

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

CHAIRMAN'S ADDRESS

I welcome this opportunity to provide some activity background on our company during the latest financial year and for the period since our balance date.

I should point out that in 1961 Phileo made an inconspicuous debut onto the Australian Stock Exchange with an initial share offer pitched at 50 cents per share. With recent share sales prices at around \$13 our initial shareholders and there are a number who have held their shares for the long haul may have achieved a twenty-five-fold gain.

The way this has occurred bears some consideration.

Phileo has sought and achieved success in property investment and development by seeking out and purchasing property opportunities where your Directors and our management could see fundamental favourable factors emerging over time that could result in outstanding value appreciation. We have always applied a medium to long term perspective, and to be conservatively financed to avoid the effects of any significant or abrupt downturn and the resultant consequences on property values.

This approach came to fruition with the sale of our Wyndham Vale property and its progress towards final settlement under the agreed terms with the purchaser. We purchased this land (360 hectares) as farmland when it was outside but almost adjacent to the Melbourne Metropolitan Growth Boundary. Our reasoning was that the Melbourne metropolitan expansion and housing development was moving in that direction and we anticipated that it would with some certainty in time be extended to this land.

As has been well documented we sold this land on a staged settlement basis to Country Garden Mambourin Pty Ltd, a local subsidiary of a successful Hong Kong listed property group for \$400 million..

Phileo also continues to hold the land in Box Hill that was purchased when it was regarded in the industry as 'an orphan property'. It was a potential residential development land including a large former clay pit.

We were able to fill the hole with excavated materials in the main coming from the construction of the Eastern Freeway which delivered Phileo significant cash flow. Since the completion of the fill we have sought to create a mid-level resident development taking in all the site. Notwithstanding a protracted process we have worked cooperatively with the Environment Protection Agency and are slowly but persistently moving to an agreed development position.

Frustrating at times as this may have been the land values in an around the adjacent Box Hill central commercial and high-rise development area have risen significantly in value with transactions recently showing significant buyer demand. Your directors remain confident of the medium term value accretion that this site will deliver.

As our annual report reveals your company is in a very strong financial position and achieved a strong profit result for the financial year.

We achieved an increase in operating revenue of 189 per cent to \$135.417 million, and an increase in profit after tax and attributable to members of 264 per cent to \$85.1 million (equal to earnings per share of 294 cents).

The net tangible asset backing per share is \$7.18 based on the carrying value of properties included in the Financial Statements. The notional asset backing as at 30 June 2018, which takes into consideration the latest market valuation obtained by the company for its properties and receivables, is of the order of \$12.07. The notional asset backing includes the future amount that will be received as a result of the company's sale of its development land at Black Forest Road, Wyndham Vale. This amount has been valued as a receivable (adjusted for risk and time costs).

We also hold the view that the sectors in which we seek to invest in Victoria are either overpriced or close to terminal value for the current cycle. As a result we can not see many opportunities where we can confidently invest or develop.

Your Directors have decided not to pay a dividend for the year whilst we examine the quite onerous task of determining the most effective way of returning capital to our shareholders. This has been an extended process on which expert advice has been sought in relation to taxation and the corporate consequences.

During the year, the Board established an Independent Committee to operate independently of the Board to provide independent oversight on how to return capital to its shareholders in the most effective manner taking into consideration the available franking credits. The Independent Committee appointed by the Board comprises three members, Michael Schoenfeld (independent consultant to the Board), Graham Homes (independent non-executive Director) and Tejas Gandhi (Group Financial Controller). Your Directors expect to be in the position to disclose their recommended approach to a return of capital in the near term.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
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CHAIRMAN'S ADDRESS
(Continued)

Commentary has also been made on the discretionary cash recognition payments made to our Managing Director Mr Koh and Executive Director Alfred Sung.

In the years since Phileo was formed as a public company executive remuneration packages have evolved with a much higher component of share options being included as a form of performance recognition. This practice was not in place and perhaps we should have addressed it in our earlier years as a public company.

I therefore believe that the payments need to be regarded as compensation for excellent performance and results achieved, in the place of remuneration which would have occurred had executive share options been granted.

There is not a great deal of additional progress I can report on our other holdings since the reports in the Annual Report.

We anticipate that a rezoning of our remaining vacant land in Bendigo will occur in the near term to allow a 'small men's shed or small commercial space' development to suit small business and trades operation and storage needs to progress.

Our major CBD holding the 30-storey high rise office tower at 303 Collins Melbourne was purchased as a value opportunity with a premium street position but quite a high vacancy factor. As anticipated the Collins Street frontage has been redeveloped including two significant banking tenancies. Working along with our leasing agents we have increased the commercial tenancies with some eighty percent of the space now leased.

I am confident we can continue this progress and it has already been reflected in a significant capital gain in the value of this property.

Finally, I thank my fellow Directors, our office staff and all who have worked alongside us to create the very strong position of Phileo Australia Limited as reflected in this document.

All these contributions are recognised with thanks and appreciation.



Graham Homes
Chairman
25 September 2018

CORPORATE GOVERNANCE STATEMENT

The board of directors (“the Board”) of Phileo Australia Limited (“the Company”/ “the Group”) believes that good corporate governance practices are of high importance to the long-term strategic objective of the Company and its drive for sustainable continuous growth while achieving operational excellence.

The Board is committed to ensuring that the highest standard of corporate governance is practised throughout the Group as a fundamental part of discharging its responsibilities in safeguarding the interest of all stakeholders as well as enhancing shareholders’ value and financial performance of the Group.

The following sets out the policies and charters of the Group having generally applied the Principles of Good Corporate Governance and Best Practice Recommendations published by The Australian Securities Exchange (“ASX”). Unless disclosed below, all the best practice recommendations of The ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2018.

This Corporate Governance Statement has been approved by the Board and is current at 30 June 2018

Principle 1 - Lay solid foundations for management and oversight

The Board has the overall responsibility for the business affairs of the Group. It devises and approves strategic plans and business development initiatives, providing direction and guidance to the Management in meeting the Group’s short and long term goals. The management team consists of only executive directors of the company.

Board Roles and Responsibilities

Functions reserved to the Board and those delegated to management are formalised and structured.

The Board leads the corporate strategy and directions of the Group, and oversees the proper conduct of the Group’s businesses.

The main roles of the Board include:

- reviewing management’s preceding month’s operating and financial results including cash flows, projections and comparison with budgets, reviewing property reports, assessing proposed new projects and tenancies, assessing major expenditures, reviewing funding requirements and financing options, and formulating action plans to achieve desired results;
- the formal approval and adoption of annual, half-yearly and monthly financial reports prepared by management;
- the establishment of the medium and long term goals of the company and strategic plans to achieve those goals;
- the review and adoption of management’s annual operating budgets and cash flow budget for the financial performance of the company;
- monitoring the property market trend and opportunities, the competitive environment, business and financial risk factors, and developing action plans in anticipation or in response as may be required;
- assessing and providing oversight over management performance and operations; and
- ensuring that the company has implemented adequate policies, operating and back up/recovery procedures, systems of internal and financial controls and risk management, financial reporting systems of integrity, and appropriate monitoring of compliance activities.

The Board conducts at least six (6) regularly scheduled meetings annually, with additional meetings convened as necessary depending on business requirement. Board papers with sufficient notice of Board meetings are distributed to Directors before Board meetings so that Directors have sufficient time to better understand specific matters requiring Board’s deliberation at the meetings.

During Board meetings, the Non-Executive Directors are briefed on, amongst others, major operational, financial and corporate issues, activities and performance of projects, divisional performance, business outlook, major acquisition and disposal of assets including investments and changes in the requirements of regulatory bodies.

All Directors have full and unrestricted access to all information within the Group and direct access to the advice and services of the Company Secretary who advises the Board on the Company’s policies and procedures, Directors’ responsibilities under the respective legislations and regulations, Company’s compliance with the relevant laws and regulatory requirements.

The Directors, if required, may take independent advice, at the Company’s expense, in furtherance of their duties.

Board proceedings, deliberations in terms of issues discussed and the conclusions of the Board at every Board meeting are recorded in the Board minutes duly signed by the Chairman of the Meeting. The minutes provide a historical record and insights into those decisions.

The Board also exercises control on matters that require its approval by way of circular resolutions and informal meetings.

CORPORATE GOVERNANCE STATEMENT
(Continued)

Although all the Directors have equal responsibilities for the Group's operations, the roles of the Independent Non-Executive Directors are particularly important in bringing independent judgement and ensuring all issues proposed by the executive management are fully discussed and examined to take into account the long term interests, not only of the shareholders but also of other stakeholders such as the employees, customers and business associates.

The Managing Director reports to the Board and is primarily responsible to run the business and implement the policies and strategies adopted by the Board. He is responsible for communicating matters relating to the Group's business and operations to the Board. With his hands-on knowledge of the Group's business and affairs, the Managing Director takes on the primary responsibility for leadership of the Company and contributes significantly towards the achievement of the Group's goals and objectives. The Managing Director is assisted by all Executive Directors of the Company.

The roles and responsibilities of the Chairman are separate and distinct from those of the Managing Director to ensure that there is check and balance and authority at the helm. The Chairman is responsible for leadership of the Board and effectively controls the orderly and effective functioning of the Board. As part of the Chairman's role, the Chairman ensures that the Board meets regularly throughout the year, maintains the balance of membership on the Board, ensures all relevant issues are on the agenda, all Directors receive accurate, timely and clear information relating to the issues on the agenda prior to deliberation at Board meetings, so that they can make an effective contribution as Board members, and provide advice to promote the success of the Company.

The Chairman is assisted by Management and the Company Secretary. The Company must have at least one Company Secretary who is appointed by the Board. The Company Secretary is accountable to the Chairman and responsible for coordination of all Board business, including agendas, board papers, minutes, communication with regulatory bodies and ASX, and all statutory and other filings. The Company Secretary is to provide advice to the Board and its committees on governance matters and all Directors will have direct access to the Company Secretary.

The Chairman encourages a healthy debate on issues on the agenda, provides reasonable time for discussion of complex and contentious issues, and ensures that all decisions reflect the collective views of the Board.

Management is responsible for implementing the strategic objectives and operating within the risk appetite set by the Board. Management also works with the Board on all other aspects of the day-to-day running of the Company. It is also responsible for providing the Board with accurate, timely and clear information to enable the Board to perform its responsibilities.

Appointment to the Board

Appointments to the Board are made based on the recommendation of the Remuneration Committee. Each Executive Director is appointed by a formal letter of appointment setting out the key terms and conditions of their appointment to ensure that each Executive Director clearly understands the Company's expectations of him or her. The Company currently does not have a formal letter of appointment for its Non-Executive Directors.

In addition to being responsible for guiding the remuneration structure of the Company, when required, this committee is responsible for identifying suitable candidates to act as Directors of the Company and undertaking appropriate checks of candidates before putting him or her forward to the Board and security holders for election as a Director.

Performance Evaluation

Due to the small size of the Company, there is no formal Board performance review structure as yet. However, the members of the Board work closely together and are therefore able to assess and encourage improved performance of the management where applicable. Outside consultants are used where necessary to complement Board and management expertise in enhancing the Company's performance. Other than the members of the Board of Directors, there were no other persons who were members or senior executives of the consolidated Group.

Diversity Policy

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The Company recognises the benefits arising from employee and Board diversity and the importance of benefiting from all available talent. Although, due to the size of the Company, the Board does not presently have a formalised policy on diversity, the Company has employees of different gender, age, ethnicity and cultural background.

CORPORATE GOVERNANCE STATEMENT
(Continued)

Principle 2 – Structure the Board to add value

In accordance with the Articles of Association of the Company the Board should consist of a minimum of 3 Directors and a maximum of 7 Directors.

The Board shall comprise:

- ideally a majority of Independent Non-Executive Directors;
- Directors with an appropriate range of skills, experience and expertise;
- Directors who can understand and competently deal with current and emerging business issues; and
- Directors who can effectively review and challenge the performance of management and exercise independent judgment

The skills, experience and expertise relevant to the position of each Director who is in office at the date of the annual report and their term of office are detailed in the Directors' report. The Directors, individually and collectively bring to the Board the relevant skills, business experience, insights and professional judgment to bear on issues of strategy, performance, resources and standards of conduct.

The names of the Independent Directors of the Company are Graham Homes (Chairman), and Andrew Chooi Seng Hang. The chair of the Board is an Independent Director who is not the Managing Director or Chief Executive Officer of the Company.

An Independent Non-Executive Director is one who is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment and who otherwise meets the criteria for independence set out in the Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council.

When determining whether a Non-Executive Director is independent the Director must not fail any of the following materiality thresholds:

- less than 10% of Company shares are held by the Director and any entity or individual directly or indirectly associated with the Director;
- no sales are made to or purchases are made from any entity or individual directly or indirectly associated with the Director; and
- none of the Directors' income or the income from an individual or entity directly or indirectly associated with the Director is derived from a contract with any member or the economic entity other than the income derived as a Director of the entity.

The Company has five Directors, of which three are Non-Executive Directors. Two of the three Non-Executive Directors are also independent Directors. Given the size of the Company and stages of development of its property portfolio it is considered appropriate for majority of Directors to be non-independent.

To assist the Board in the discharge of its oversight function, the Board has delegated specific responsibilities to three [3] Board committees which include the Audit Committee, Remuneration Committee and Independent Committee. These Committees have the authority to examine particular issues within their terms of reference and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters, however, lies with the entire Board.

In accordance with the Company's Articles of Association, at least one-third of the Directors shall retire from office once in every three (3) years but shall be eligible for re-election at the Annual General Meeting ("AGM"). Accordingly, no Director with the exception of the Managing Director stays in office for more than three (3) years without being re-elected by shareholders.

With in-depth knowledge of the Group's business operations and activities, the Directors are in position to contribute meaningfully to the Group's conduct of business. The Board values such skills, in addition to other qualities and will exercise discretion in the review of Board composition and appointments.

The Group acknowledges the fact that continuous education is vital for the Board to gain insight into the state of the economy, changing commercial risks, technological advances in our core businesses, latest regulatory requirements and management strategies. As such, the Directors are updated from time to time on relevant new laws and regulations or will attend relevant trainings and workshops, when necessary, to equip themselves with the relevant knowledge to discharge their responsibilities and duties more effectively.

Due to the small size of the Company and composition of the Board, there is no formal program for the induction of new Directors. The Company will do so when it expands.

CORPORATE GOVERNANCE STATEMENT
(Continued)

Nomination committee

The Company does not have a formal nomination committee as it is a small cap company. It will do so when it expands.

Principle 3 – Act ethically and responsibly

The Board acknowledges and emphasizes the importance of all Directors and employees maintaining the highest standards of corporate governance practice and ethical conduct.

The Board has adopted a Code of Conduct requiring Directors and employees to:

- act honestly and in good faith;
- exercise due care and diligence in fulfilling the functions of office;
- avoid conflicts and make full disclosure of any possible conflict of interest;
- comply with the law;
- encourage the reporting and investigating of unlawful and unethical behaviour; and
- comply with the share trading policy outlined in the Code of Conduct.

Directors are obliged to be independent in judgment and ensure all reasonable steps are taken to ensure due care is taken by the Board in making sound decisions.

The Company's main stakeholders are security holders, employees, suppliers, contractors, customers, community, and regulators. Although there is currently no formal code of conduct to guide compliance with legal and other obligations to such stakeholders, the Board is aware of its responsibilities. This includes ensuring employee entitlements are paid up to date, suppliers and contractors are paid within allowed credit terms, tenants and customers receive adequate support, developments are completed in line with investor, community and environmental expectations, and regulatory guidelines and legal requirements are complied with.

Principle 4 - Safeguard integrity in corporate reporting

The Board established an Audit Committee to make reviews and make recommendations in relation to the integrity of the Company's financial reporting processes and its financial statements.

Audit Committee

All Non-Executive Directors are the members of the Audit Committee. Michael Loke, is the chair for the Audit Committee meetings. Given the size of the Company it is considered appropriate for a Non-Independent Director, Michael Loke, to chair the Audit Committee, however, he is not the chair of the Board.

The information on the relevant qualifications and experience of the members of the Audit Committee and, the number of times the Audit Committee met throughout the period and the individual attendances of the members at those meetings is presented in the Directors' report

Objectives and Duties:

- Oversee all matters relating to internal and external audits;
- Review system of internal controls and risk management;
- Review of financial statements before submission to the stock exchange; and
- To consider any related party transactions and conflict of interest situation that may arise within the Group or the Company including any transaction, procedure or course of conduct that raises questions of management integrity.

The Board shall from time to time review the objectives and duties of the Audit Committee with a view to expand its roles commensurate with the expansion of the business of the Group and when necessary change or modify the composition and objectives of the Audit Committee from time to time by resolution.

Responsibilities:

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference and shall have unrestricted access to both the internal and external auditors and to all employees of the Group. The Audit Committee is also authorised by the Board to obtain external legal or other independent professional advice as necessary. The Audit Committee, when required, is also authorized to convene meeting with the external auditors and internal auditors separately.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

CORPORATE GOVERNANCE STATEMENT
(Continued)

The Company's Managing Director, and Chief Financial Officer must provide a declaration that, in their opinion, the financial records of the Company for each financial year and half year have been properly maintained in accordance with the Corporations Act 2001 ("Act"), and that the financial statements and the notes for the financial year comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. The Board must receive this declaration before they approve the financial statements for the financial year and half year.

Reporting to the Board:

The Audit Committee's Chairperson must report to the Board after each meeting.

Principle 5 - Make timely and balanced disclosure

The Group is committed to complying with the continuous disclosure obligations contained in the ASX Listing Rules ("Listing Rules") and the Act. The disclosure obligation requires continuous disclosure of a price-sensitive information to the market. Price-sensitive information is information that a reasonable person would expect to have a material effect on the price or value of an entity's securities.

The Board has appointed the Managing Director and Executive Directors to act as 'Disclosure Officers' to:

- ensure the Group immediately discloses all price-sensitive information to ASX in accordance with the Listing Rules and the Act;
- ensure officers and employees are aware of the Group's continuous disclosure obligations; and
- establish procedures for
 - (a) the collection of all potentially price-sensitive information;
 - (b) assessing if information must be disclosed to ASX under the Listing Rules or the Act;
 - (c) releasing to the ASX information determined to be price-sensitive information; and
 - (d) responding to any queries from ASX

The Disclosure Officers are also responsible for:

- (a) deciding what information must be disclosed to the ASX ensuring (using all reasonable endeavors) announcements are factual, do not omit material information and are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions;
- (b) conducting all disclosure discussions with the ASX; and
- (c) communicating with the ASX where required.

If the Disclosure Officers are unsure if information is price-sensitive or if it must be disclosed, the Disclosure Officers must discuss the information with available members of the Board who will, if necessary, seek external legal or financial advice. Market speculation and rumors, whether substantiated or not, have the potential to impact the Group. The Group's general policy is that it does not respond to market speculation or rumors. However, the Board may decide to make a statement in response to market speculation or rumors if it considers it is appropriate to do so. The Group may ask ASX to halt trading in Group Securities to maintain orderly trading in its securities; and/or manage disclosure issues. The decision about trading halts can be only made by the Managing Director.

CORPORATE GOVERNANCE STATEMENT
(Continued)

Principle 6 - Respect the rights of security holders

The Company aims to ensure that shareholders are kept informed of all major developments affecting the state of affairs of the Company. Additionally, the Company aims to ensure that that senior management and other employees are not dealing in the Group's shares listed on the ASX on the basis of inside information. Inside information is generally information that is not generally available and if it were generally available, would or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the relevant securities.

To achieve this, the Company has implemented:

- a) a Communication Policy; and
- b) a Security Trading Policy

Communications Policy

This policy aims:

- to communicate effectively with all security holders;
- give security holders easy and timely access to balanced and understandable information about the Group; and
- ensure security holders can easily participate in general meetings.

The Communication Policy is developed by the Company Secretary subject to Board review and modification. Such policy applies to all Board members as well as officers and employees of the Group.

Method of Communication

Information will be communicated to security holders in the following way:

- ASX Announcements;
- Website;
- Email;
- Post; and/or
- Meetings

The Company encourages full participation of shareholders at its Annual General Meeting (AGM) each year. Shareholders are encouraged to lodge proxies electronically if they are unable to attend in person. The Company also encourages written questions to be submitted by shareholders before the AGM and the Board and the auditors will be available to answer those questions during the AGM

The Company's external auditor is invited to the Company's Annual General Meeting and is available to reply to shareholders' questions.

The Company's Annual Reports and market announcements are available on its website and contains important information about the Company's activities and results for the previous financial years. Shareholders can elect to receive the Company's Annual Report or concise report as an electronic copy or in hard copy through the mail. The Company is also in the process of updating additional information about itself and its governance to shareholders via the Company's website at: <http://www.palltd.com.au/about.php>.

All material information to security holders shall be approved by the Board before any communication; such communication shall only be made by the Chairman of the Board, Chief Executive Officer and/or the Company Secretary.

Shareholders have the option to receive communications from, and send communications to, the Company and its share registry, Boardroom Pty Limited, electronically. Shareholders' correspondence and reasonable requests by shareholders are dealt with as soon as possible by the Company Secretary as per the directions of the Disclosure Officers or else referred to the share registry where appropriate. Any significant issues raised by members or of a non-routine nature where appropriate are brought to the Board's attention for discussion and action as deemed necessary.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

CORPORATE GOVERNANCE STATEMENT
(Continued)

Securities Trading Policy

The Securities Trading Policy is meant as an outline on when Directors, senior management and other employees may deal in the Group's shares listed on the ASX and in addition on the listed securities of another entity.

- i. Directors and employees may deal in Group Securities or the listed securities of another entity if he or she does **not** have information that he or she knows, or ought reasonably to know, is inside information in relation to Group Securities or those securities of the other entity obtained while performing their duties for the Group;
- ii. Directors and employees may not deal in Group Securities during a closed period being:
 - (a) The period of 60 days immediately preceding the preliminary announcement of the Group's Securities full year results (usually 1 July – 31 August – the exact period will be advised to all directors and staff by email in advance of the closed period commencing) or, if shorter, the period between the end of financial year and the preliminary announcement of the full year results;
 - (b) The period of 60 days immediately preceding the preliminary announcement of Group's Securities half year results (usually mid January – mid March – the exact period will be advised to all directors and staff by email in advance of the closed period commencing) or, if shorter, the period between the end of the Company's half year and the preliminary announcement of the half year results; and
 - (c) Any other embargo period as advised by the Company Secretary after consultation with the Board

Independent Committee

The Board established an Independent Committee that will operate independently of the Board. The purpose of the Independent Committee is to provide independent oversight on how to return capital to its shareholders in the most effective manner taking into consideration the available franking credits, after receipt of the balance of the sale proceeds (\$110m) from settlement of the first contract of sale of the land at Black Forest Road, Wyndham Vale, as announced by the Company to ASX on 23 November 2017.

The Independent Committee is responsible to ensure that any capital return proposal submitted to shareholders of the Company is subject to appropriate due diligence and verification by reputable independent advisers and experts. The Board has agreed to fund the costs incurred by the Independent Committee in obtaining the input of external advisers and experts on the capital return proposal. The Independent Committee is also responsible for ensuring that the advice, recommendations or opinions of these advisers and experts are presented to shareholders in a fair and balanced manner.

The Committee appointed by the Board comprises 3 members of which one member is a non- executive director. All members of the Committee must be independent.

Duties and Responsibilities

The Independent Committee is responsible for providing independent oversight of the capital return process of the Company. Without limiting the generality of the above, the Independent Committee is, in summary, responsible for the following.

The Independent Committee is responsible for engaging its own legal adviser to guide it on the duties and responsibilities of the Independent Committee.

With respect to agreeing and adhering to Independent Committee policies and procedure:

- Policy on Conflicts of Interest and Independence:
The Independent Committee shall ensure that each member provides an Independence Declaration and any additional information if required;
- Policy on Confidentiality:
The Independent Committee members have a legal and ethical obligation to not:
 - o use the confidential information for any personal benefit or profit;
 - o disclose confidential information to anyone outside of the Company other than to its advisers and experts for the purposes of the capital return or as required by law;
 - o replicate confidential documents and files and store them on insecure devices

CORPORATE GOVERNANCE STATEMENT
(Continued)

With respect to investigating the options to the Company on how to return capital to its shareholders, the Committee will engage a team of independent advisers to advise it on the options.

With respect to identifying and engaging relevant advisers and experts to provide guidance and opinion on the options:

- The Committee will appoint reputable advisers and experts as required;
- The Committee will ensure that the engagement objective, scope, opinion terms and conditions and engagement deadline are clearly documented in the engagement letter;
- The Committee will ensure that the advisors' and experts' agreed fees are paid in a timely manner by the Company

With respect to liaising and providing required information to the advisers and experts to enable them to perform their obligations:

- The Independent Committee can appoint a member to provide required information to one or more advisers and experts on behalf of the Independent Committee in a timely manner;
- The Independent Committee will ensure that the Independent Committee policy on Conflict of Interest, Independence and Confidentiality is also applicable to the advisers and experts engaged by it.

With respect to presenting the advisers' and experts' opinion to shareholders in a timely and unbiased manner:

- the Independent Committee will be guided by its legal adviser as to what ASIC and shareholders will reasonably expect in terms of disclosure of the key terms of the capital return proposal, the manner in which it was reviewed and evaluated by the Independent Committee, the advantages and disadvantages of the options and the manner in which the options will be implemented

Reporting

The Independent Committee will report to the Board, ASX and Company's shareholders as appropriate and will be guided by the principles set out above.

Principle 7 - Recognise And Manage Risk

Risk Management committee:

In view of the small size of the Company, the Company does not yet have a formal risk management committee. Therefore, the Board is responsible for recognising and managing material risk. The Board acknowledges that risk management is not about eliminating all risks but is about identifying and responding to risks in a way that creates value for the Company and its shareholders.

Risk assessment continues to be considered at regular Board meetings using property and financial reports presented and tabled at Board meetings. Areas of risks discussed by management and the Board include financial risk (cash flow and liquidity, solvency, gearing, satisfying banking covenants including interest cover/loan-valuation ratios), business risks (ability of the company to remain competitive, trade profitably and remaining viable), and regulatory risks (ensuring that the Company meets all applicable legal requirements, including corporate law, local Government, planning legislations, EPA and Heritage Victoria as unique to the business). The Board is confident that it has received all relevant information from management and is assured of the effectiveness of the Company's management of its material business risks. The information on the Company's exposure to environmental risks is reported in the Directors' report.

In view of the small size of the Company, the Company does not yet have an internal audit function. The process of evaluating and continually improving the effectiveness of its risk management and internal control processes is performed by the Board.

CORPORATE GOVERNANCE STATEMENT
(Continued)

Principle 8 - Remunerate fairly and responsibly

Remuneration Committee and Remuneration Policies

The Company's seeks to pay its Directors and executives' sufficient remuneration to attract, retain and motivate high quality personnel. The policy objectives and duties of the Remuneration Committee are as follows:

- to consider, in making its recommendation to the Board, candidates for all directorships/Board committees, in respect of their skills, knowledge, expertise, experience, professionalism and integrity; and in the case of Independent Non-Executive Directors, their abilities to discharge such responsibilities/ functions as expected from an Independent Non-Executive Director;
- to assist Board in reviewing on an annual basis the required mix of skills and experience of the Directors of the Board and Board committees;
- to recommend the appropriate Board balance and size of the non-executive participation;
- to establish procedures and processes towards an annual assessment of the effectiveness of the Board as a whole and contribution of each individual Director and Board committee member including Independent Non-Executive Directors as well as the Managing Director. The assessments and evaluations are properly documented;
- to study and periodically review the remuneration packages of all Executive Directors; and
- to make recommendations to the Board on all elements of remuneration and terms of employment for Executive Directors and Non-Executive Directors.

Composition:

The Remuneration Committee consists of Graham Homes (Chairman) and Rudy Koh.

The composition of the Remuneration Committee must comprise at all times of at least two [2] members of the Board with at least one [1] member being an Independent Director. The Remuneration Committee shall be at liberty to appoint a secretary as it deems necessary. Given the size of the Company it is considered appropriate for a composition of the Remuneration Committee to be less than 3 members and Independent Directors not having a clear majority.

The Board decides appointments rotations and resignations within the Remuneration Committee having regard to the Listing Rules, the Act and the Company's constitution.

Responsibilities:

The Remuneration Committee will meet as often as it considers necessary. The Remuneration Committee referred the executive bonus matter to the Board for deliberation and did not meet during the year as it was not considered necessary.

Remuneration Committee meetings may be held by any technological means allowing its members to participate in discussions even if all of them are not physically present in the same place. A member who is not physically present but participating by technological means is taken to be present.

Remuneration policies and practices:

The remuneration policies and practices regarding the remuneration of Non-Executive Directors, Executive Directors and other senior executives is disclosed in the Director's report of the Annual Financial Report.

Remuneration of Managing Director and Executive Director

At a Board meeting held on 26 June 2018, the Board considered award a special bonus to the Managing Director. The matter was considered by the Board instead of the Remuneration Committee as the Managing Director is one of the 2 members of the Remuneration Committee. The Board resolved that a bonus of \$5 million was to be paid to the Managing Director in recognition of his excellent past performance in enhancing the growth and value of the Company.

At a Board meeting held on 28 November 2017, the Board considered the long standing involvement of Mr Alfred Sung as Executive Director of the Company and the role that he has played in enhancing the value of the Company. The Board resolved to award a bonus of \$5 million to Mr Sung, in recognition of his excellent past performance in enhancing the growth and value of the Company.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

DIRECTORS' REPORT

Your directors present their report, together with the financial statements of the Group, being the company and its controlled entities, for the financial year ended **30 June 2018** ("financial year").

Where applicable, figures presented in the Directors' Report are rounded to the nearest thousand in accordance with class order 98/100.

Principal Activities and Significant Changes in Nature of Activities

The principal activities of the consolidated group during the financial year were property development, the earning of rental income and hotel operation.

There were no significant changes in the nature of these activities during the year.

There were no other operations discontinued or any changes to controlled entities, joint ventures or associates not otherwise reported for the year.

Operating Results

The consolidated net operating profit before income tax for the year was \$118,749,000 (2017: \$26,976,000 profit). The change in profit before tax of \$91,773,000 from 2017 was mainly due to the following:

- The current year profit includes
 - a profit of \$114,958,000 (before tax) from the settlement of the first contract of sale of the residential subdivision site at Black Forest Road, Wyndham Vale. The site, which consists of 5 titles, has been sold under three contracts which settle over 4½ years for a total price of AUD400 million, payable progressively, with the final contract settling in February 2022. During 2017, the company recorded a profit before tax of \$3,693,000 from the sale of the development property held at Rocklea Homemaker Centre in Bendigo ("Rocklea Homemaker Centre");
 - a fair value gain of \$14,139,000 (before tax) (2017:\$23,897,000) which was recognised on revaluation of the investment property at 303 Collins Street, Melbourne. The current year gain represents the excess of an independent valuer assessment of the asset's current fair value of \$148,600,000 over its previous carrying value of \$132,500,000;
 - a gain of \$1,264,000 (before tax) from the fair value accounting of interest swap held by the company (2017: \$1,711,000).
 - interest income of \$2,035,000 (before tax) (2017: \$284,000) from various short term deposits held with an Australian bank;
- The current year profit was reduced by the once off discretionary bonus of \$5,000,000 (before tax) paid to each of the Executive Directors, Mr Alfred Sung and Mr Rudy Koh and the consequential payroll tax. In total, these once off expenditures reduced the current year gain by \$10,485,000.
- The current year profit was reduced by a net asset impairment loss of \$294,000 (before tax). The net asset impairment relates to the carrying value of property owned at McCrae Street, Dandenong, recognised to reflect its current market valuation. (2017: \$451,000 loss, in relation to the asset impairment to the carrying value of residential land in Bendigo).
- The current year profit was reduced from the lower profitability from the hotel operations. The hotel's profitability before tax and intercompany rent has reduced to \$179,000 (2017: \$566,000 profit)

The profit attributable to members after tax was \$85,099,000 (2017: \$23,393,000 after deducting the profit attributable to minority interests).

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

DIRECTORS' REPORT (Continued)

Review of Operations

All figures exclude GST unless otherwise stated. Where applicable, certain comparative figures have been reclassified or adjusted in the previous year so as to be comparable, to the extent possible, with the figures presented for the year.

Total consolidated revenue for the year, excluding fair value gain on revaluation of the investment property of \$14,139,000, and a gain of \$1,264,000 from the fair value accounting of interest swap, was \$135,418,000 (2017: \$46,787,000). During the year, the consolidated entity:

- settled the first contract of sale of the residential subdivision site at Black Forest Road, Wyndham Vale for \$122,222,000;
- earned rental income totaling \$8,307,000 (2017: \$8,372,000) from its rental properties, which included rental of \$8,149,000 (2017: \$7,309,000) inclusive of recovery of outgoings from the 30-storey commercial office building at 303 Collins Street, Melbourne;
- continued to operate the 108-room Ramada Encore business class hotel through its wholly owned subsidiary Sequoia Management Pty Ltd (ABN 62 108 168 243). The hotel operation is operated from the property owned at McCrae Street, Dandenong. The hotel operation contributed revenue of \$2,783,000 (2017: \$3,100,000).

The overall decrease in rental revenue was mainly due to sale of the Rocklea Homemaker Centre in November 2016. The occupancy rate at 303 Collins Street, Melbourne has increased from 68% at the beginning of the financial year to 77% as at June 2018.

Profit (before tax but after borrowing costs) from rental activities has increased to \$2,011,000 (2017: \$1,142,000) mainly due to increase in occupancy rate at 303 Collins Street, Melbourne and lower rental expenses following the sale of the Rocklea Homemaker Centre.

The hotel's profitability before tax and intercompany rent has reduced to \$179,000 (2017: \$566,000 profit). The room occupancy rate for the year has decreased by 7% from 67% for the year ended June 2017 to 60% for the year ended June 2018. The effect of lower occupancy rate together with an increase in operating costs resulted in reduced profitability before intercompany rent from the hotel operation for the year.

The company is currently holding vacant land in Bendigo. This vacant land is currently zoned as Residential land. The company intends to apply for the rezoning of this vacant land to service industry zone and is in discussions with the relevant authorities. If successful, the company is considering developing and selling workshops suitable for small to medium sized businesses. The company recorded a loss before tax for the year of \$38,377, arising mainly from land holding costs, including land tax and council rates, in relation to this property.

The company has sold its residential subdivision site at Black Forest Road, Wyndham Vale (the Land) to Country Garden Mambourin Pty Ltd, a subsidiary of the Hong Kong-listed entity, Country Garden Holdings Co Ltd. The land, which consists of 5 titles, has been sold under three contracts which settle over 4½ years for a total price of AUD400 million, payable progressively, with the final contract settling in February 2022. The particulars of the progressive settlement of the contracts are as follows:

Title reference	Contract Sum	Security Deposit Received by Solicitors in July 2017	Balance of the Contract sum	Settlement Date
Volume 11202 Folio 514 & 515 (2 titles)	\$122,222,222	\$12,222,222	\$110,000,000	Settled in February 2018
Volume 11202 Folio 518 (1 title)	\$55,555,556	\$5,555,555	\$50,000,000	17 th February 2020
Volume 11202 Folio 516 & 517 (2 titles)	\$222,222,222	\$22,222,222	\$200,000,000	15 th February 2022
Total	\$400,000,000	\$40,000,000	\$360,000,000	

The first contract of sale was settled on 15th February 2018 and the relevant titles have been transferred to the new owner. The remaining titles will be progressively transferred to the purchaser on payment of the relevant amount of the contract sum on the specified settlement date. In accordance with the Accounting Standard AASB 15 – Revenue from Contracts with Customers and the company's accounting policy on Profit and Revenue Recognition, the revenue of the above remaining sales contracts and the resultant profit before tax will be recorded progressively in the respective financial year of settlement of each remaining contract.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

DIRECTORS' REPORT (Continued)

Review of Operations (continued)

In addition to the above sales proceeds, the company is in process lodging an application for compensation as a result of Vic Roads compulsory acquisition of land required for the Outer Metro Ring Road. The outcome of the application or the amount of compensation cannot be reliably estimated at the reporting date.

The remaining land held by the company is currently leased for cattle grazing activities. Excluding the gain before tax from settlement of first contract of sale of \$114,958,000 and interest income of \$1,737,000, the company recorded a loss before tax for the year of \$1,748,000 (2017: \$1,127,000 loss), arising mainly from land holding costs, including land tax and council rates, in relation to this property. The company will continue to incur land holding costs, including land tax and council rates, for the remaining land titles until settlements occurs.

During the period, the entity continued to hold the vacant land that has been rezoned for a proposed 79 unit residential townhouse development in Box Hill ("Box Hill property") for future development. Preliminary designs for the development of the site continue to be prepared. This design aims to incorporate the entire land rather than only the virgin land as previously contemplated. At this stage, it is difficult to estimate a timeframe as the development of this land is dependent on the resolution of some outstanding matters with the Environmental Protection Authority (EPA) in relation to the former landfill site and with Heritage Victoria for the preservation of the Brickwork site.

The company recorded loss before tax for the year of \$973,000 (2017:\$333,000) arising mainly from statutory rates and taxes and repair works undertaken on the former Brickworks site at the Box Hill property to comply with a Building Order issued by the council.

During the year the entity's result per share after tax was \$2.94 profit (2017: \$0.81 profit).

Financial Position

At 30 June 2018 the consolidated entity's property portfolio had a carrying value of \$181,980,000 (2017: \$169,890,000). This property portfolio consists of an investment property with a carrying value of \$148,600,000 and development properties with carrying values of \$33,380,000. In accordance with the accounting policy, only the carrying value of the investment property is stated at a fair value in the financial report. The development properties are valued at cost or net realisable value whichever is lower. The fair value or net realisable value of these properties were consistent with directors' valuation based on the latest available independent market valuations and/or other available financial data.

The total loan facility of the entity as at 30 June 2018 was \$45,000,000 (2017: \$45,000,000). As at balance date the entity total bank borrowings amounted to \$45,000,000 (2017: \$45,000,000). This borrowing was used to partially fund the acquisition of 303 Collins Street property, Melbourne and is secured against that property. The entities' other properties are unencumbered at 30th June 2018.

As at balance date, the entity had approximately \$152,687,000 (2017: \$19,331,000) in cash and at bank and in short term deposits, and \$33,380,000 (2017: \$37,390,000) in carrying value of unencumbered properties that were available to secure new borrowings if required.

Other than dividends as disclosed in this report, there were no returns to shareholders including distributions and buy backs during the year.

As at 30 June 2018, the economic entity's net tangible asset backing per share was \$7.18 (2017: \$4.29).

Significant Changes in State of Affairs

During the financial year there was no significant change in the state of affairs of the consolidated group other than that referred to in the financial statements or notes thereto.

Dividends Paid or Recommended

In view of the company's future plans for the return of the capital, the directors do not recommend the payment of dividend for the financial year

A fully franked final dividend of 5 cents per ordinary share for the financial year ended 30 June 2017 was declared after 30 June 2017. This final dividend was paid in October 2017.

Significant after Balance Date Events

As at the date of signing this report, there have not been any events of a significant nature after the balance date of 30 June 2018 that have not already been disclosed in this report.

DIRECTORS' REPORT (Continued)

Future Developments, Prospects and Business Strategies

The main income stream will continue to be from rental of its investment property at 303 Collins Street, Melbourne. Subsequent to the year end, the company has negotiated two new lease agreements for the available vacancies at 303 Collins Street, Melbourne. The lease commencement dates for these new leases are July 2018 and September 2018. Management, in consultation with reputed leasing agents, is actively looking for new tenants to lease the remaining vacancies at 303 Collins Street, Melbourne.

The company's current intention is to continue with the 79-unit residential townhouse development on resolution of some outstanding matters with the Environmental Protection Authority (EPA) in relation to the former landfill site and with Heritage Victoria and the Building Appeal Board for preservation of the Brickwork site. In addition, the company is also considering various development options, including high density residential development, for the remaining area of this property. The company has engaged an environmental auditor to audit and provide his statement for the whole site for future development purpose.

Capital management and Future plans for the return of capital

Following the settlement of first contract of sale of the residential subdivision site at Black Forest Road, Wyndham Vale in February 2018 and in accordance with the market announcement made on 23rd November 2017, the Board of Directors and the Independent Committee has commenced its investigation on how to return capital to its shareholders in the most effective manner taking into consideration the available franking credits. The company is intending to provide a further update to the market in this regards in the coming months. Until this further update, the board has resolved to not declare a dividend for the year.

Environmental Issues

The company operates under the Environment Protection Act 1970 in respect of the proposed development site at Federation Street, Box Hill where reclamation and rehabilitation activities were conducted in accordance with EPA closure plans, and the proposed development is to comply with environmental guidelines and regulations.

As a property developer, the company operates within applicable Council regulations, planning guidelines and State laws with regards to its developments.

Information on the Directors

The names and particulars of the directors of the company during or since the end of the financial year are:

NAME	PARTICULARS
Graham Homes	Chairman, Non-executive and Independent Director. A Fellow of the Real Estate Institute of Australia and Fellow of the Australian Property Institute. Aged 72. Joined the Board in December 1995 in a non-executive independent capacity. Member of the Remuneration and the Audit Committee. Graham has over 40 years of professional involvement in real estate agency, property portfolio management and consultancy in Melbourne. He established his own property consultancy, Homes Property Consultants, in 1991 that he sold in 2000. He is currently engaged as an independent property consultant.
Rudy Eng Wah Koh	Managing Director and Chief Executive Officer. Former practising barrister and solicitor in Malaysia. Aged 59. Joined the Board in December 1995. Member of the Remuneration Committee. Formerly the Managing Director of a property development company and director of a bank, both listed publicly on the Kuala Lumpur Stock Exchange. Rudy has an extensive legal and commercial background, and significant experience in the property market and banking sectors.
Alfred Sung	Executive Director. Registered Architect and was formerly a director of a Melbourne architecture firm. Aged 73. Joined the Board in September 1997. Alfred has over 30 years of professional experience as an architect on a wide variety of building types. He has extensive experience in the establishment and management of development projects with particular skills in building and property procurement.
Michael Tan Chung Loke	Non-Executive Director. Chairman of the Audit Committee. A former barrister and solicitor in Malaysia. Aged 59. Joined the Board in March 1999. Michael was formerly a partner of a legal practice in Malaysia and has significant experience in property development with both private and public listed companies in Malaysia.
Andrew Chooi Seng Hang	Non-Executive and Independent Director. Qualified engineer. Member of the Audit Committee. Property developer in Melbourne and Malaysia with over 20 years' experience. Aged 65. Andrew joined the Board in July 2000.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

DIRECTORS' REPORT (Continued)

Company Secretary

The Company Secretary and Group Financial Controller is Tejas Gandhi. Tejas is a member of Chartered Accountants Australia and New Zealand and has over 20 years' experience in profession, audit, regulatory and corporate accounting, and financial management.

Directors' Shareholdings

The relevant interests of each director in the ordinary shares of the company as at the date of this report are summarised below. These shareholdings include those held through director related entities. Where shareholdings are held through related entities common to more than one director, the shareholdings are listed under all directors involved.

Director	Fully Paid Ordinary Shares	Percentage Held
Rudy Koh (Managing Director/CEO)	10,348,814	35.78%
Michael Loke (Non-Executive Director)	3,345,500	11.57%
Andrew Hang (Non-Executive Director and Independent Director)	2,590,196	8.95%
Alfred Sung (Executive Director)	1,896,849	6.56%
Graham Homes (Chairman and Non-Executive Independent Director)	59,116	0.20%

The board collectively held 18,240,475 shares or 63.06% of the company's fully paid ordinary shares each entitled to one vote.

None of the directors held directorships in any other Australian public listed companies during the financial year.

Meetings of Directors

The following table sets out the number of formal board of directors meetings held during the financial year and the number of board meetings attended by each director (while they were a director). During the financial year, 10 board meetings were held.

Director	Board Meetings	
	Held	Attended
Graham Homes (Chairman, Non-Executive and Independent Director)	10	10
Rudy Koh (Managing Director/CEO)	10	9
Alfred Sung (Executive Director)	10	9
Andrew Hang (Non-Executive and Independent Director)	10	6
Michael Loke (Non-Executive Director)	10	6

Meeting of the Audit Committee

Audit Committee meetings held during the year:

Director	Board Meetings	
	Held	Attended
Michael Loke (Chairman)	2	2
Graham Homes	2	2
Andrew Hang	2	1

Indemnifying Officers or Auditor

The company has not, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or any related body corporate against any claims or liabilities incurred as such by an officer or auditor.

DIRECTORS' REPORT (Continued)

Options

As at the date of this report, there were no share options or other options outstanding (2017: Nil).

Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Non-audit Services

The board of directors is satisfied that the provision of any non-audit services during the financial year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Board is satisfied that the services disclosed below did not compromise the external auditor's independences for the following reasons:

- . all non-audit services are reviewed by the board prior to commencement to ensure that they do not adversely affect the integrity and objectivity of the auditor; and
- . the nature of the services provided do not compromise the general principles relating to auditor independence as set out in The Institute of Chartered Accountants Australia and New Zealand and CPA Australia's Professional Statement F1: Professional Independence.

There were no fees for non-audit services paid or payable to the external auditor during the financial year ended 30 June 2018.

Auditor's Independence Declaration

The lead auditor's independence declaration for the financial year ended 30 June 2018 has been received and can be found on page 19 of the Annual Report.

REMUNERATION REPORT (AUDITED)

Remuneration Committee

Graham Homes and Rudy Koh form the Remuneration Committee. This committee reviews the remuneration packages of all directors and executive officers on an annual basis. Remuneration packages are reviewed with due regard to performance and other relevant factors. Non-executive directors' remuneration is based on a structured scale as determined by the Remuneration Committee.

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the company's operations, the remuneration committee would consider industry practice in connection with the structure of remuneration packages and may seek the advice of an external independent consultant.

Remuneration Policy

The Remuneration Committee has fixed remuneration packages for board members to include the following key elements:

- a) Salary and/or fees
- b) Benefits, including statutory and salary-sacrificed superannuation and fringe benefits that comprises the directors' remuneration package

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (AUDITED) (Continued)

Table of Benefits and Payments:

The following table discloses the remuneration of the Board of Directors of the company and the highest remunerated executives of the company including executive directors:

For the Year Ended 30 June 2018

Name	Office	Salaries and Fees \$	Benefits, including superannuation \$	Total \$
Rudy Koh	Managing Director/CEO	5,494,220	25,000	5,519,220
Alfred Sung	Executive Director	5,419,275	70,702	5,489,977
Graham Homes	Chairman and Non-Executive Independent Director	36,000	-	36,000
Andrew Hang	Non-Executive and Independent Director	24,000	-	24,000
Michael Loke	Non-Executive Director	24,000	2,280	26,280
Total		10,997,495	97,982	11,095,477

For the Year Ended 30 June 2017

Name	Office	Salaries and Fees \$	Benefits, including superannuation \$	Total \$
Rudy Koh	Managing Director/CEO	464,411	34,805	499,216
Alfred Sung	Executive Director	414,278	62,527	476,805
Graham Homes	Chairman and Non-Executive Independent Director	36,000	-	36,000
Andrew Hang	Non-Executive and Independent Director	24,000	4,054	28,054
Michael Loke	Non-Executive Director	24,000	2,280	26,280
Total		962,689	103,666	1,066,355

Each executive director is appointed by a formal letter of appointment setting out the key terms and conditions of their appointment to ensure that each executive director clearly understands the Company's expectations of him or her. The company currently does not have a formal letter of appointment for its non-executive directors. All non-executive directors are remunerated on a monthly basis with no termination benefits.

There were no other persons who were, during the financial year, members of key management personnel of the consolidated group, other than the members of the Board of Directors.

Performance-based Remuneration

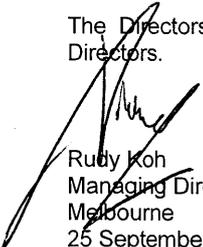
No part of executive remuneration paid above was as the result of meeting company quantified performance targets or budgets.

Cash Bonuses, Performance-related Benefits and Share-based Payments

The remuneration table for 2018 includes once off discretionary bonus of \$5,000,000 paid to each of the Executive Directors, Mr Alfred Sung and Mr Rudy Koh in recognition of excellent past performance in enhancing the growth and value of the company. Other than this bonus, there were no share issue schemes, share option arrangements or retirement benefits or termination arrangements, profit-sharing, allowances, commission or incentive payments, loans or advances to directors made during the financial year, whether performance-related or not. There were no benefits of a non-monetary nature received by the directors not otherwise disclosed in this report.

End of Remuneration Report (Audited).

The Directors' Report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.


Rudy Koh
Managing Director
Melbourne
25 September 2018

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**AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2018, there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.



MOORE STEPHENS AUDIT (VIC)
ABN 16 847 721 257



GEORGE S. DAKIS
Partner
Audit & Assurance Services

Melbourne, Victoria

25 September 2018

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Phileo Australia Limited and Controlled Entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, 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, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

- a) the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER 1 – VALUATION OF INVENTORIES

Refer to Note 15 “Inventory”

As at 30 June 2018, the Group held inventories to the value of \$33.4 million (2017: \$37.4 million). The Group’s inventory balance is largely comprised of land and buildings either held for sale or in the process of improvement for sale in accordance with *AASB 102 Inventories*. Inventories are recognised at the lower of cost and net realisable value.

We focused on this area due to the size of the inventory balance and because the valuation is susceptible to events such as loss of major tenants, changes in zoning and classification.

Our procedures included, amongst others:

- Understanding management’s process around property valuations;
 - Challenging the key inputs and assumptions provided by management;
 - Comparing movements between key inputs and assumptions in valuations from prior periods to ensure they were in line with our knowledge and expectation and the overall applicable market conditions;
 - Assessed the adequacy of the Group’s disclosure relating to inventory in the financial report.
-

KEY AUDIT MATTER 2 – VALUATION OF INVESTMENT PROPERTY

Refer to Note 17 “Investment Property”

The Group’s investment property, 303 Collins Street Melbourne is recognised at fair value in accordance with *AASB 140 Investment Property*.

As at 30 June 2018, the investment property of \$148.6 million (2017: \$132.5 million) is recorded at fair value as disclosed in Note 17 – Investment Property.

The fair value of the investment property is calculated in accordance with the valuation policy set out in Note 17 – Investment Property which outlines the approach used by the external valuator, in particular the income approach.

We focused on this area due to the size of the balance and because the valuation process requires significant judgement due to the impact of changes in assumptions can have on the valuations. In particular, the forecast cash flows, capitalisation rates and discount rates.

Our procedures included, amongst others:

- Assessing the competence and objectivity of the external valuers;
- Evaluating the external property valuations obtained by management and performing an assessment as to the appropriateness of key inputs and assumptions used in the valuation;
- Challenging the key inputs and assumptions provided by management to the external valuers;
- Comparing movements between key inputs and assumptions in valuations from prior periods to ensure they were in line with our knowledge and expectation of the specific property and the overall applicable market conditions;
- Assessed the adequacy of the Group’s disclosures relating to Investment Property in the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group’s annual report for the year ended 30 June 2018, but does not include the financial report and our auditor’s report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Group 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 preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located on the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 17 to 18 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Phileo Australia Limited and Controlled Entities, for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Group 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.



MOORE STEPHENS AUDIT (VIC)
ABN 16 847 721 257



GEORGE S. DAKIS
Partner
Audit & Assurance Services

Melbourne, Victoria

25 September 2018

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

DIRECTORS' DECLARATION
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

The Directors declare that:

1. the financial statements and notes, as set out on pages 25 to 68, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
 - (b) give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the company and the consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view;
3. in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Rudy Koh
Managing Director
Melbourne
25 September 2018

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

	Note	Consolidated Group	
		2018	2017
		\$	\$
Revenue and other income	4	150,820,834	72,394,666
Cost of development property sold		(7,264,717)	(31,307,147)
Rental property expenses		(3,376,705)	(4,088,904)
Hotel operating expenses		(1,723,200)	(1,641,336)
Development property expenses		(2,758,965)	(1,933,554)
Employee benefits expense		(12,404,453)	(2,340,126)
Depreciation and amortisation expense	18	(91,180)	(92,246)
Finance costs		(2,849,490)	(3,073,408)
Inventory write down	15	(294,000)	(450,521)
Net change in value of Interest swap	16	-	-
Other expenses		(1,308,689)	(490,691)
Profit (Loss) before income tax	5	118,749,435	26,976,733
Income tax benefit (expense)	6	(33,650,903)	(3,583,299)
Profit (Loss) from continuing operations		85,098,532	23,393,434
Profit (Loss) for the year	5	85,098,532	23,393,434
Profit (Loss) attributable to:			
Members of the parent entity		85,098,532	23,393,434
Non-controlling interest		-	-
		85,098,532	23,393,434

Earnings per share

From continuing and discontinued operations:

Basic profit (loss) in cents per share	11	294	81
Diluted profit (loss) in cents per share	11	294	81

From continuing operations:

Basic profit (loss) in cents per share	11	294	81
Diluted profit (loss) in cents per share	11	294	81

The accompanying notes form part of these financial statements.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Note	Consolidated Group	
		2018	2017
		\$	\$
Profit (Loss) for the year		85,098,532	23,393,434
Add (Less) Comprehensive income/ (expense) for the year		-	-
Total comprehensive profit (loss) income for the year		85,098,532	23,393,434
Total comprehensive profit (loss) attributable to:			
Members of the parent entity		85,098,532	23,393,434
Non-controlling interest		-	-
		85,098,532	23,393,434

The accompanying notes form part of these financial statements.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	Consolidated Group	
		2018	2017
		\$	\$
CURRENT ASSETS			
Cash	12	152,686,836	19,330,752
Receivables	13	29,284	10,898
Inventory	15	-	4,862,844
Other	19	1,603,666	624,454
TOTAL CURRENT ASSETS		<u>154,319,786</u>	<u>24,828,948</u>
NON-CURRENT ASSETS			
Inventory	15	33,380,178	32,526,938
Investment Property	17	148,600,000	132,500,000
Plant and equipment	18	654,721	734,984
Deferred tax asset	6	1,193,919	5,253,777
Other	19	2,425,007	1,947,899
TOTAL NON-CURRENT ASSETS		<u>186,253,825</u>	<u>172,963,598</u>
TOTAL ASSETS		<u>340,573,611</u>	<u>197,792,546</u>
CURRENT LIABILITIES			
Payables	20	5,273,071	1,496,104
Interest bearing liabilities	21	45,000,000	-
Current tax payable		25,888,216	391,841
Dividend payable	10	-	-
Provisions	22	385,539	332,052
TOTAL CURRENT LIABILITIES		<u>76,546,826</u>	<u>2,219,997</u>
NON-CURRENT LIABILITIES			
Interest bearing liabilities	21	-	45,000,000
Derivatives	16	2,225,772	3,489,972
Deferred tax liability	6	25,795,033	22,349,143
Other creditors	20	28,100,742	488,785
Provisions	22	72,541	64,133
TOTAL NON-CURRENT LIABILITIES		<u>56,194,088</u>	<u>71,392,033</u>
TOTAL LIABILITIES		<u>132,740,914</u>	<u>73,612,030</u>
NET ASSETS		<u>207,832,697</u>	<u>124,180,516</u>
EQUITY			
Issued capital	23	19,910,650	19,910,650
Reserves	28	13,539	13,539
Retained earnings	28	187,908,508	104,256,327
Minority interest		-	-
TOTAL EQUITY		<u>207,832,697</u>	<u>124,180,516</u>

The accompanying notes form part of these financial statements.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Note	Issued Capital \$	Other Reserves \$	Retained Earnings \$	Total \$
Balance at 1 July 2016		19,910,650	13,539	81,441,433	101,365,622
Profit/(Loss) for the year		-	-	23,393,434	23,393,434
Subtotal		19,910,650	13,539	104,834,867	124,759,056
Dividends paid or provided for	10	-	-	(578,540)	(578,540)
Balance at 30 June 2017	23,28	19,910,650	13,539	104,256,327	124,180,516
Balance at 1 July 2017		19,910,650	13,539	104,256,327	124,180,516
Profit/(Loss) for the year		-	-	85,098,532	85,098,532
Subtotal		19,910,650	13,539	189,354,859	209,279,048
Dividends paid or provided for	10	-	-	(1,446,351)	(1,446,351)
Balance at 30 June 2018	23,28	19,910,650	13,539	187,908,508	207,832,697

The accompanying notes form part of these financial statements.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	Consolidated Group	
		2018	2017
		\$	\$
CASHFLOW FROM OPERATING ACTIVITIES			
Proceeds from sale of development property		150,000,000	35,000,000
Receipts from ordinary activities		11,449,174	13,651,070
Payment to suppliers & employees		(22,065,982)	(13,805,341)
Payment for property development		(1,145,481)	(935,610)
Income tax paid		(648,780)	-
<i>Net Cash produced/(used) in Operating Activities</i>	25	<u>137,588,931</u>	<u>33,910,119</u>
CASHFLOW FROM INVESTING ACTIVITIES			
Payment for investment property development		(1,961,452)	(603,456)
Payment for purchase of plant & equipment		(10,917)	(31,841)
<i>Cash flow from/(used) in Investing Activities</i>		<u>(1,972,369)</u>	<u>(635,297)</u>
CASHFLOW FROM FINANCING ACTIVITIES			
Interest paid		(2,849,490)	(3,073,408)
Interest received		2,035,363	283,573
Loan repaid		-	(13,500,000)
Loan received		-	2,000,000
Dividend paid		(1,446,351)	(578,540)
<i>Cash flow from/(used) in Financing Activities</i>		<u>(2,260,478)</u>	<u>(14,868,375)</u>
Net increase (decrease) in cash		133,356,084	18,406,447
Cash at beginning of the year		19,330,752	924,305
Cash at end of the year	12	<u>152,686,836</u>	<u>19,330,752</u>

The accompanying notes form part of these financial statements.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note	Contents
1	Statement of Significant Accounting Policies
2	New Australian Accounting Standards Application for Future Periods
3	Parent Information
4	Revenue and Other Income
5	Profit/(Loss) for the Year
6	Income Tax
7	Profit/(Loss) on Sale of Development Properties
8	Interests of Key Management Personnel
9	Auditor's Remuneration
10	Dividends
11	Earnings Per Share
12	Cash and Cash Equivalents
13	Trade and Other Receivables
14	Controlled Entities
15	Inventory
16	Derivatives
17	Investment Property
18	Plant and Equipment
19	Other Assets
20	Trade and Other Payables
21	Borrowings
22	Provisions
23	Issued Capital
24	Operating Segments
25	Cash Flow Information
26	Related Party Disclosures
27	Financial Risk Management
28	Retained Profits and Reserves
29	Rental Lease Receivables
30	Economic Dependency
31	Events After the Reporting Period
32	Capital Commitments
33	Contingencies

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the consolidated financial statements and notes of Phileo Australia Limited and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of Phileo Australia Limited as an individual parent entity ('Parent Entity') where applicable.

Basis of Preparation

The financial report are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of all of the subsidiaries controlled by Phileo Australia Limited at the end of the reporting period. Subsidiaries are entities the parent controls. The parent controls an entity when it 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 over the entity. A list of controlled entities is contained in Note 14 to the financial statements.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

(b) Plant and Equipment

Plant and Equipment

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the assets employment and subsequent disposal.

At present the group does not hold any property that meets the definition of Plant and Equipment, as all property currently meets the definition of inventory or investment property, refer to Note 1 (c) & 1 (d).

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Plant and Equipment (Continued)

Depreciation

Depreciation is provided on plant and equipment but excluding land and development properties which are inventories. Depreciation is calculated on a reducing balance basis so as to write off the net cost of each asset over its expected useful life.

Assets are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using either the reducing balance method or the prime cost method as appropriate.

The following estimated useful lives are used in the calculation of depreciation:

Leasehold improvements	Over the term of the lease
Plant and equipment	2 - 15 years
Office equipment, furniture and fittings	2 - 15 years
Plant and machinery under finance lease	3 - 15 years
Office equipment, furniture and fittings under finance lease	2 - 15 years

(c) Inventories

After initial recognition, inventories are measured at the lower of cost and net realisable value.

Inventories comprise the property assets of the consolidated group which includes the cost of each property, borrowing costs to the extent allowable under AASB, and development costs incurred in getting each property to its present location and condition.

(d) Investment Properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise. Fair values are evaluated annually either by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee or by director's valuation. The director's valuation takes into consideration, among other things, rental income from current leases and reasonable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in the light of current conditions. The director's valuation also considers any cash outflows (including rental payments and other outflows) that could be expected in respect of the property.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognized in profit or loss.

(e) Profit and Revenue Recognition

Rental Revenue

Rental revenue comprises rent received and receivable, and recoverable outgoings charged to tenants in accordance with the lease agreements. Rental revenue is recognised on a straight line basis across the life of the lease in accordance with AASB 117: Accounting for Leases.

Revenue and Profit Recognition on Sale of Inventories (Properties)

Revenue and profits from sale of inventory are recognised in the period in which contract of sale conditions are fulfilled. Anticipated future losses are taken to the profit and loss statement as soon as identified by writing down inventory to net realisable value in accordance with Note 1(c).

Revenue from Services Rendered

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

1. **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(f) Borrowing Costs

Borrowing costs directly attributable to the acquisition, or construction of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(g) Leased Assets

Leased assets classified as finance leases are capitalised as fixed assets. The amount initially brought to account is the present value of minimum lease payments.

A finance lease is one that effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property.

Capitalised leased assets are amortised using the reducing balance method over the estimated useful life of the asset.

Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are recognised as an expense on a basis that reflects the pattern in which economic benefits from the leased asset are consumed.

(h) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(i) Receivables

Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts.

(j) Accounts Payable

Trade payables and other accounts payable are recognised when the group becomes obliged to make future payments resulting from the purchase of goods and services.

(k) Employee Entitlements

Provision is made for the group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, together with benefits arising from wages and salaries, annual leave, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the group to an employee superannuation fund and are charged as expenses when incurred.

(l) Income Tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Income Tax (Continued)

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax Consolidation:

The company has formed an income tax consolidated group with effect from 1st July 2016 which includes Phileo Australia Limited and its controlled entities. As a consequence, all the members of the income tax consolidated group will be taxed as a single entity. The head company of the income tax consolidated group is Phileo Australia Limited and is therefore liable for the income tax liabilities of the tax consolidated group. The effect of the formation of an income tax consolidation is recorded in this financial report.

The head entity and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Phileo Australia Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

As the tax consolidated group has not entered into a tax funding agreement, no compensation has been received or paid for any current tax payable or deferred tax assets relating to tax losses assumed by the head entity since implementation of the tax consolidation regime.

(m) Goods and Services Tax

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

(n) Rental Lease

Rental receivable from tenants on non-cancellable operating leases is recognised on an accrual basis. Lease payments receivable for the remaining period of the lease contract for the applicable tenancy have been disclosed in note 29 to the financial statements. Commissions paid to property agents to secure the tenancy leases, where material, are classified as prepayment and amortised over the period of the tenancy.

(o) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the group becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below. Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) *Financial Instruments (Continued)*

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

(i) Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of Financial Assets

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial assets.

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Financial Instruments (Continued)

Financial Guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- The likelihood of the guaranteed party defaulting in a year period;
- The proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- The maximum loss exposed if the guaranteed party were to default.

(p) Impairment of Non-Financial Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Calculation of Recoverable Amount:

Value in use is determined by discounting the expected future net cash flows to their present value. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

Fair value for assets approximate the directors' estimation that is mainly based on the most recently obtained independent market valuation for that property less costs to sell if applicable

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Reversals of Impairment:

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in estimates used to determine the recoverable amount.

An impairment loss is reversed (other than goodwill) only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-highly liquid investments with original maturities of three months or less, and bank overdrafts,

Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(r) Derivatives instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures (cash flow hedge).

The derivative financial instrument qualifies for hedge accounting when at the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions, is documented. The group is also required to document an assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items. Such derivatives are initially recognised at fair value. Subsequent to initial recognition, the changes in the fair value of derivatives are accounted for as follows:

Cash flow hedge:

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Other non- trading derivatives:

The derivative financial instrument which does not qualify for hedge accounting is initially recognised at fair value through profit and loss account. Subsequent to initial recognition, the changes in its fair value are also recognised immediately in profit and loss.

(s) Key Estimates

i) Inventory

The directors' estimates of the net realisable value of inventory are based on the most recent independent valuation of each property, and an analysis of each property's performance and general property market trends between the date of the most recent valuation and balance date. In the event that directors' estimates result in a net realisable value that is less than the carrying amount of the property, an inventory write down is recognised.

The frequency of formal external valuations depends upon the changes in net realisable value of the inventory (properties). When the directors assessment of net realisable value of a property is less than its carrying amount a formal external valuation is required, or where determined appropriate by the directors.

ii) Measurement of Fair Value

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis after initial recognition:

- derivative financial instruments; and
- investment properties.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1:

Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2:

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3:

Measurements based on unobservable inputs for the asset or liability.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The group has an established framework with respect to the measurement of fair values which includes use of an independent expert. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

Market approach: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 16 - Derivatives financial instrument;
Note 17(a) - Investment property.

(t) Comparative Amounts

Certain comparative figures have been reclassified or adjusted so as to be comparable, to the extent possible, with the figures presented for the financial year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

2. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

AASB 9 will replace AASB 139: Financial Instruments: Recognition and Measurement.

The key changes that may affect the Group on initial application of AASB 9 and associated amending Standards include:

- simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;
- permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income (OCI);
- simplifying the requirements for embedded derivatives, including removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in OCI, except when it would create an 'accounting mismatch';
- introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
- requiring impairment of financial assets carried at amortised cost based on an expected loss approach.

The directors anticipate that the adoption of AASB 9 on 1st July 2018 is not expected to have a material impact on the financial statements of the consolidated entity.

AASB 15 Revenue from Contracts with Customers (applicable for annual reporting periods commencing on or after 1 January 2018):

AASB 15 will provide (except in relation to some specific exceptions, such as lease contracts and insurance contracts) a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue.

These Standards provide a revised principle for recognising and measuring revenue. Under AASB 15, revenue is recognised in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the provider of the goods or services expects to be entitled. The give effect to this principle, AASB 15 requires the adoption of the following 5-step model:

- identify the contract(s) with a customer;
- identify the performance obligations under the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations under the contract(s); and
- recognise revenue when (or as) the entity satisfies the performance obligations.

AASB 15 also provides additional guidance to assist entities in applying the revised principle to licences of intellectual property, warranties, rights of return, principal/agent considerations and options for additional goods and services.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue.

The directors anticipate that the adoption of AASB 15 on 1st July 2018 is not expected to have a material impact on the financial statements of the consolidated entity.

AASB 16 Leases (applicable for annual reporting periods commencing on or after 1 January 2019):

Under AASB 16 there is no longer a distinction between finance and operating leases. Lessees will now bring to account a right-to-use asset and lease liability onto their balance sheets for all leases. Effectively this means the vast majority of operating leases as defined by the current AASB 117 Leases which currently do not impact the balance sheet will be required to be capitalised on the balance sheet once AASB 16 is adopted.

The directors anticipate that the adoption of AASB 16 on 1st July 2019 is not expected to have a material impact on the financial statements of the consolidated entity.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

3. PARENT INFORMATION

The following information has been extracted from the books and records of the parent entity and has been prepared in accordance with Accounting Standards.

	2018	2017
	\$	\$
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	7,613,437	18,706,527
Non-current assets	90,952,240	61,688,881
TOTAL ASSETS	98,565,677	80,395,408
LIABILITIES		
Current liabilities	29,016,775	1,012,142
Non-current liabilities	1,377,579	2,596,176
TOTAL LIABILITIES	30,394,354	3,608,318
NET ASSETS	68,171,323	76,787,090
EQUITY		
Issued capital	19,910,650	19,910,650
Retained earnings	48,247,134	56,862,901
Capital profits reserve	13,539	13,539
TOTAL EQUITY	68,171,323	76,787,090
STATEMENT OF COMPREHENSIVE INCOME		
Total Profit / (loss)	(7,169,416)	1,716,173
Total comprehensive income / (loss)	(7,169,416)	1,716,173

Guarantees

Phileo Australia Limited has provided guarantee for commercial bill facility of \$45 million obtained by its 100% owned subsidiary – Phileo 303 Collins Pty Ltd.

Other than above, Phileo Australia Limited has not entered into any other guarantees in relation to the debts of its subsidiaries.

Contingent liabilities

At 30 June 2018, Phileo Australia Limited had no material undisclosed contingent liabilities (2017: \$Nil).

Contractual commitments

At 30 June 2018, Phileo Australia Limited had not entered into any material contractual commitments for the acquisition of property, plant and equipment (2017: \$Nil).

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

	Consolidated Group	
	2018	2017
	\$	\$
6. INCOME TAX		
(a) The component of tax (benefit) expense comprises of:		
Current tax	26,068,216	391,841
Deferred tax	7,582,687	3,191,458
	<u>33,650,903</u>	<u>3,583,299</u>
(b) The prima facie tax/(benefit) on profit (loss) from ordinary activities before income tax is reconciled to the income tax as follows:		
Operating (loss) profit	<u>118,749,435</u>	<u>26,976,733</u>
Income tax expense (benefit) calculated at 30% (2017: 30%) of operating (loss) profit from ordinary activities before income tax	<u>35,624,831</u>	<u>8,093,020</u>
Add/(less), Tax effect of permanent Differences:		
Non-deductible items	5,322	3,433
Once-off tax benefit on formation of tax consolidated group	-	(4,300,485)
Adjustment relating to prior years	(1,979,250)	(83,453)
Other	-	(129,216)
	<u>(1,973,928)</u>	<u>(4,509,721)</u>
Income Tax Expense (Benefit) Attributable to Profit from Ordinary Activities before Income Tax	<u>33,650,903</u>	<u>3,583,299</u>

(c) Deferred Tax Asset ("DTA")

Deferred tax asset mainly comprises of income tax losses brought forward. The taxation benefits of tax losses and timing differences brought to account will only be obtained if:

- (i) assessable income is derived of a nature and of an amount sufficient to enable the benefit from the deductions to be realised;
- (ii) conditions of deductibility imposed by the law are complied with; and
- (iii) no changes in tax legislation adversely affect the realisation of the benefit

Tax and capital losses of companies in the consolidated group were as follows:

Entity		30 June 2018	30 June 2017
		\$	\$
Phileo Australia Limited	Tax losses	272,059	13,173,706
Phileo Australia Limited	Capital losses	-	79,684

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

6. INCOME TAX (CONTINUED)

In 2018, Phileo Australia Limited recognised the deferred tax assets arising from the unused tax losses of the controlled entities in the tax consolidated group.

	Consolidated Group	
	2018	2017
	\$	\$
Deferred tax asset	1,193,919	5,253,777
Deferred tax asset reconciliation:		
Opening balance at 1 July	5,253,777	7,275,644
Adjustment to prior years	885,449	20,826
Once off tax expenses on formation of tax consolidated group	-	646
Restated opening balance	6,139,226	7,297,116
Tax losses/(utilised)	(8,775,182)	(1,730,985)
Other timing differences	3,829,875	(312,354)
Closing balance at 30 June	1,193,919	5,253,777
(d) Deferred tax liability ("DTL")	25,795,033	22,349,153
Deferred tax liability reconciliation:		
Opening balance at 1 July	22,349,143	21,050,336
Once-off tax benefit on formation of tax consolidated group	-	(4,372,832)
Adjustment to prior year	(1,263,033)	(62,626)
Restated opening balance	21,086,110	16,614,878
Difference between tax and accounting written down values (includes Deferred tax liability of \$24,780,376 (2017: \$20,878,837) recognised on fair value adjustment to the investment property)	4,708,923	5,734,265
Closing balance at 30 June	25,795,033	22,349,143

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

Consolidated Group

2018 **2017**
\$ **\$**

7. PROFIT ON SALE OF DEVELOPMENT PROPERTIES

Sale of Black Forest Road, Wyndham Vale (Title 1 & 2)	122,222,222	-
Less: Carrying costs of Black forest Road (Title 1 & 2)	(7,264,717)	-
Sale of Rocklea Homemaker Centre	-	35,000,000
Less: Carrying costs of Rocklea Homemaker Centre	-	(31,307,147)
Profit on Sale of Development Properties	114,957,505	3,692,853

8. INTERESTS OF KEY MANAGEMENT PERSONNEL (“KMP”)

Refer to the Remuneration Report (Audited) contained in the Directors’ Report for details of the remuneration paid or payable to each member of the Group’s key management personnel for the year ended 30 June 2018

In summary, the totals of remuneration paid to KMP of the company and the Group during the year are as follows:

Short and Long term employee benefits	11,095,477	1,066,355
	11,095,477	1,066,355

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

8. INTERESTS OF KEY MANAGEMENT PERSONNEL (“KMP”) (CONTINUED)

KMP Shareholdings

The number of ordinary shares in Phileo Australia Limited held by each KMP of the Group during the financial year is as follows:

	Balance at Beginning of Year	Granted as Remuneration during the Year	Issued on Exercise of Options during the Year	Other Changes during the Year	Balance at End of Year
30 June 2018					
Graham Homes	59,116	-	-	-	59,116
Rudy Koh	10,348,814	-	-	-	10,348,814
Alfred Sung	1,896,849	-	-	-	1,896,849
Michael Loke	3,345,500	-	-	-	3,345,500
Andrew Hang	2,590,196	-	-	-	2,590,196
	18,240,475	-	-	-	18,240,475

	Balance at Beginning of Year	Granted as Remuneration during the Year	Issued on Exercise of Options during the Year	Other Changes during the Year	Balance at End of Year
30 June 2017					
Graham Homes	59,116	-	-	-	59,116
Rudy Koh	10,348,814	-	-	-	10,348,814
Alfred Sung	1,896,849	-	-	-	1,896,849
Michael Loke	3,345,500	-	-	-	3,345,500
Andrew Hang	2,590,196	-	-	-	2,590,196
	18,240,475	-	-	-	18,240,475

Other KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above.

For details of other transactions with KMP, refer to Note 26: Related Party Disclosures.

There were no loans to KMP during the financial year (2017: \$Nil).

9. AUDITOR’S REMUNERATION

	Consolidated Group	
	2018 \$	2017 \$
Remuneration of the auditor for:		
Auditing or reviewing the financial statements	45,300	45,700

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

	Consolidated Group	
	2018	2017
	\$	\$
10. DIVIDENDS		
a) Distributions paid:		
Final dividend (fully franked) of 5 cents per share for 2017 declared and paid in 2018	1,446,351	578,540
b) Fully franked ordinary dividend for 2018: \$Nil (2017: Nil cents) per share franked at the tax rate of 30% (2017: 30%)	-	-
c) Movement in Franking Account:		
Balance at 1 July	19,393,652	19,641,598
Taxes paid during the year	468,780	-
Franking debits arising from payment of dividends (above)	(619,865)	(247,946)
Balance at 30 June	19,242,567	19,393,652

In view of the company's future plans for the return of the capital, the directors do not recommend the payment of dividend for the financial year

11. EARNINGS PER SHARE

Profit/ (Loss) profit after tax	85,098,532	23,393,434
Add/(Less): (Profit) /Loss profit attributable to minority equity interest	-	-
Profit/ (Loss) profit attributable to members of the parent entity	85,098,532	23,393,434
The Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	28,927,016	28,927,016
Basic gain/ (loss) profit per share in cents	294	81

There were no options outstanding, or converting preference shares on issue, for the purpose of calculating diluted earnings per share.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

	Note	Consolidated Group	
		2018	2017
		\$	\$
12. CASH AND CASH EQUIVALENTS			
Cash at bank and in hand		9,500,869	2,330,752
Short-term bank deposits		143,185,967	17,000,000
	25	152,686,836	19,330,752

The effective interest rate on short-term bank deposits was 2.37% (2017: 2.5%); These deposits have an average maturity of 64 days (2017: 70 days).

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Cash and cash equivalents		152,686,836	19,330,752
	25	152,686,836	19,330,752

13. TRADE AND OTHER RECEIVABLES

CURRENT

Trade receivables		29,284	10,898
Provision for impairment		-	-
Total current trade and other receivables		29,284	10,898

Trade receivables comprise mainly rent and hotel account receivables.

Provision for Impairment of Receivables

Current trade and term receivables are non-interest bearing loans and generally on 30-day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item.

There has not been movement in the provision for impairment of receivables during the financial year.

Credit risk

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned in this note, if any. The class of assets described as "trade and other receivables" is considered to be the main source of credit risk related to the Group.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

13. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Gross Amount \$	Past Due and Impaired \$	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms \$
			< 30 \$	31–60 \$	61–90 \$	> 90 \$	
2018							
Trade receivables	29,284	-	29,284	-	-	-	29,284
Total	29,284	-	29,284	-	-	-	29,284
2017							
Trade receivables	10,898	-	10,274	624	-	-	10,898
Total	10,898	-	10,274	624	-	-	10,898

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, which would otherwise be past due or impaired.

Collateral Held as Security

There was no collateral received from a related party of the debtor in the form of a financial guarantee.

Collateral Pledged

Group has not provided any charges over the trade receivables.

14. CONTROLLED ENTITIES

a. **Controlled Entities Consolidated
and principal activities**

	Country of Incorporation	Percentage Owned	
		2018	2017
Subsidiaries of Phileo Australia Limited:			
Phileo 303 Collins Pty Ltd (investment property holding)	Australia	100%	100%
Sequoia Management Pty Ltd (hotel operation)	Australia	100%	100%
Daleston Pty Ltd (property holding)	Australia	100%	100%
Rocklea Homemaker Centre Pty Ltd (dormant – deregistered on 28/5/2017)	Australia	-	-

b. **Acquisition of Controlled Entities**

There were no entities acquired during the financial year.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

	Consolidated Group	
	2018	2017
	\$	\$
15. INVENTORY		
(a) Current:	-	4,862,944
<i>Current Inventory in 2017:</i> Includes the carrying costs of the two titles of the vacant land at Black Forest Road in Wyndham Vale which were settled in February 2018.		
(b) Non-Current: (i)		
Freehold land and buildings (at cost) – Opening	32,526,838	65,828,484
Add: Reclassification of cost from current	1,859	-
Add: Development cost incurred during the year	1,145,481	935,610
Add: Write up during the year (ii)	-	-
Less: Cost of development land sold during the year	-	(28,923,791)
Less: Cost of development land reclassified as current	-	(4,862,944)
Less: Write down during the year (ii)	(294,000)	(450,521)
	<u>33,380,178</u>	<u>32,526,838</u>
(c) Total Inventory (Current and Non- Current):		
Acquisition cost	21,004,800	25,413,282
Development cost	16,310,193	15,617,315
Borrowing cost	614,964	614,964
Inventory write down (ii)	(4,549,779)	(4,255,779)
Total inventory (iii)	<u>33,380,178</u>	<u>37,389,782</u>
(d) Inventory pledged as security	Nil	Nil

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

15. INVENTORY (CONTINUED)

(i) *Non-Current Inventory.* Includes carrying costs of the vacant land at 14 Federation Street in Box Hill, remaining three titles of the vacant land at Black Forest Road in Wyndham Vale which was sold during the year and will be settled progressively by February 2022; the *Residential land* at Kangaroo Flat, off the Calder Highway near Bendigo; the 108-room business class hotel at 50-52 McCrae Street, Dandenong; all stated at lower of cost or market value. Carrying costs of non current inventory as at June 2017 included the carrying costs of Rocklea Homemaker Centre in Bendigo. This property was sold in the previous financial year.

The company reviews the intended use of each of the properties to ensure that the classification, measurement and presentation of its property portfolio are correct in light of the current economic climate and intended use of each of the properties.

(ii) *Inventory Write Down:* As at balance date, the write down of \$4,549,779 represents the balance of inventory write down recognised for the Residential land in Bendigo of \$450,521 (2017: \$450,521), and the write down for the McCrae Street property of \$4,099,258 (2017: \$3,805,258).

(iii) *Aggregate carrying value:* The aggregate carrying value of all inventory held at 30 June 2018, based on the lower of cost and net realisable value was estimated at \$33,380,178 (2017: \$37,389,782).

The directors' assessment of net realisable value for the properties comprising this balance had included consideration of:

- the latest independent valuation for Residential land in Bendigo of \$870,000 obtained in August 2016;
- the latest independent valuation for Federation Street residential development land of \$20,000,000 obtained in June 2016;
- the latest council rates valuation for the remaining three titles of Wyndham Vale development land of \$134,000,000 obtained in August 2018;
- the McCrae Street building at latest independent valuation of \$8,600,000 obtained in June 2018.

16. DERIVATIVES

	Consolidated Group	
	2018	2017
	\$	\$
Interest rate swap for hedging the commercial bills	2,225,772	3,489,972
Total non-current derivatives	<u>2,225,772</u>	<u>3,489,972</u>

Interest rate swaps are used to hedge cash flow risk associated with future transactions. The interest swap does not qualify for hedge accounting therefore the gains and losses arising from changes in the fair value of derivatives are recognised in profit and loss

The fair value measurement of interest rate swaps has been categorised as a Level 2 fair value based on the Market comparison technique (Refer Note 1(s) (ii)). The fair value is based on broker quote. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

	Consolidated Group	
	2018	2017
	\$	\$
17. INVESTMENT PROPERTY		
Opening balance at 1 July	132,500,000	108,000,000
Add: Additions for the period	1,961,452	603,456
Add/(Less): Net gain/(loss) from fair value adjustment (17 (a))	14,138,548	23,896,544
Closing Balance at 30 June	148,600,000	132,500,000

17 (a): Determining fair value

- (i) As stated in the accounting policy note, Investment properties are stated at fair value. The fair value of the investment property has been determined at \$148,600,000 based on valuation performed by Knight Frank Valuations Victoria (KF), an accredited independent valuer, as at 27 June 2018. KF is a specialist firm in valuing these types of investment properties. The directors reviewed the valuation at the reporting date and determined the fair value of the property at \$148,600,000. The directors' estimate of the fair value of investment property is based on the KF's valuation for the property, amended for changes (if any) to the leasing and market conditions at the reporting date. The key assumptions used in the director's estimate of the fair value are listed below as 17(a)(ii). All of the key assumptions have been compared to the last independent valuation report for the investment property.

The directors intend to continue to obtain independent valuation of the investment property at least annually.

- (ii) The fair value of the properties has been determined using methods such as Capitalisation of Net Income (CAP) and Discounted Cash Flow approach (DCF). The arrived value under the two primary methods of valuation has also been compared to the transactions observable in the market. The critical assumptions underlying the estimate of fair value relates to the receipt of contractual rent including outgoings, expected future market rentals, maintenance requirements, discount and capitalisation rates that reflects current market uncertainties. If there is any change in these assumptions or economic conditions, the fair value of investment properties may differ. The fair value measurement of investment property has therefore been categorised as a Level 3 fair value (refer Note 1(s) (ii)) based on the inputs to the valuation technique used.

The following primary inputs have been used

<u>CAP approach assumptions</u>		<u>DCF approach assumptions</u>	
Adopted Cap Rate	5.75%	Discount Rate	7.00%
		Terminal Yield	6.25%
		Weighted net rental growth (Average 10 years)	3.70%
		CPI (Average 10 years)	2.40%

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

	Consolidated Group	
	2018	2017
	\$	\$
17(b). Investment property pledged as security		
303 Collins Street, Melbourne		
- Carrying amount	148,600,000	132,500,000
- Loan facility	45,000,000	45,000,000
18. PLANT AND EQUIPMENT		
Leasehold improvements:		
At cost	943,065	943,065
less: Accumulated depreciation	<u>(471,674)</u>	<u>(404,292)</u>
	<u>471,391</u>	<u>538,773</u>
Plant and machinery:		
At cost	337,424	337,424
less: Accumulated depreciation	<u>(322,995)</u>	<u>(318,466)</u>
	<u>14,429</u>	<u>18,958</u>
Office equipment, furniture and fittings:		
At cost	855,520	844,603
less: Accumulated depreciation	<u>(686,619)</u>	<u>(667,350)</u>
	<u>168,901</u>	<u>177,253</u>
	<u><u>654,721</u></u>	<u><u>734,984</u></u>

Movements in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year for the group:

	Leasehold improve- ments	Plant and machinery	Office equipment, Furniture and fittings	Total
	\$	\$	\$	\$
CONSOLIDATED GROUP				
Balance at beginning of the year	538,773	18,958	177,253	734,984
Additions	-	-	10,917	10,917
Deductions/Adjustments	-	-	-	-
Depreciation expense	<u>(67,382)</u>	<u>(4,529)</u>	<u>(19,269)</u>	<u>(91,180)</u>
Carrying amounts at end of year	<u>471,391</u>	<u>14,429</u>	<u>168,901</u>	<u>654,721</u>

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

	Consolidated Group	
	2018	2017
	\$	\$
19. OTHER ASSETS		
CURRENT		
Prepayments	1,150,300	575,435
Hotel stocks	11,599	13,167
Other debtors	441,767	35,852
	1,603,666	624,454
NON-CURRENT		
Prepayments	2,371,142	1,891,106
Other debtor	53,865	56,793
	2,425,007	1,947,899

Prepayments include pre-paid land tax, insurance, bank interest, lease incentives and property agents' commissions amortised over the relevant tenancy period.

20. TRADE AND OTHER PAYABLES

CURRENT		
Unsecured liabilities:		
Trade payables	654,217	658,015
Sundry payables and accrued expenses	4,618,854	838,089
	5,273,071	1,496,104
NON-CURRENT		
Unsecured liabilities:		
Advance from customers	27,777,778	-
Tenant's incentive	177,965	309,554
Tenants' bond monies	144,999	179,231
	28,100,742	488,785

Trade payables include builders' supplies and retention. Sundry payables include rates and taxes and GST.

21. BORROWINGS

CURRENT		
Secured liabilities:		
Commercial Bills	45,000,000	-
Total current borrowings	45,000,000	-
NON-CURRENT		
Secured liabilities:		
Commercial bills	-	45,000,000
Total non-current borrowings	-	45,000,000

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

		Consolidated Group	
		2018	2017
		\$	\$
21. BORROWINGS (CONTINUED)			
a.	Total current and non-current secured liabilities:		
	Commercial bills	45,000,000	45,000,000
		45,000,000	45,000,000
		45,000,000	45,000,000
b.	The carrying amounts of non-current assets pledged as security are:		
	Freehold land and buildings	148,600,000	132,500,000
		148,600,000	132,500,000
		148,600,000	132,500,000

c. Collateral provided

The commercial bill is secured by a first registered mortgage over property at 303 Collins Street Melbourne owned by the Group.

Covenants imposed by the bank for loan against 303 Collins Street, Melbourne require total bank debt not to exceed 65% (2017: 65%) of total independent valuation of the pledged securities and 1.30 (2017:1.30) times interest cover.

		Consolidated Group	
Maturity Dates	Effective Interest Rate (%)	2018	2017
		\$	\$
30 September 2018	6.28	45,000,000	45,000,000
		45,000,000	45,000,000
		45,000,000	45,000,000

- d. Subsequent to the year end, the company renewed its \$45,000,000 bank loan facility, which is expiring on 30th September 2018, for another two years.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

	Annual Leave	Long Service Leave	Total
	\$	\$	\$
22. PROVISIONS			
Consolidated Group			
Opening balance at 1 July	94,259	301,926	396,185
Additional provisions	2,234	59,661	61,895
Amounts used	-	-	-
Balance at 30 June	96,493	361,587	458,080

	Consolidated Group	
	2018	2017
	\$	\$
Analysis of total provisions		
Current	385,539	332,052
Non-current	72,541	64,133
	458,080	396,185

Provision for Current Employee Benefits

Provision for current employee entitlements is in respect of annual and long service leave not yet taken and accrued as at the end of the financial period.

Provision for Non-Current Employee Benefits

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1.

23. ISSUED CAPITAL

(a) Issued Share Capital

28,927,016 (2017: 28,927,016) ordinary shares each fully paid	19,910,650	19,910,650
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Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Authorised Share Capital

Authorised share capital consists of 198,000,000 (2017: 198,000,000) ordinary shares and 2,000,000 (2017: 2,000,000) preference shares.

(c) Share Options

At 30 June 2018 there were no options outstanding (2017: Nil).

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

23. ISSUED CAPITAL (CONTINUED)

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Capital Management

Management controls the capital of the Group in order to maintain a good long term external debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's long term debt and capital includes ordinary share capital and bank borrowings, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. This strategy is to ensure that the Group's capital gearing ratio remains between 50% and 70%. However, as at June 2018, the company's Capital Gearing ratio was significantly lower due to the following reasons:

- During the year, the company has sold its residential subdivision site at Black Forest Road, Wyndham Vale (the Land) to Country Garden Mambourin Pty Ltd, a subsidiary of the Hong Kong-listed entity, Country Garden Holdings Co Ltd. The land, which consists of 5 titles, has been sold under three contracts which settle over 4½ years for a total price of \$400 million, payable progressively, with the final contract settling in February 2022. As per the terms of these sales contract, the company has received total of \$150 million during the year (\$40 million on signing of the sales contract in Aug 18, and \$110 million on the settlement of first contract of sale in February 2018).

As at the year end the company is holding the majority of these sales proceeds in short term deposits, which has significantly improved the total equity position of the company

The company intends to use the remaining sales proceeds to return capital to its shareholders in the most effective manner taking into consideration the available franking credits. The Board of Directors and the Independent Committee has commenced its investigation on this process. Until the outcome of this investigation, the company intends to hold the surplus cash in short term deposits.

- Total equity of the company has also significantly improved due to a fair value gain of \$14,138,000 (before tax) (2017:\$23,897,000) which was recognised on revaluation of investment property at 303 Collins Street, Melbourne. The current year gain represents the excess of an independent valuer assessment of the asset's current fair value of \$148,600,000 over its previous carrying value of \$132,500,000;

The gearing ratios for the year ended 30 June 2018 and 30 June 2017 are as follows:

	Consolidated Group	
	2018	2017
	\$	\$
Total borrowings	45,000,000	45,000,000
Total equity	207,832,697	124,180,516
Capital Gearing ratio	22%	36%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

24. OPERATING SEGMENTS

Segment Information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Types of products and services by segment

Rental of properties. These comprise finished buildings from which rental income is derived based on non-cancellable leases over the term of the lease (Note 29). The main rental properties during the year were the 30-level office building 303 Collins Street, Melbourne and the Rocklea Homemaker Centre.

Hotel operation. The Group own and operate the 108-room hotel, the Ramada Encore at Dandenong CBD.

Development sites. Development sites comprise the proposed residential land at Box Hill and proposed residential vacant land in Wyndham Vale

Investment at bank. The Group's surplus cash is invested in interest bearing term deposits or in cash management accounts.

Basis of accounting for purposes of reporting by operating segments

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

Any inter-segment or intra-group transactions are eliminated on consolidation of the Group's financial statements.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to that segment that receives majority economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain borrowings.

Unallocated items

These include mainly administrative and statutory costs of operation, inventory write up/(down), depreciation, deferred tax assets and liabilities and derivatives. They are not allocated to any particular segments because they are not considered part of the core operations of any segment.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

24. OPERATING SEGMENTS (CONTINUED)

	<u>REVENUES</u>		<u>RESULTS</u>		<u>ASSETS</u>		<u>LIABILITIES</u>	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$	\$	\$
Industry Segments								
Rental of properties	8,307,364	8,372,231	2,011,071	1,141,528	152,084,157	135,245,071	76,003,267	50,080,987
Hotel operation	2,783,219	3,100,412	179,646	566,686	8,703,955	8,993,723	1,049,862	264,700
Development sites	122,222,222	35,000,000	112,198,540	1,759,299	24,952,178	28,667,782	1,036,617	-
Investment at bank	2,035,363	283,573	2,035,363	283,573	152,684,936	19,015,271	-	-
Administration	-	-	(12,853,851)	(1,962,282)	-	-	-	-
Unallocated items (c)	15,472,666	25,638,450	15,178,666	25,187,930	2,148,385	5,870,699	54,651,168	23,266,343
Total	150,820,834	72,394,666	118,749,435	26,976,733	340,573,611	197,792,546	132,740,914	73,612,030
(a) The above total reconciles to -								
Amount reported in Note 4: Revenue	150,820,834	72,394,666	-	-	-	-	-	-
Amount reported on the Income Statement before Income tax	-	-	118,749,435	26,976,733	-	-	-	-
Amount reported Balance Sheet	-	-	-	-	340,573,611	197,792,546	132,740,914	73,612,030
(b) Intra-group rent and outgoings excluded from 'Rental of properties' (above)	842,158	787,488	842,158	787,488	-	-	-	-
(c) Significant non-cash items included in the results (above)								
(i) Gain on fair value adjustment to investment properties	14,138,548	23,896,544	14,138,548	23,896,544	-	-	-	-
(ii) Gain/ (Loss) on fair value adjustment to Interest swap	1,264,200	1,711,109	1,264,200	1,711,109	-	-	-	-
(iii) Recoupment of impairment /(impairment) of inventories	-	-	(294,000)	(450,521)	-	-	-	-
(iv) Deferred tax liability	-	-	-	-	-	-	25,795,033	22,349,143
(v) Income tax liability	-	-	-	-	-	-	25,888,216	391,841

The consolidated group operates predominantly in one geographic segment, being Australia.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

25. CASH FLOW INFORMATION

(a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and investments in term deposits, net of any outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	Consolidated Group	
	2018	2017
	\$	\$
Cash at bank and in hand	152,686,836	19,330,752

(b) Reconciliation of net cash provided by ordinary activities to operating profit or loss after income tax

Profit (Loss) after income tax	85,098,532	23,393,434
Non-cash flows in profit or loss from ordinary activities:		
Gain on fair value adjustments from investment properties	(14,138,548)	(23,896,544)
Gain on fair value adjustments for interest swap	(1,264,200)	(1,711,109)
Current year's depreciation	91,180	92,246
Bad Debts written off		-
Loss on disposal/discard of assets		-
Write down/(up) of inventory	294,000	450,521
Items treated as Financing activities:		
Interest Paid	2,849,490	3,073,408
Interest received	(2,035,363)	(283,573)
<i>Changes in net assets and liabilities</i>		
<i>(Increase) decrease in:</i>		
Current receivables	(18,386)	126,664
Inventory	3,715,604	27,988,181
Other current assets	(979,212)	21,325
Deferred tax assets	4,059,858	2,021,867
Other non current assets	(477,108)	865,410
<i>Increase (decrease) in:</i>		
Payables (current)	3,776,967	144,781
Other creditors (non current)	27,611,957	-
Deferred tax liability	3,445,890	1,298,807
Current tax payable	25,496,375	262,625
Employee provisions	61,895	62,076
Net cash produced/(used) in operating activities	137,588,931	33,910,119

(c) Financing facilities

Secured commercial bank facilities:

Drawn	45,000,000	45,000,000
Undrawn	-	-

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

25. CASH FLOW INFORMATION (CONTINUED)

(d) **Net Debt reconciliation**

	Consolidated Group	
	2018	2017
	\$	\$
Cash and Short Term Deposits	152,686,836	19,330,752
Borrowings – Fixed Interest bearing payable within 1 year	(45,000,000)	-
Borrowings – Fixed Interest bearing payable after 1 year	-	(45,000,000)
Derivatives - Interest swap	(2,225,772)	(3,489,972)
Net Surplus/(Debt)	105,461,064	(29,159,220)

	Cash and Short Term Deposits \$	Borrowings due within 1 year \$	Borrowings due after 1 year \$	Derivatives -Interest Swap \$	Total \$
Net debt as at 1st July 2016	924,305	(11,500,000)	(45,000,000)	(5,201,081)	(60,776,776)
Cash flows	18,406,447	-	-	-	18,406,447
Borrowings repaid / (drawdown)	-	11,500,000	-	-	11,500,000
Non cash fair value adjustment – Interest swap	-	-	-	1,711,109	1,711,109
Net debt as at 30th June 2017	19,330,752	-	(45,000,000)	(3,489,972)	(29,159,220)
Cash flows	133,356,084	-	-	-	133,356,084
Borrowings repaid / (drawdown)	-	-	-	-	-
Other non-cash movements borrowings	-	(45,000,000)	45,000,000	-	-
Non cash fair value adjustment – Interest swap	-	-	-	1,264,200	1,264,200
Net Surplus as at 30th June 18	152,686,836	(45,000,000)	-	(2,225,772)	105,461,064

(e) **Interest Rates**

The effective interest rate on short-term bank deposits during the period was approximately 2.37% p.a. (2017: 2.5% p.a. approximately).

(f) **Non-cash financing and investing activities**

There were no non-cash financing and investing activities during the financial years ended 30 June 2018 and 30 June 2017.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

26. RELATED PARTY DISCLOSURES

(a) Transactions with directors and director-related entities

- (i) Details of directors' remuneration are disclosed in Note 8: Interests of Key Management Personnel to the financial statements.
- (ii) Other than directors' remuneration, the following were the additional transactions with directors or their related entities during the financial year. The terms and conditions of the transaction with the directors or their related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related entities on an arm's length basis.

Transaction	Transaction Value		Balance outstanding as at	
	2018	2017	30/06/18	30/06/17
Consultancy fees*	\$75,000	\$80,175	\$-	\$-

*Consultancy fees were paid to a company owned by a son of one of the directors in relation to advice over the development of the investment and development properties.

(b) Directors' shareholdings

As at 30 June 2018, fully paid ordinary shares in Phileo Australia Limited held by directors and their director related entities amounted to 18,240,475 shares representing 63.06% controlling interest (2017: 18,240,475 ordinary shares representing 63.06% controlling interest).

There were no shares issued to directors or their director related entities, or redeemed, exercised or bought back during the financial year from directors and their director related entities.

(c) Transactions within the group

Group entities are disclosed in Note 14: Controlled Entities.

Transactions between the group entities during the financial year consisted of rental payments, intercompany loans and related interest charges amongst companies forming the consolidated group. These intra-group transactions and balances are eliminated on group consolidation.

Components of the group entities and their activities are disclosed in Note 14.

(d) Controlling Entities

The parent entity of the group is Phileo Australia Limited.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

27. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The group's principal financial instruments during the financial year comprised short and medium term (1-3 years) debt facilities, cash and short term deposits and derivatives. The group has various other financial assets and liabilities such as accounts receivable and trade payables, which arise from its operations. The risks arising from the group's financial instruments are market risk (including interest rate risk), credit risk and liquidity risk.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Consolidated Group	
	2018	2017
	\$	\$
<i>Financial Assets</i>		
Cash	152,686,836	19,330,752
Receivables	29,284	10,898
Other Assets - Interest Receivables	402,435	-
	<u>153,118,555</u>	<u>19,341,650</u>
<i>Financial Liabilities</i>		
Payables	33,373,813	1,984,889
Interest bearing liabilities	45,000,000	45,000,000
Interest swap – fair value through profit and loss account	2,225,772	3,489,972
Income tax payable	25,888,216	391,841
	<u>106,487,801</u>	<u>50,866,702</u>
<i>Net Position</i>	<u>46,630,754</u>	<u>(31,525,052)</u>

The carrying cost of the above financial instruments, except for the Interest swap, approximates its fair value. The fair value of Interest swap is determined by the quoted bid prices at the end of the reporting period

The company's cash position has improved significantly due to majority of the cash received from the settlement of the first contract of sale of the residential subdivision site at Black Forest Road, Wyndham Vale (the land) is held in short term deposits. This has resulted in a net positive position in the group's net financial asset. In the previous financial year end, the deficit in the group's net financial asset position was mainly due to borrowings to assist the acquisition of 303 Collins Street, Melbourne, funding of development of properties and the group's investments and working capital requirements.

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

Risk management is undertaken in accordance with the group's financial risk policies. The group's overall risk management program focuses on minimizing the potential adverse effects of the unpredictability of the financial markets on the financial performance of the company. The group uses different methods to measure different types of risks to which it is exposed.

Primary responsibility for identification and control of financial assets rests with the Board of Directors. The Board reviews and agrees on policies with management for managing each of the risks the group is exposed to, in addition to reviewing cash flow projections to monitor the liquidity profile of the group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

A portion of the group's and parent entity's financial instruments are exposed to interest rate variations. The other instruments either do not attract/bear interest, or have a fixed rate of interest.

Interest bearing assets and liabilities comprise interest earning cash deposits at banks, commercial bills, interest swap and financial leases. Examples of non-interest bearing instruments are amounts owed by customers, owed to suppliers, vendor finance of a property, tax liability, provisions and prepayments.

Interest rate risk is managed using interest rate swaps to convert the debt to fixed rate. Interest rate swap transactions are entered into by the Group to exchange variable and fixed interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. At 30 June 2018, 100% of the group variable rate debt (2017: 100%) is swapped at fixed rate.

The notional principal amount of the swap contracts equals to the group's borrowing facility for 303 Collins Street, Melbourne of \$45,000,000. The net interest payment or receipt settlements of the swap contracts occur on every 1st working day of each month. The net settlement amounts are brought to account as an adjustment to borrowing costs. The interest on the borrowing is paid on quarterly basis.

At the end of the reporting period, the details of outstanding contracts, of which \$45,000,000 (100%) (2017: \$45,000,000 – 100%) are to pay-fixed interest rate swaps, are as follows:

Consolidated Group	Effective Average Fixed Interest Rate Payable		Notional Principal	
	2018 %	2017 %	2018 \$	2017 \$
Maturity of notional amounts				
Less than 1 year	6.28%	-	45,000,000	-
1 to 2 Years		6.32%		45,000,000
2 to 5 years			-	-
			45,000,000	45,000,000

The interest swap does not qualify for hedge accounting therefore the gains and losses arising from changes in the fair value of derivatives are recognised in profit and loss.

There are also several intercompany loans between the parent and subsidiary companies forming the consolidated group. Interest calculated at market rate has been paid on intercompany loans where applicable and is eliminated on consolidation.

The instruments which are exposed to interest rate risk are given below:

	Consolidated Group	
	2018 \$	2017 \$
<i>Financial Assets</i>		
Cash	152,686,836	19,330,752
	152,686,836	19,330,752
<i>Financial Liabilities</i>		
Interest bearing liabilities	45,000,000	45,000,000
	45,000,000	45,000,000
Net Position	107,686,836	(25,669,248)

The company's cash position has improved significantly due to majority of the cash received from the settlement of the first contract of sale of the residential subdivision site at Black Forest Road, Wyndham Vale (the land) is held in short term deposits. This has resulted in a net positive position in the group's net financial asset. Borrowings by the group includes commercial bills which are interest bearing at commercial interest rates sourced from an Australian financial institution.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

Interest rate risk – Sensitivity Analysis

The following table shows the effect of interest rate risk exposure at the balance sheet date:

	Post Tax Profit		Equity	
	Higher/(Lower)		Higher/(Lower)	
	2018	2017	2018	2017
	\$	\$	\$	\$
Consolidated group				
Plus 1% (100 basis points)	(515,510)	(280,000)	(515,510)	(280,000)
Minus 1% (100 basis points)	515,510	280,000	515,000	280,000
Parent Entity				
Plus 1% (100 basis points)	-	170,000	-	170,000
Minus 1% (100 basis points)	-	(170,000)	-	(170,000)

This analysis includes interest bearing liabilities.

Foreign Currency Risk

The group does not transact in foreign currency and therefore does not have foreign currency exposure.

Price and Commodity Risk

The group is mainly engaged in property investment and development, and holds commercial property assets which are affected by market prices of such properties and the cost of development from time to time. The market prices are in turn mainly determined by demand of such properties, rental yields, interest rates and market transaction prices of properties in the vicinity. Exposure to price risk are mitigated by acquiring suitable property assets at the lower end of the cycle, minimizing holding and development costs, and maximizing realisable value by transacting at the higher end of the cycle. Type of property, location and timing of transactions are therefore critical in mitigating price risk. Where possible the Board seeks opportunities to diversify the type of properties held by obtaining other revenue streams.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Price and Commodity Risk (Continued)

The following table shows the effect of real estate price exposure at the balance sheet date:

	Pre-Tax Profit		Equity	
	Higher/(Lower)		Higher/(Lower)	
	2018	2017	2018	2017
	\$	\$	\$	\$
Consolidated group				
Plus 1% (100 basis points)	1,570,280	1,412,220	1,570,280	1,412,220
Minus 1% (100 basis points)	(1,570,280)	(1,412,220)	(1,570,280)	(1,412,220)
Parent Entity				
Plus 1% (100 basis points)	84,280	87,220	84,280	87,220
Minus 1% (100 basis points)	(84,280)	(87,220)	(84,280)	(87,220)

Credit Risk

The group's credit risk arises mainly from receivables. The maximum exposure to credit risk is represented by the total amount of the trade receivables on the balance sheet. Such trade receivables include rent receivable from tenants under non-cancellable leases, commercial clients of the hotel and purchasers of property from time to time. Credit risk is mitigated by having recourse in leases like bank or corporate guarantees, rent deposits and rent paid at least one month in advance. Hotel receivables exposure to bad debts is minimal as most clients pay by credit cards or subject to trade terms. Exposure to property sale credit risk is mitigated by deposit, usually 10% paid up front on signing of the commercial contract of sale of real estate which is usually not subject to a cooling off period. At balance date, all trade receivables shown in the balance sheet were considered recoverable.

Liquidity Risk

The group's exposure to liquidity risk arises from matching of cash inflows and outflows arising from the business, and having access to suitable external financing arrangements to meet any short term funding requirements.

The group has sufficient financial resources to meet the day to day needs of the business. The group surplus cash, if any, are invested in interest bearing term deposits. Interest bearing borrowings by the group include commercial bill and finance leasing facilities. Some of the group's property assets are unencumbered and are available for use as security to raise additional finance should the need arises.

The liquidity profile of the financial instruments of the group demonstrates that, based on the closing position as at 30 June 2018 the company has sufficient cash on hand and in short term deposit to meet the short-mid term financing obligations. The overall deficit position in the consolidated group is due to part of the interest bearing liability used to fund the acquisition of 303 Collins Street, Melbourne. The group intends to renew the borrowing facility of \$45m at the end of the term to manage its liquidity position.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity Risk (Continued)

Liquidity Profile

	Balance at			Over 1 year	Over 5	Total
	30/06/2018	0-6 months	6-12	Less than 5	years	
	\$	\$	months	years	\$	\$
Consolidated Group:						
Financial Assets						
Cash	152,686,836	152,686,836	-	-	-	152,686,836
Receivables	29,284	29,284	-	-	-	29,284
Other Assets - Interest Receivables	402,435	402,435	-	-	-	402,435
	<u>153,118,555</u>	<u>153,118,555</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>153,118,555</u>
Financial Liabilities						
Payables	33,373,813	5,273,071	-	28,100,742	-	33,373,813
Interest bearing liability	45,000,000	45,000,000	-	-	-	45,000,000
Interest swap – fair value through profit and loss account	2,225,772	-	-	2,225,772	-	2,225,772
Income tax payable	25,888,216	-	25,888,216	-	-	25,888,216
Dividend payable	-	-	-	-	-	-
	<u>106,487,801</u>	<u>50,273,071</u>	<u>25,888,216</u>	<u>30,326,514</u>	<u>-</u>	<u>106,487,801</u>
<i>Net Position</i>						
	<u>(31,525,052)</u>	<u>17,845,546</u>	<u>(391,841)</u>	<u>(48,978,757)</u>	<u>-</u>	<u>(31,525,052)</u>

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

	Consolidated Group	
	2018	2017
	\$	\$
28. RETAINED PROFITS AND RESERVES		
Retained profits at beginning	104,256,327	81,441,433
(Loss) profit for the financial year attributable to members of the parent entity	85,098,532	23,393,434
Dividends provided	(1,446,351)	(578,540)
	187,908,508	104,256,327
Retained profits at end	187,908,508	104,256,327
Capital profits	13,539	13,539

There was no movement in capital profits reserves during the financial year (2017: \$Nil).

29. RENTAL LEASE RECEIVABLES

Non-cancellable operating leases:		
No longer than one year	8,213,992	7,428,731
Longer than one year and not longer than 5 years	23,982,187	17,043,106
Longer than 5 years	293,242	671,713
	32,489,421	25,143,550
Future rental lease receivables	32,489,421	25,143,550

(a) Non-cancellable operating leases

The group derived part of its revenue during the financial year from its rental properties. In the financial year, rental and fixed and variable outgoings recovered had totalled \$8,307,364 (2017: \$8,372,231)

Where applicable, rental lease receivables include agreements to lease that are in place and which provides for the construction of new floor space for new tenants. Rental commences when each facility is completed and the tenant takes occupancy of the new or an existing facility subject to the applicable tenancy agreement.

Amounts comprising rental lease receivables include fixed outgoings recoverable where applicable but exclude GST, variable type outgoings which are recharged to tenants when incurred, future market review and Consumer Price Index adjustments as and when they fall due.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (Continued)

29. RENTAL LEASE RECEIVABLES (CONTINUED)

- (b) As at 30 June 2018, the group owned properties at McCrae Street (Dandenong), and 303 Collins Street, Melbourne that are being leased to various tenants over varying periods and are secured by non-cancellable operating lease contracts.
- (c) As at 30 June 2018 the carrying value of leasable properties was \$157,028,000 (2017: \$141,222,000) and the net lettable area was 25,301 square metres (2017: 25,610 square metres).

	Consolidated Group	
	2018	2017
	\$	\$
Rental properties	77,392,587	75,431,135
Fair value adjustments	83,734,671	69,596,123
Write (downs) to net realisable value	(3,927,258)	(3,627,258)
Provision for selling costs	(172,000)	(178,000)
Net rental properties	157,028,000	141,222,000
Other properties, including land	24,952,178	28,667,782
Total properties	181,980,178	169,889,782
Total write (downs)/up to net realisable value during the year	13,844,548	23,446,023

30. ECONOMIC DEPENDENCY

The group is not dependent on a single customer or supplier for its continuing operation.

31. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the balance date, the company has renewed its \$45,000,000 bank loan facility, which is expiring on 30th September 2018, for another two years.

Other than above, there were no events, matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group in future financial years.

32. CAPITAL COMMITMENT

No longer than 1 year:	
For rental property	580,786
For Development Properties	123,470

33. CONTINGENCIES

The company sold its residential subdivision site at Black Forest Road, Wyndham Vale. The land, which consists of 5 titles, has been sold under three contracts which settle over 4½ years for a total price of AUD400 million, payable progressively, with the final contract settling in February 2022. In addition to the sales proceeds, the company is in process lodging an application for compensation as a result of Vic Roads compulsory acquisition of land required for the Outer Metro Ring Road. The outcome of the application or the amount of compensation cannot be reliably estimated at the reporting date.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

ADDITIONAL STOCK EXCHANGE INFORMATION
AS AT 19 SEPTEMBER 2018

Number of Shareholders

Ordinary Share Capital

The company has an issued share capital of 28,927,016 ordinary shares each fully paid and held by 284 individual shareholders. There were no partly paid ordinary shares issued at the date of this report. All issued ordinary shares carry one vote per share.

Preference Share Capital

There was no preference shares issued at the date of this report.

Options

There were no options outstanding at the date of this report.

Distribution of Shareholders

The distribution of shareholding according to the number of shares held is as follows:

Holdings Ranges	 Holders	Total Units	%
1-1,000	65	26,488	0.092
1,001-5,000	148	386,609	1.336
5,001-10,000	30	223,462	0.773
10,001-100,000	22	591,451	2.045
100,001-99,999,999,999	19	27,699,006	95.754
Totals	284	28,927,016	100.000

Holdings less than a marketable Parcel

14	127	0.0044
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Substantial Shareholders

	Fully Paid Number	%
Ordinary Shareholders		
PAL INVESTMENTS (AUST) PTY LTD	10,053,678	34.755
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,409,603	11.787
PIUCO ENTERPRISES CORP	2,750,000	9.507
J P MORGAN NOMINEES AUSTRALIA LIMITED	2,750,100	9.507
BEELYE PTY LIMITED <B L SUPER FUND A/C>	1,962,196	6.783
ACEQ PTY LTD (SUPERANNUATION FUND)	1,896,849	6.557
RADIANCE GROUP TRADING LTD	1,470,824	5.085
	<u>24,293,250</u>	<u>83.981</u>

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
(ABN 52 007 608 755)

ADDITIONAL STOCK EXCHANGE INFORMATION
AS AT 19 SEPTEMBER 2018

Twenty Largest Shareholders

Ordinary Shareholders	Fully paid shares	%
1 PAL INVESTMENTS (AUST) PTY LTD	10,053,678	34.755
2 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,409,603	11.787
3 J P MORGAN NOMINEES AUSTRALIA	2,750,100	9.507
4 PIUCO ENTERPRISES CORP	2,750,000	9.507
5 BEELYE PTY LIMITED <B L SUPER FUND A/C>	1,962,196	6.783
6 ACEQ PTY LTD (SUPERANNUATION FUND)	1,896,849	6.557
7 RADIANCE GROUP TRADING LTD	1,470,824	5.085
8 BNP PARIBAS NOMS PTY LTD	760,778	2.630
9 SLW CORPORATION PTY LTD	620,000	2.143
10 BENGER SUPERANNUATION PTY LIMITED <BENGER SUPER FUND>	458,197	1.584
11 SIENA NOMINEES PTY LTD <THE SLATTERY FAMILY S/F A/C>	276,239	0.955
12 ZELCREST CAPITAL LIMITED	237,422	0.821
13 HAYMAN INVESTMENTS CO LTD	220,000	0.761
14 MR BRIAN GARFIELD BENGER	192,811	0.667
15 HAYMAN INVESTMENTS CO LTD	161,204	0.557
16 MR RUDY ENG WAH KOH & MRS FUI KYUN CHIEW <KOH S/F A/C>	139,834	0.483
17 EQUITY BRIDGE SDN BHD	122,749	0.424
18 KRR INVESTMENTS PTY LTD	115,302	0.399
19 SHANDORA ONE PTY LTD <BENGER SUPER FUND A/C>	101,220	0.350
20 MR BRIAN GARFIELD BENGER	72,300	0.250
Total shares held by twenty largest shareholders	27,771,306	96.005
Total shares held by other shareholders	1,155,710	3.995
Total number of shares	28,927,016	100.000

Company Secretary

Tejas Gandhi, Chartered Accountant

Principal Registered Office and Principal Place of Business

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Fax: (61 2) 9279 0664
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www.boardroomlimited.com.au

Stock Exchange Listings

Phileo Australia Limited's ordinary shares are quoted on the Australian Stock Exchange and traded under the code "PHI".

Corporate Governance Statement

Phileo Australia Limited's Corporate Governance Statement is available on the Company's website at <http://www.palltd.com.au/>