

In respect of the half-year ended 31 December 2015, 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.

Nick Di Latte (Executive Chairman & CEO)

Jason Ferris (Non-executive Director)

Jeffery Hill (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 Group has two divisions, which are responsible for carrying out the Group's activities. Within each division Diploma offers a comprehensive range of services that include:

### **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; and
- Funds management.

## **REVIEW AND RESULTS OF OPERATIONS**

Diploma Group Limited (the Group) recorded a net profit after tax of \$0.575 million for the period ended 31 December 2015 equating to a profit of 0.12 cents per share (December 2014: loss of \$1.215 million or 0.26 cents per share). Revenue was up 188% compared to the same time last year to \$88.538 million.

**REVIEW AND RESULTS OF OPERATIONS**

The current economic conditions contributed to the construction division continuing to experience delays in the commencement of new projects.

The delays in construction commencement were offset by the development division which completed and settled its Quest Rockingham development along with 53 out of a total of 68 apartments in its Lord Street Highgate development. The settlement of these developments contributed to the strong operating cash inflows and profit for the period and allowed the Group to pay down in excess of \$32m in project specific debt.

The groups renewed focus on external party construction opportunities is already seeing dividends with the group forecast to tender over \$120m of work by end of the next quarter, 31 March 2016.

**DIVIDENDS**

No dividend was declared for the half-year ended 31 December 2015 (2014: Nil).

**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 18 and forms part of the Directors' Report.

**MATTERS SUBSEQUENT TO THE REPORTING PERIOD**

The Directors are not aware of any 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**  
Executive Chairman & CEO  
Perth, Western Australia  
22 February 2016

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 2015 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 other mandatory professional reporting requirements; 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**  
Executive Chairman & CEO  
Perth, Western Australia  
22 February 2016

**Consolidated Statement of Profit or Loss and Other  
Comprehensive Income**

**DIPLOMA GROUP LIMITED**

**For the Half-year Ended 31 December 2015**

	Note	6 months 31 Dec 2015 \$'000	6 months 31 Dec 2014 \$'000
<b>Continuing operations</b>			
Revenue	3	88,538	47,141
Other revenue	4	2,026	4,226
Cost of sales		(86,447)	(50,274)
Gross profit		4,117	1,093
Other income		-	1
Administration expenses		(2,616)	(2,204)
Marketing and advertising expenses		(79)	(70)
Occupancy expenses		(333)	(291)
Finance costs		(8)	(7)
Other expenses		(220)	(231)
<b>Profit/(loss) before income tax</b>		861	(1,709)
Income tax (expense)/benefit		(286)	494
<b>Net profit /(loss) attributable to members of Diploma Group Limited</b>		575	(1,215)
<b>Other comprehensive income/(expense) for the period, net of tax</b>		-	-
<b>Total comprehensive profit/(loss) for the period</b>		575	(1,215)
Total comprehensive profit /(loss) for the period is attributable to:			
Non-controlling interest		-	-
Owners of the parent		575	(1,215)
		575	(1,215)
<b>Profit per share (cents per share)</b>			
Basic earnings/(loss) per share		0.12	(0.26)
Diluted earnings/(loss) per share		0.12	(0.26)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

	Note	31 Dec 2015 \$'000	30 Jun 2015 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	5	8,337	3,273
Trade and other receivables	6	1,842	7,226
Inventories	7	76,305	91,856
Available for sale financial assets	8	500	500
Total Current Assets		86,984	102,855
<b>Non-Current Assets</b>			
Trade and other receivables	6	1,954	1,954
Inventories	7	7,789	6,342
Property, plant and equipment		1,107	1,200
Equity accounted investments		345	345
Deferred tax asset		4,505	4,791
Total Non-Current Assets		15,700	14,632
<b>Total Assets</b>		102,684	117,487
<b>Current Liabilities</b>			
Trade and other payables	9	38,017	43,059
Interest bearing loans and borrowings	10	49,360	61,817
Provisions		2,255	2,376
Total Current Liabilities		89,632	107,252
<b>Non-Current Liabilities</b>			
Trade and other payables		849	927
Interest bearing loans and borrowings	10	6,154	3,892
Provisions		58	79
Total Non-Current Liabilities		7,061	4,898
<b>Total Liabilities</b>		96,693	112,150
<b>NET ASSETS</b>		5,991	5,337
<b>Equity</b>			
Issued capital		23,936	23,936
Accumulated losses		(18,604)	(19,179)
Reserves		659	580
<b>TOTAL EQUITY</b>		5,991	5,337

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.



	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 2015	23,936	(19,179)	754	(174)	5,337	-	5,337
Profit for the period	-	575	-	-	575	-	575
Total comprehensive loss/(profit) for the period	-	575	-	-	575	-	575
Transactions with owners in their capacity as owners:							
Share based payments	-	-	79	-	79	-	79
Distributions to non-controlling interests.	-	-	-	-	-	-	-
Balance at 31 December 2015	23,936	(18,604)	833	(174)	5,991	-	5,991

	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 2014	23,936	(8,330)	659	(174)	16,091	24	16,115
(Loss) for the period	-	(1,215)	-	-	(1,215)	-	(1,215)
Total comprehensive loss/(profit) for the period	-	(1,215)	-	-	(1,215)	-	(1,215)
Transactions with owners in their capacity as owners:							
Share based payments	-	-	53	-	53	-	53
Distributions to non-controlling interests.	-	-	-	-	-	-	-
Balance at 31 December 2014	23,936	(9,545)	712	(174)	14,929	24	14,953

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	103,472	65,635
Payments to suppliers and employees	(88,217)	(82,614)
Interest received	17	9
Interest paid	(8)	(7)
Net cash flows generated by/(used in) operating activities	15,264	(16,977)
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant and equipment	(5)	(25)
Net cash flows used in investing activities	(5)	(25)
<b>Cash Flows from Financing Activities</b>		
Proceeds from borrowings	22,083	24,794
Repayment of borrowings	(32,278)	(12,361)
Net cash flows (used in)/ generated by financing activities	(10,195)	12,433
Net increase/(decrease) in cash and cash equivalents	5,064	(4,569)
Cash and cash equivalents at beginning of period	3,273	6,911
<b>Cash and cash equivalents at the end of period</b>	<b>8,337</b>	<b>2,342</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

## 1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

These general purpose financial statements for the half-year reporting period ended 31 December 2015 have been prepared in accordance with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Act 2001.

The historical cost basis has been used, except for investment properties, land and buildings, derivatives and available-for-sale financial assets which have been measured at fair value.

These half-year financial statements do not include all the notes of the type normally included in annual financial statements 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 statements. Accordingly, these half-year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2015 and any public announcements made by Diploma Group Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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 entity**

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2016 annual report as a consequence of these amendments.

### **Impact of standards issued but not yet applied by the entity**

There were no new standards issued since 30 June 2015 that have been applied by Diploma Group Limited. The 30 June 2015 annual report disclosed that Diploma anticipated no material impacts (amounts recognised and/or disclosed) arising from initial application of those standards issued but not yet applied at that date, and this remains the assessment as at 31 December 2015.

## 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 2015 annual report.

### Major customers

The Group has a number of external customers to which it provides construction and development services. Revenue from one customer accounted for 30% (31 December 2014: 17%) of external revenue within the Construction operating segment. The next most significant external client accounts for less than 10% of revenue.

	Construction \$'000	Property Development \$'000	Inter division eliminations \$'000	Total Operations \$'000
<b>Period ended 31 December 2015</b>				
<b>Revenue</b>				
Revenue from external customers	55,768	32,770	-	88,538
Other revenue from external customers	2	2,024	-	2,026
Inter-segment revenues	-	-	-	-
<b>Total segment revenue</b>	<b>55,770</b>	<b>34,794</b>	<b>-</b>	<b>90,564</b>
<b>Segment net operating profit/(loss) after tax</b>	<b>(640)</b>	<b>3,509</b>	<b>-</b>	<b>2,869</b>
Interest revenue	2	15	-	17
Interest expense	(8)	-	-	(8)
Depreciation and amortisation	(98)	-	-	(98)
<b>Segment assets</b>	<b>55,997</b>	<b>92,893</b>	<b>(84,511)</b>	<b>64,379</b>
<b>Segment liabilities</b>	<b>69,703</b>	<b>88,594</b>	<b>(84,511)</b>	<b>73,786</b>
<b>Period ended 31 December 2014</b>				
<b>Revenue</b>				
Revenue from external customers	47,128	13	-	47,141
Other revenue from external customers	5	4,220	-	4,225
Inter-segment revenues	-	-	-	-
<b>Total segment revenue</b>	<b>47,133</b>	<b>4,233</b>	<b>-</b>	<b>51,366</b>
<b>Segment net operating profit/(loss) after tax</b>	<b>(2,963)</b>	<b>2,478</b>	<b>-</b>	<b>(485)</b>
Interest revenue	5	13	-	18
Interest expense	(7)	-	-	(7)
Depreciation and amortisation	(111)	-	-	(111)
<b>Segment assets – 30 June 2015</b>	<b>66,679</b>	<b>100,253</b>	<b>(86,903)</b>	<b>80,029</b>
<b>Segment liabilities – 30 June 2015</b>	<b>77,728</b>	<b>103,437</b>	<b>(86,903)</b>	<b>94,262</b>

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
<b>3 REVENUE</b>		
Construction contract revenue	55,768	47,128
Revenue from sale of development properties	32,770	13
	<u>88,538</u>	<u>47,141</u>
<b>4 OTHER REVENUE</b>		
Sale of investment property	1,800	4,044
Interest	17	9
Development management fees	209	173
	<u>2,026</u>	<u>4,226</u>
<b>5 CASH AND CASH EQUIVALENTS</b>		30 Jun 2015 \$'000
Cash at bank and in hand	<u>8,337</u>	3,273
<b>Reconciliation to statement of cash flows</b>		
For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:		
Cash at bank and in hand	8,337	3,273
Term deposits	-	-
	<u>8,337</u>	<u>3,273</u>
<b>6 TRADE AND OTHER RECEIVABLES</b>		
<b>Current</b>		
Trade receivables	695	6,413
Allowance for doubtful debts	(677)	(677)
Other receivables	1,824	1,490
	<u>1,842</u>	<u>7,226</u>
<b>Non-Current</b>		
<i>Related party receivables</i>		
Director related party receivables	<u>1,954</u>	<u>1,954</u>

	31 Dec 2015 \$'000	30 Jun 2015 \$'000
<b>7 INVENTORIES</b>		
Development projects completed – at cost	7,392	-
Development projects under construction – at cost	58,058	80,513
Construction work in progress – gross amounts due from customers	18,644	17,685
	<u>84,094</u>	<u>98,198</u>
<b>Aggregate carrying amount of inventories</b>		
Current	76,305	91,856
Non-current	<u>7,789</u>	<u>6,342</u>
<b>8 AVAILABLE FOR SALE FINANCIAL ASSETS</b>		
Investment in Australian Unit Trust	<u>500</u>	<u>500</u>
Investment in the Australian Unit Trust is a residential and commercial unit development located in Subiaco. This development is complete and settlement is expected before June 2016.		
<b>9 TRADE AND OTHER PAYABLES</b>		
<b>Current</b>		
Trade payables and accruals	34,294	40,622
Gross amounts due to customers – contract work in progress	435	236
Other payables	3,288	2,201
	<u>38,017</u>	<u>43,059</u>

	31 Dec 2015 \$'000	30 Jun 2015 \$'000
<b>10 INTEREST BEARING LOANS AND BORROWINGS</b>		
<b>Current</b>		
Project facilities – other (a)	49,325	61,784
Finance lease liabilities	35	33
	<u>49,360</u>	<u>61,817</u>
<b>Non-Current</b>		
Project facilities – other (a)	6,014	3,734
Finance lease liabilities	140	158
	<u>6,154</u>	<u>3,892</u>

**a) Project facilities**

The Group draws down on 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 of each facility align with the completion date of the individual projects. At 31 December 2015 the Group had access to finance facilities totalling \$66.3m drawn to \$55.5m

**11 RELATED PARTY TRANSACTIONS**

Diploma Construction (WA) Pty Ltd has entered into a construction contract with Precast Investments Pty Ltd, and entity related to the Di Latte Group. The contract is for the design, construction and maintenance of serviced apartments comprising 102 rooms over 7 levels located in Midland. It was negotiated at normal market rates and at 31 December 2015 the company had a WIP receivable totalling \$78,873 (2015: Nil).

Other than the above, there has been no significant change to related party transactions since that reported in the 30 June 2015 annual report.

**12 CONTINGENT LIABILITIES AND COMMITMENTS**

There has been no significant change to the nature or exposure of the contingent liabilities and commitments since that reported in the 30 June 2015 annual report.

**13 EVENTS OCCURRING AFTER THE REPORTING PERIOD**

The Directors are not aware of any 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.

## INDEPENDENT AUDITOR'S REVIEW REPORT

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 consolidated statement of financial position as at 31 December 2015, 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 half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's 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 control as the directors determine is 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 a 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 half-year 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 2015 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*. As the auditor of Diploma Group Limited, 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 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 review 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:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

BDO Audit (WA) Pty Ltd

BDO

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

Phillip Murdoch  
Director

Perth, 22 February 2016

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

As lead auditor for the review of Diploma Group Limited for the half-year ended 31 December 2015, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Phillip Murdoch  
Director

BDO Audit (WA) Pty Ltd  
Perth, 22 February 2016