

# ANNUAL REPORT 2010



**PhileoAustralia**  
Limited

ABN 52 007 608 765



Phileo Australia Limited  
Annual Report 2010

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# Chairman's Address

It has been another successful year when several of the property investment initiatives set in train in preceding years have borne fruit.

I again welcome the opportunity to provide shareholders with a review of your company's activities for the financial year ended 30 June 2010.

It has been another successful year with several property investment initiatives set in train in preceding years bearing fruit.

I draw your attention to a strong increase in revenue to \$13.8 million with a significant improvement in profitability of \$2.5 million after tax. Your directors have pleasure in declaring a fully franked five cents per share annual dividend to be paid to members this year.

The net tangible asset backing per share has strengthened further to \$2.56. It is worth noting that this figure remains significantly above the prices our shares are being traded on The Australian Stock Exchange.

I will follow my usual process of referring to the major property assets which Phileo Australia holds.

Firstly, we have benefited from a full year of rental income from the 29-storey 303 Collins Street office building in the Melbourne CBD. This is a major acquisition which your company settled on just prior to the end of the previous

financial year. In hindsight, it was a timely decision as we secured a Melbourne CBD office building at a relatively lower price point in the market following the Global Financial Crisis.

From a timing viewpoint, our judgment appears to have been correct as there is little or no new office building development occurring. The likelihood is that the market will be tight with unfilled demand for office space in the CBD in the immediate future. We expect one important tenant to vacate several floors as their lease expires at our Collins Street property during the





coming year. Given the positive rental market forecasts, your directors are confident of securing new tenants.

Your board has decided to relocate our company's offices to 303 Collins Street. This move is under way.

The development of the second stage of The Rocklea Homemaker Centre at Kangaroo Flat, Bendigo, remains under review while additional tenancy opportunities are considered.

When a major tenant in Stage 1 encountered financial difficulties, the space was assumed by the Harvey Norman group which recently acquired the Clive Peeters home retail chain.

Your directors are currently reviewing further subdivisional opportunities at this major site on the main southern access road into Bendigo. The local economy continues to expand and major regional cities like Bendigo remain a focus of the Victorian Government's campaign to promote provincial living in the state.

In the Greater City of Dandenong, the local Council and State Government are combining successfully to revitalise the local central city area. Our modern 108-room Ramada Encore business class hotel in the Dandenong CBD is yet to meet our expectations in terms of trading results, but we are continually investigating opportunities to enhance its performance. Improved results have already been achieved in this financial year.

There have been significant changes relating to our major broadacre rural land holding in Wyndham Vale held through our wholly owned subsidiary, Daleston Pty Ltd. During the last financial year, this land holding was brought within the Melbourne Urban Growth Boundary and new residential development now

abuts its most southern edge. During the previous financial year, your Directors settled the final instalment of the vendor finance component of this holding with the payment of \$5.5 million.

Wheat cultivation aided by recent rains has enhanced the seasonal outlook and we anticipate that the harvest will contribute to the holding costs. In the longer term, as residential subdivision further encroaches, we anticipate that this holding will increase significantly in value.

Mont Albert Rise, the proposed residential development at Box Hill, remains a key focus for your directors as planning and environmental issues move slowly towards conclusion. Development will commence when all statutory requirements are complete and your directors consider the economic environment as appropriate. The key position and strongly appreciating property values in the adjoining middle-distance suburbs continue to be an upside for our land holding.

Our property in the Northcorp Industrial Park in Broadmeadows, originally secured for another potential business hotel project, remains surplus to our requirements and we currently have this holding listed for sale.

Your directors acted during the latest financial year to restate the carrying value of properties in line with valuations received and we believe their holding values are accurately reflected in our balance sheet. Total properties' carrying value at balance date was \$114 million.

Borrowings amounted to \$45 million, secured over \$80 million of the applicable properties, giving a conservative loan valuation ratio of 56%. Gearing ratio or total liabilities as a proportion of total assets was also a conservative 41%.

Our liquidity remains strong with an effective cash holding of approximately \$4 million at balance date which together with around \$34 million in unencumbered property at its carrying value means we are well placed to achieve new purchases and secure any borrowings which might be required.

Your company continues to hold an attractive portfolio of properties, is conservatively funded and continues to seek out new opportunities which meet our investment criteria.

Phileo Australia maintains a small effective management team in support of your board and we regularly seek input from our capable consultants.

I again take this opportunity to thank all the contributors to our success over the last financial year.

I look forward to the future with confidence.



Graham Homes  
30 September 2010

# Project Update



## 303 Collins Street to be our new home

By year-end, 303 Collins Street will become the new home of Phileo Australia. A new fit out currently underway will set an imaginative benchmark for tenancy fit out in the building.

The property enjoys a low vacancy rate with a flow of renewing tenancies consolidating its position in the market. As tenancies are vacated, an upgrade strategy has been established to review services and upgrade the base building finishes to an appropriate standard.





## Re-alignment to release potential at Wyndham Vale

During 2009-10, the State Government completed the Urban Growth Boundary re-alignment that now includes the entire Wyndham Vale property. Wyndham Vale is currently one of Victoria's fastest growing municipalities and the re-alignment will now realise the potential of the property for future development.

Meanwhile the land continues its farming activities with wheat been sown this year.



## Rocklea Homemaker Centre prepares for the next stage

As the Rocklea Centre continues to consolidate its market base in Bendigo, market interest in Stage 2 of the development is now increasing.

Over the past year, additional infrastructure has been completed in preparation for the Stage 2 development and the future development of the remaining vacant residential land fronting Railway Street. An application for the subdivision of the residential land from the Homemaker Centre land has been lodged with the City of Greater Bendigo.

## Northcorp Boulevard, Broadmeadows, to be sold

The proposal to develop a hotel on the Northcorp site has been reviewed and the site now will be sold. An application to rezone the land to increase its saleability and make it more attractive to a wider market has been lodged with the council and is awaiting ministerial sign off.

## New development scenarios at Box Hill

The development of the former landfill site at 14 Federation Street in Box Hill is currently being re-assessed due to significant changes in the local market and appreciated land values in the area.

Peddle Thorp Architects have been commissioned to prepare a master plan for the site based on both short-term and long-term development scenarios for the site. This Box Hill land remains a significant asset.

# Corporate Governance Statement

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 2010.

## Board Composition

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 names of the independent directors of the company are Graham Homes (Chairman) and Andrew Chooi Seng Hang.

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

## Ethical Standards

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.

## Trading Policy

The company's policy regarding directors and employees trading in its securities is set by the Board. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

## Audit Committee

The company does not have an audit committee. A formal audit committee will be formed when the company's operation expands.

## Performance Evaluation

Due to the small size of the company, there is no formal board performance review structure as yet. However, the executive members of the Board work closely together and with management and other key staff and are therefore able to assess and encourage improved performance where applicable. Outside consultants have been used where necessary to complement Board and management expertise in enhancing company performance.

## Board Roles and Responsibilities

Functions reserved to the Board and those delegated to management are formalised and structured. The main role of the Board includes:

- 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, 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 long and medium 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.

## Shareholder Rights

Any routine queries from shareholders are dealt with by the Company Secretary or referred to the company's share registry Registries Limited. 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. Shareholders' correspondence and reasonable requests by shareholders are dealt with to the members' satisfaction as soon as possible by the Company Secretary or else referred to the share registry where appropriate. Communication is facilitated through the company's website.

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

## Stakeholders

The company's main stakeholders are employees, suppliers, contractors, customers, community, investors, 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.

## Risk Management

In view of the small size of the company, the company does not yet have a formal risk management committee. Recognising and managing material risk is therefore the responsibility of the collective Board. 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 a standing agenda item at regular monthly board meetings using management and financial reports presented and tabled at board meetings. Areas of risks covered and documented by management and the Board include and are not limited to 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.

## Remuneration Committee and Remuneration Policies

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.



# 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 2010 ["financial year"].

## 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, farming and hotel operations.

During the financial year, there was no significant change in the nature of those activities.

## Operating Results

The profit of the consolidated group after providing for income tax and minority interest was \$2,226,399 [2009: \$507,834]. The increase in profit was due largely to the rental activity of 303 Collins Street, Melbourne, a 29-storey office located in the Melbourne Central Business District which was acquired on 30 June 2009.

## Review of Operations

All figures exclude GST unless otherwise stated.

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 revenue for the consolidated group for the year was \$13,856,512 [2009: \$7,236,743].

The increase in both revenue and profitability was mainly due to the full year's gross rental of approximately \$8,936,000 from 303 Collins Street, Melbourne.

In the previous financial year, the Group earned \$2,374,767 in interest income, compared to \$290,892 for the current year. The decline in interest income was due to less cash held in interest bearing deposits as a result of the settlement of the purchase of 303 Collins Street, Melbourne.

Bank borrowings amounting to \$45 million was used to partially fund the acquisition of 303 Collins Street, and are secured over that property and the Rocklea Homemaker Centre in Bendigo. The entities' other properties were unencumbered.

Most of the Rocklea Homemaker Centre – Stage 1 has been leased out. Another 5,832 m<sup>2</sup> for Stage 2 is expected to commence development when pre-leases are in place.

Sequoia Management Pty Ltd [ABN 62 108 168 243], an 80% [2009: 80%] owned subsidiary company of Phileo Australia Limited, continued to operate the 108-room Ramada Encore Dandenong business class hotel. The hotel operation contributed revenue of \$2,161,455 [2009: \$2,841,119] and profit of \$424,056 [2009: \$459,507 profit], to the economic entity in the year.

During the year, the consolidated group wrote down \$692,252 [2009: \$1,646,629] in the value of its property portfolio to reflect the market value having consideration of the current economic conditions. Included in the amounts written off is provision for

selling costs of \$208,800 [2009: \$283,488].

During the year, the cultivation of wheat commenced on the rural property owned by Daleston Pty Ltd [ABN 31 111 517 885], a wholly-owned subsidiary company of Phileo Australia Limited. This entity recorded an \$808,514 loss [2009: \$369,164 loss] for this year arising from farming activity.

During the year, the consolidated group continued to hold the vacant industrial land at Northcorp Industrial Park, Broadmeadows in Victoria. The property is owned by Shuttlecrest Pty Ltd [ABN 46 114 765 696], a 75% owned subsidiary company of Phileo Australia. Apart from holding this property this entity did not trade during the year.

The vacant land that has been rezoned for the 79-unit Mont Albert Rise proposed residential townhouse development at Box Hill continued to be held for future development.

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

During the year the consolidated group's earning per share after tax was \$0.09 profit [2009: \$0.02 profit].

## Financial Position

During the year, the carrying value of properties increased to \$114,342,000 [2009: \$113,799,501]. The increase was mainly due to development costs capitalised on the Box Hill property less write down due to asset impairment of \$692,252 [2009: \$1,646,629].

The carrying values of these properties were consistent with directors' valuation based on the latest available independent market valuations and other available financial data. Where appropriate, the carrying value is written down to the estimated market value for the property concerned.

As for liabilities, the major items comprise bank borrowings of \$45,000,000 used for the settlement of 303 Collins Street.

During the year, vendor finance of \$5,336,673 on the rural property was fully paid by Daleston Pty Ltd.

As at balance date, the consolidated group had \$4,382,320 (2009: \$10,270,535) in cash, cash management accounts and term deposits at bank, and \$34,397,739 in carrying value of unencumbered properties that are 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 (2009: Same).

As at 30 June 2010, the economic entity's net tangible asset backing per share was \$2.56 (2009: \$2.53).

## 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

The directors have recommended a payment of final dividend of 5 cents per ordinary share fully franked in respect of the financial year ended 30 June 2010 and payable late October 2010. No interim dividend was paid during the financial year.

In respect of the previous financial year, a final dividend of 5 cents per ordinary share fully franked was paid in October 2009.

## Significant After Balance Date Events

There were no significant events subsequent to balance date.

## Future Developments, Prospects and Business Strategies

The property at 303 Collins Street was purchased and settled on 30 June 2009 with its rental income stream coming into effect on 1 July 2009. The positive income stream from this acquisition together with the cash at bank will continue to provide opportunities for the consolidated group and the possibility of new acquisitions and developments.

The entity's gearing is at a very conservative level which is especially appropriate in the current global economic environment where liquidity is critical, thus enhancing the entity's viability and future prospects.

New tenants continue to be sought to take up the remaining Stage 1 vacancies in the Rocklea Homemaker Centre. The development of Stage 2 is expected to commence when new tenants are secured for the additional space.

Steps are being taken to improve the occupancy and resultant profitability of the Ramada Encore Dandenong hotel business.

The Mont Albert Rise proposed residential development at Federation Street, Box Hill is expected to commence when it is considered appropriate.

Oat cultivation commenced at the rural property at the Wyndham Vale land with first harvest expected in the new calendar year.

Disclosure of other additional information regarding likely developments in the operations of the consolidated group in future financial years and the expected results of those operations in addition to information mentioned in the Chairman's Address, this report and the financial statements is likely to result in unreasonable prejudice to the consolidated group. Accordingly this information has not been disclosed.

## 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:

### 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 64. Joined the Board in December 1995 in a non-executive independent capacity. Member of the Remuneration 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 51. 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 65. 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.

A former barrister and solicitor in Malaysia. Aged 51. 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 Director.

Qualified engineer. Property developer in Melbourne and Malaysia with over 20 years experience. Aged 58. Andrew joined the Board in July 2000.

The above named directors held office during and since the end of the financial year.

**Company Secretary**

The Company Secretary and Financial Controller is Kin S. Chan. He is a member of The Institute of Chartered Accountants in Australia and has over 30 years experience in professional, commercial, 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)                                | 10,093,678                 | 34.89%          |
| 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)                                | 1,892,849                  | 6.54%           |
| Graham Homes (Chairman, Non-Executive and Independent Director) | 59,350                     | 0.21%           |

The Board collectively held 17,981,573 shares or 62.16% 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, 8 board meetings were held.

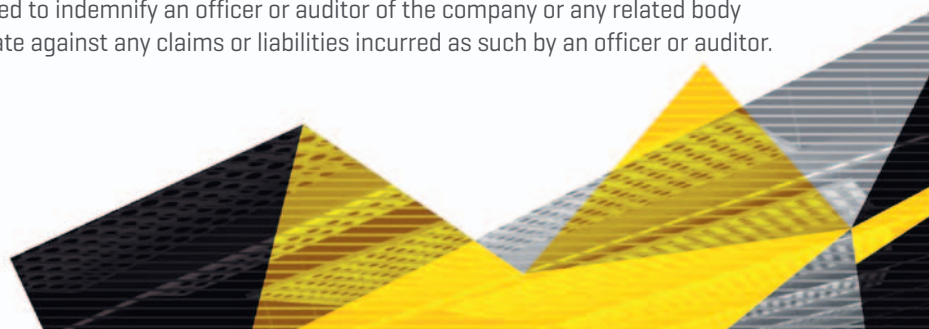
| Director  | Board Meetings |          |
|---|----------------|----------|
|   | Held           | Attended |
| Graham Homes (Chairman, Non-Executive and Independent Director) | 10             | 10       |
| Rudy Koh (Managing Director/CEO)                                | 10             | 10       |
| Alfred Sung (Executive Director)                                | 10             | 10       |
| Andrew Hang (Non-Executive and Independent Director)            | 10             | 4        |
| Michael Loke (Non-Executive Director)                           | 10             | 3        |

The matters discussed and reviewed at the board meetings are described in the Corporate Governance section of this Annual Report.

**Indemnifying Officers or Auditor**

During the financial year the company paid a premium in respect of a contract insuring the directors of the company (as named in this report), the company secretary and all executive officers of the company against any liabilities incurred as such by a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, 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.



## Options

As at the date of this report, there were no share options or other options outstanding (2009: 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 in Australia 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 2010.

## Auditor's Independence Declaration

The lead auditor's independence declaration for the financial year ended 30 June 2010 has been received and can be found on page 12 of the Annual Report.

## Remuneration Report

### 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:

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

### Table of Benefits and Payments for the Year Ended 30 June 2010

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:

| Name         | Office   | Salary/<br>Fees \$ | Benefits, incl.<br>Superannuation \$ | Total \$       |
|--------------|--|--------------------|--------------------------------------|----------------|
| Rudy Koh     | Managing Director/CEO                            | 193,328            | 82,672                               | 276,000        |
| Alfred Sung  | Executive Director                               | 186,740            | 122,369                              | 309,109        |
| Graham Homes | Chairman, Non-Executive and Independent Director | 24,000             | -                                    | 24,000         |
| Andrew Hang  | Non-Executive and Independent Director           | 24,000             | 10,528                               | 34,528         |
| Michael Loke | Non-Executive Director                           | 24,000             | 2,160                                | 26,160         |
| <b>Total</b> |  | <b>452,068</b>     | <b>217,729</b>                       | <b>669,797</b> |

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

There were no share issue schemes, share option arrangements or retirement benefits or termination arrangements, bonuses, profit-sharing, allowances, bonus, 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.

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



Rudy Koh  
Managing Director

Melbourne  
30 September 2010





**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 2010, 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.

**Nexia ASR**  
ABN 16 847 721 257

**GEORGE S. DAKIS**  
Partner  
Audit & Assurance Services

Melbourne

30 September 2010

**'value beyond numbers'**

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHILEO AUSTRALIA LIMITED**

### **Report on the Financial Report**

We have audited the accompanying financial report of Phileo Australia Limited (the company) and Phileo Australia Limited and Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**'value beyond numbers'**

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### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Phileo Australia Limited on 30 September 2010, would be in the same terms if provided to the directors as at the date of this auditor's report.

### *Auditor's Opinion*

In our opinion:

- a. the financial report Phileo Australia Limited and Phileo Australia Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in page 11 of the report of the directors for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 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.

### *Auditor's Opinion*

In our opinion the Remuneration Report of Phileo Australia Limited for the year ended 30 June 2010, complies with s 300A of the *Corporations Act 2001*.



**Nexia ASR**  
ABN 16 847 721 257



**GEORGE S. DAKIS**  
Partner  
Audit & Assurance Services

Melbourne

30 September 2010

# Directors' Declaration

For the Financial Year Ended 30 June 2010

The Directors declare that:

1. the financial statements and notes, as set out on pages 16 to 48, are in accordance with the Corporations Act 2001 and:
  - [a] comply with Accounting Standards; and
  - [b] give a true and fair view of the financial position as at 30 June 2010 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  
30 September 2010



# Consolidated Income Statement

For the Financial Year Ended 30 June 2010

|   | Note     | CONSOLIDATED GROUP |                | PARENT ENTITY    |                    |
|---|----------|--------------------|----------------|------------------|--------------------|
|   |          | 2010               | 2009           | 2010             | 2009               |
|   |          | \$                 | \$             | \$               | \$                 |
| Sale of property                                    |          | -                  | -              | -                | -                  |
| Less: Cost of sales:                                |          |                    |                |                  |                    |
| Property sold (inclusive of selling costs)          |          | -                  | -              | -                | -                  |
| Gross profit  |          | -                  | -              | -                | -                  |
| Other revenues from ordinary activities             | 3        | 13,856,512         | 7,236,743      | 3,160,223        | 2,752,270          |
| Write down of recoverable amount                    |          | (692,252)          | (1,646,629)    | (692,252)        | (1,646,629)        |
| Other expenses from ordinary activities             |          |                    |                |                  |                    |
| - Direct rental costs                               |          | (2,871,472)        | (1,119,862)    | (618,494)        | (1,119,862)        |
| - Hotel operation                                   |          | (1,811,779)        | (2,381,612)    | -                | -                  |
| - Farm activity                                     |          | (816,620)          | (369,164)      | -                | -                  |
| Borrowing expenses                                  |          | (3,535,392)        | (17,572)       | (698,484)        | (2,477)            |
| Administrative expenses                             |          | (1,307,632)        | (1,208,004)    | (1,307,632)      | (1,208,004)        |
| Other   |          | (380,729)          | (42,433)       | (494,589)        | (22,214)           |
| <b>Profit (loss) before income tax</b>              | <b>4</b> | <b>2,440,636</b>   | <b>451,467</b> | <b>(651,228)</b> | <b>(1,246,916)</b> |
| Income tax benefit (expense)                        | 5        | 92,096             | 125,486        | 391,277          | (255,429)          |
| <b>Profit (loss) from continuing operations</b>     |          | <b>2,532,732</b>   | <b>576,953</b> | <b>(259,951)</b> | <b>(1,502,344)</b> |
| <b>Other comprehensive Income</b>                   |          |                    |                |                  |                    |
| Other comprehensive income for the year, net of tax |          | -                  | -              | -                | -                  |
| <b>Total comprehensive income for the year</b>      |          | <b>2,532,732</b>   | <b>576,953</b> | <b>(259,951)</b> | <b>(1,502,344)</b> |
| Profit (losses) attributable to:                    |          |                    |                |                  |                    |
| Members of the parent entity                        |          | 2,226,399          | 507,834        | (259,951)        | (1,502,344)        |
| Non-controlling interest                            | 13       | 306,333            | 69,119         | -                | -                  |
| <b>Profit for the year</b>                          |          | <b>2,532,732</b>   | <b>576,953</b> | <b>(259,951)</b> | <b>(1,502,344)</b> |
| Earnings per share from continuing operations       |          |                    |                |                  |                    |
| Basic earnings per share                            | 22       | 9 cents            | 2 cents        |                  |                    |
| Diluted earnings per share                          | 22       | 9 cents            | 2 cents        |                  |                    |
| Dividend per share                                  | 25       | 5 cents            | 5 cents        |                  |                    |

The accompanying notes form part of these financial statements.



# Statement of Financial Position

As at 30 June 2010

|                                      | Note  | <u>CONSOLIDATED GROUP</u> |                    | <u>PARENT ENTITY</u> |                   |
|--------------------------------------|-------|---------------------------|--------------------|----------------------|-------------------|
|                                      |       | 2010                      | 2009               | 2010                 | 2009              |
|                                      |       | \$                        | \$                 | \$                   | \$                |
| <b>CURRENT ASSETS</b>                |       |                           |                    |                      |                   |
| Cash                                 | 21[a] | 4,382,320                 | 10,270,535         | 128,089              | 167,832           |
| Receivables                          | 6     | 534,370                   | 524,764            | 14,575               | 250,497           |
| Inventory                            | 8[a]  | 9,168,751                 | 9,166,126          | 8,342,000            | 8,342,000         |
| Loan to subsidiary companies         |       | -                         | -                  | -                    | 310,750           |
| Stocks                               |       | 28,118                    | 12,129             | -                    | -                 |
| Other                                | 7     | 1,853,622                 | 1,546,179          | 688,204              | 815,865           |
| <b>TOTAL CURRENT ASSETS</b>          |       | <b>15,967,181</b>         | <b>21,519,733</b>  | <b>9,172,868</b>     | <b>9,886,944</b>  |
| <b>NON-CURRENT ASSETS</b>            |       |                           |                    |                      |                   |
| Inventory                            | 8[b]  | 105,172,939               | 104,633,375        | 30,094,000           | 30,435,670        |
| Loans to subsidiary companies        |       | -                         | -                  | 46,308,815           | 47,589,599        |
| Plant and equipment                  | 9     | 405,457                   | 204,808            | 111,838              | 34,582            |
| Deferred tax asset                   | 5[d]  | 2,219,607                 | 411,856            | 1,262,453            | 35,480            |
| Investments                          | 10    | -                         | -                  | 9,075                | 9,075             |
| Other                                | 11    | 2,047,510                 | 1,238,851          | 1,499,870            | 1,100,559         |
| <b>TOTAL NON-CURRENT ASSETS</b>      |       | <b>109,845,513</b>        | <b>106,488,890</b> | <b>79,286,050</b>    | <b>79,204,965</b> |
| <b>TOTAL ASSETS</b>                  |       | <b>125,812,694</b>        | <b>128,008,623</b> | <b>88,458,918</b>    | <b>89,091,909</b> |
| <b>CURRENT LIABILITIES</b>           |       |                           |                    |                      |                   |
| Payables                             | 12[a] | 1,554,929                 | 1,253,337          | 872,011              | 922,708           |
| Vendor finance                       | 12[a] | -                         | 5,336,673          | -                    | -                 |
| Interest bearing liabilities         | 12[b] | -                         | 46,917             | -                    | -                 |
| Current tax payable                  |       | 18,140                    | (316,108)          | -                    | (316,108)         |
| Intercompany                         |       | -                         | -                  | -                    | 163,177           |
| Dividend payable                     | 25    | 1,446,351                 | 1,446,351          | 1,446,351            | 1,446,351         |
| Provisions                           | 12[c] | 58,325                    | 59,276             | 26,515               | 33,291            |
| <b>CURRENT LIABILITIES</b>           |       | <b>3,077,745</b>          | <b>7,826,446</b>   | <b>2,344,877</b>     | <b>2,249,419</b>  |
| <b>NON-CURRENT LIABILITIES</b>       |       |                           |                    |                      |                   |
| Interest bearing liabilities         | 12[d] | 45,000,000                | 45,000,000         | 10,000,000           | 10,000,000        |
| Vendor finance                       | 12[e] | -                         | -                  | -                    | -                 |
| Deferred tax liability               | 5[e]  | 2,686,629                 | 1,305,222          | 1,824,810            | 1,305,222         |
| Loans from subsidiary companies      |       | -                         | -                  | 754,995              | 354,995           |
| Loans from minority shareholder      | 27    | 699,276                   | 699,276            | -                    | -                 |
| Other creditors                      |       | 65,340                    | 38,621             | 11,900               | 11,900            |
| Provisions                           | 12[f] | 120,027                   | 61,763             | 120,027              | 61,763            |
| <b>TOTAL NON-CURRENT LIABILITIES</b> |       | <b>48,571,272</b>         | <b>47,104,882</b>  | <b>12,711,732</b>    | <b>11,733,880</b> |
| <b>TOTAL LIABILITIES</b>             |       | <b>51,649,017</b>         | <b>54,931,328</b>  | <b>15,056,609</b>    | <b>13,983,299</b> |
| <b>NET ASSETS</b>                    |       | <b>74,163,677</b>         | <b>73,077,295</b>  | <b>73,402,309</b>    | <b>75,108,610</b> |
| <b>EQUITY</b>                        |       |                           |                    |                      |                   |
| Issued capital                       | 14    | 19,910,650                | 19,910,650         | 19,910,650           | 19,910,650        |
| Reserves                             | 15    | 13,539                    | 13,539             | 13,539               | 13,539            |
| Retained profits (losses):           |       |                           |                    |                      |                   |
| - Parent entity interest             | 15    | 54,261,127                | 53,481,079         | 53,478,120           | 55,184,421        |
| - Outside equity interest            | 13    | (21,639)                  | (327,973)          | -                    | -                 |
| <b>TOTAL EQUITY</b>                  |       | <b>74,163,677</b>         | <b>73,077,295</b>  | <b>73,402,309</b>    | <b>75,108,610</b> |

The accompanying notes form part of these financial statements.

# Statement of Changes in Equity

For the Financial Year Ended 30 June 2010

|  | Note       | Issued<br>capital<br>\$ | Accumulated<br>[losses]/profit<br>\$ | Other<br>reserves<br>\$ | Minority<br>interest<br>\$ | Total<br>\$ |
|--|------------|-------------------------|--------------------------------------|-------------------------|----------------------------|-------------|
| <b>CONSOLIDATED GROUP</b>  |            |                         |                                      |                         |                            |             |
| <b>July 2008 to June 2009:</b>                                   |            |                         |                                      |                         |                            |             |
| <b>At 1 July 2008</b>  |            | 19,910,650              | 54,263,593                           | 13,539                  | [412,560]                  | 73,775,222  |
| Profit for the year attributable to members of the parent entity |            | -                       | 507,834                              | -                       | -                          | 507,834     |
| Correction to retained profits brought forward                   |            | -                       | 156,003                              | -                       | 15,468                     | 171,471     |
| Profit for the year attributable to minority interest            |            | -                       | -                                    | -                       | 69,119                     | 69,119      |
| Total recognised profit for the year                             |            | -                       | 663,837                              | -                       | 84,587                     | 748,424     |
| Equity dividends paid or provided                                |            | -                       | [1,446,351]                          | -                       | -                          | [1,446,351] |
| <b>At 30 June 2009</b>   | 13, 14, 15 | 19,910,650              | 53,481,079                           | 13,539                  | [327,973]                  | 73,077,295  |
| <b>July 2009 to June 2010:</b>                                   |            |                         |                                      |                         |                            |             |
| <b>At 1 July 2009</b>  |            | 19,910,650              | 53,481,079                           | 13,539                  | [327,973]                  | 73,077,295  |
| Profit for the year attributable to members of the parent entity |            | -                       | 2,226,399                            | -                       | -                          | 2,226,399   |
| Correction to retained profits brought forward                   |            | -                       | -                                    | -                       | -                          | -           |
| Profit for the year attributable to minority interest            |            | -                       | -                                    | -                       | 306,334                    | 306,334     |
| Total recognised profit for the year                             |            | -                       | 2,226,399                            | -                       | 306,334                    | 2,532,733   |
| Equity dividends paid or provided                                |            | -                       | [1,446,351]                          | -                       | -                          | [1,446,351] |
| <b>At 30 June 2010</b>   | 13, 14, 15 | 19,910,650              | 54,261,127                           | 13,539                  | [21,639]                   | 74,163,677  |
| <b>PARENT ENTITY</b>   |            |                         |                                      |                         |                            |             |
| <b>July 2008 to June 2009:</b>                                   |            |                         |                                      |                         |                            |             |
| <b>At 1 July 2008</b>  |            | 19,910,650              | 57,957,107                           | 13,539                  | -                          | 77,881,296  |
| Loss for the year attributable to members of the parent entity   |            | -                       | [1,502,344]                          | -                       | -                          | [1,502,344] |
| Correction to retained profits brought forward                   |            | -                       | 176,009                              | -                       | -                          | 176,009     |
| Equity dividends paid or provided                                |            | -                       | [1,446,351]                          | -                       | -                          | [1,446,351] |
| <b>At 30 June 2009</b>   | 13, 14, 15 | 19,910,650              | 55,184,421                           | 13,539                  | -                          | 75,108,610  |
| <b>July 2009 to June 2010:</b>                                   |            |                         |                                      |                         |                            |             |
| <b>At 1 July 2009</b>  |            | 19,910,650              | 55,184,421                           | 13,539                  | -                          | 75,108,610  |
| Loss for the year attributable to members of the parent entity   |            | -                       | [259,951]                            | -                       | -                          | [259,951]   |
| Correction to retained profits brought forward                   |            | -                       | -                                    | -                       | -                          | -           |
| Equity dividends paid or provided                                |            | -                       | [1,446,351]                          | -                       | -                          | [1,446,351] |
| <b>At 30 June 2010</b>   | 13, 14, 15 | 19,910,650              | 53,478,120                           | 13,539                  | -                          | 73,402,309  |

The accompanying notes form part of these financial statements.

# Statement of Cash Flows

For the Financial Year Ended 30 June 2010

|  | Note  | <u>CONSOLIDATED GROUP</u> |              | <u>PARENT ENTITY</u> |              |
|--|-------|---------------------------|--------------|----------------------|--------------|
|  |       | 2010                      | 2009         | 2010                 | 2009         |
|  |       | \$                        | \$           | \$                   | \$           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                      |       |                           |              |                      |              |
| Proceeds from sale of property                                   |       | -                         | -            | -                    | -            |
| Receipts from customers  |       | 13,577,172                | 4,703,696    | 3,396,145            | 2,931,657    |
| Payment to suppliers and employees                               |       | [7,774,470]               | [5,489,154]  | [3,470,867]          | [3,857,964]  |
| Payment for purchase of inventory                                |       | [5,386,050]               | [60,386,702] | -                    | -            |
| Payments for property development                                |       | [1,348,392]               | [1,632,775]  | [350,583]            | [989,922]    |
| Income tax paid  |       | -                         | [23,732,705] | -                    | [23,732,705] |
| Interest received  |       | 509,685                   | 2,553,343    | 702,040              | 666,955      |
| Interest and other costs of finance paid                         |       | [3,972,892]               | [702,432]    | [698,484]            | [154,731]    |
| Net cash used in operating activities                            | 21(b) | [4,394,947]               | [84,686,729] | [421,749]            | [25,136,710] |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                      |       |                           |              |                      |              |
| Payment for purchase of plant and equipment                      |       | -                         | [1,620]      | -                    | [1,620]      |
| Payment for purchase of shares in subsidiaries                   |       | -                         | -            | -                    | -            |
| Net cash used in investing activities                            |       | -                         | [1,620]      | -                    | [1,620]      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                      |       |                           |              |                      |              |
| Loans from/(to) subsidiaries (net)                               |       | -                         | -            | 1,828,358            | [34,323,173] |
| Proceeds from borrowings   |       | -                         | 45,000,000   | -                    | 10,000,000   |
| Repayment of borrowings  |       | [46,917]                  | [175,356]    | -                    | -            |
| Dividends paid by parent entity                                  |       | [1,446,351]               | [2,892,702]  | [1,446,351]          | [2,892,702]  |
| Net cash (used in) provided by financing activities              |       | [1,493,268]               | 41,931,942   | 382,007              | [27,215,875] |
| Net decrease in cash held  |       | [5,888,215]               | [42,756,407] | [39,743]             | [52,354,205] |
| Cash and cash equivalents at the beginning of the financial year |       | 10,270,535                | 53,026,942   | 167,832              | 52,522,037   |
| Cash and cash equivalents at the end of the financial year       | 21(a) | 4,382,320                 | 10,270,535   | 128,089              | 167,832      |

The accompanying notes form part of these financial statements.



# Notes to the Financial Statements

For the Financial Year Ended 30 June 2010

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For the Financial Year Ended 30 June 2010

## 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').

### Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board 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. 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 the assets, liabilities and results of entities controlled by Phileo Australia Limited at the end of the reporting period. A controlled entity is any entity over which Phileo Australia Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 20 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

#### [b] Property, Plant and Equipment

##### *Property, Plant and Equipment*

Property, Plant and equipment are measured on the cost basis. The carrying amount of property, 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.

##### *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                                       | 5 years      |
| ■ 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 |

For the Financial Year Ended 30 June 2010

### 1. Statement of Significant Accounting Policies (continued)

#### [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 entity, and includes the cost of each property, borrowing costs to the extent allowable under AASB 123, and development costs incurred in getting each property to its present location and condition.

#### [d] 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.

##### *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].

#### [e] 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.

#### [f] 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.

#### [g] 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.

#### [h] Receivables

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

#### [i] Accounts Payable

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



For the Financial Year Ended 30 June 2010

### 1. Statement of Significant Accounting Policies (continued)

#### (j) Employee Entitlements

Provision is made for the company'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 company to an employee superannuation fund and are charged as expenses when incurred.

#### (k) Income Tax

The economic entity adopts the balance sheet liability method of tax effect accounting whereby the current income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Deferred tax which arise due to the different accounting periods in which items of revenue and expenses are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred tax liability or as a deferred tax assets at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

#### (l) 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.

#### (m) 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 28 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.

#### (n) Financial Instruments Issued by the Company

##### *Recognition and Initial Measurement*

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity 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.

##### *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 is 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.

For the Financial Year Ended 30 June 2010

### 1. Statement of Significant Accounting Policies (continued)

#### *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 arms length transactions, reference to similar instruments and option pricing models.

#### *Impairment*

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

At each reporting date, the group reviews the carrying values of its tangible 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 assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

#### *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.

For the Financial Year Ended 30 June 2010

### 1. Statement of Significant Accounting Policies (continued)

#### [o] Impairment of 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. Cashflows relating to short term receivables are not discounted if the effect of discounting is immaterial.

Fair value less cost to sell 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.

#### [p] 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.

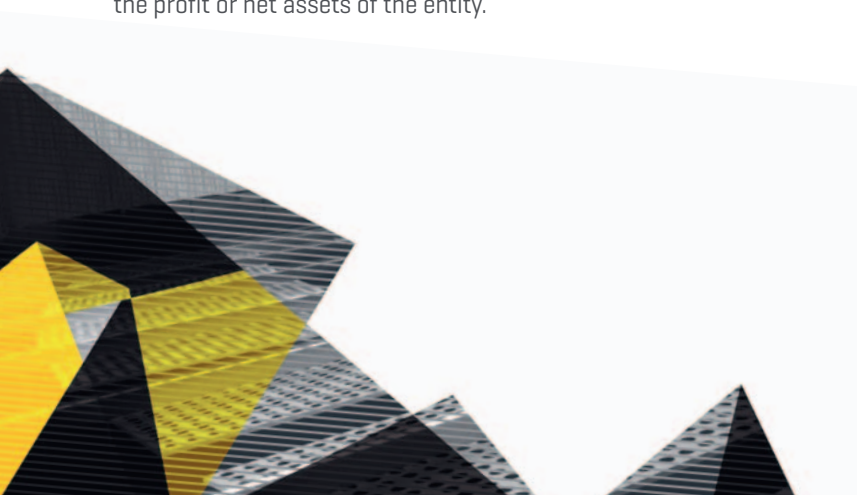
#### [q] Key Estimates

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 company's policy is to obtain independent valuations of each property every three years, unless more frequent valuations are determined appropriate by the directors.

#### [r] 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. In particular, it is noted that all property held by the entity has been classified as inventory in the current period which has required a reclassification of the prior period comparatives. This reclassification has not impacted on the profit or net assets of the entity.





For the Financial Year Ended 30 June 2010

## 2. Change in Accounting Policies and Australian Accounting Standards

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group where applicable. They have been adopted in preparation of the financial statements at reporting date.

### 2.1 Adoption of New and Revised Accounting Standards

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Phileo Australia Limited.

#### AASB 8: Operating Segments

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed with the addition of a possible impact on the impairment testing of goodwill allocated to the cash generating units (CGUs) of the entity. Below is an overview of the key changes and the impact on the Group's financial statements.

##### *Measurement Impact*

Identification and measurement of segments — AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

Under AASB 8, operating segments are determined based on management reports using the 'management approach', whereas under AASB 114 financial results of such segments were recognised and measured in accordance with Australian Accounting Standards. This has resulted in changes to the presentation of segment results, with inter-segment sales and expenses such as depreciation and impairment now being reported for each segment rather than in aggregate for total group operations, as this is how they are reviewed by the chief operating decision maker.

##### *Impairment Testing of the Segment's Goodwill*

AASB 136: Impairment of Assets, para 80 requires that goodwill acquired in a business combination shall be allocated to each of the acquirer's CGUs, or group of CGUs that are expected to benefit from the synergies of the combination. Each cash generating unit (CGU) which the goodwill is allocated to must represent the lowest level within the entity at which goodwill is monitored, however it cannot be larger than an operating segment. Therefore, due to the changes in the identification of segments, there is a risk that goodwill previously allocated to a CGU which was part of a larger segment could now be allocated across multiple segments if a segment had to be split as a result of changes to AASB 8.

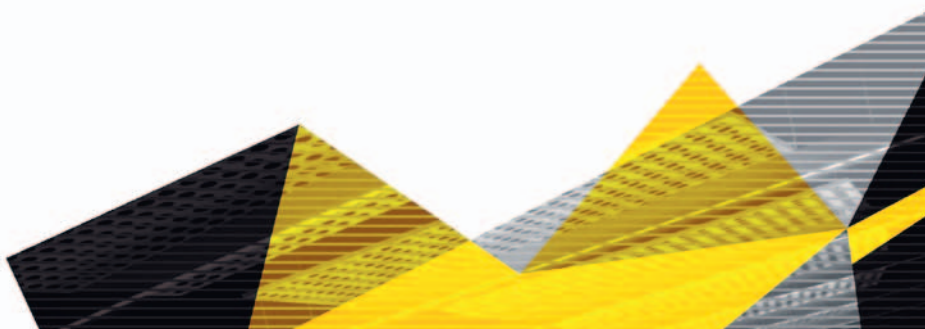
Management has considered the requirements of AASB 136 and determined the implementation of AASB 8 has not impacted the CGUs of each operating segment.

##### *Disclosure Impact*

AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker. This information is now disclosed as part of the financial statements.

#### AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.



For the Financial Year Ended 30 June 2010

## 2. Change in Accounting Policies and Australian Accounting Standards (continued)

### Disclosure Impact

**Terminology changes** – the revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

**Reporting changes in equity** – the revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

**Statement of comprehensive income** – the revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

**Other comprehensive income** – The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

### 2.2 New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

**AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]** [applicable for annual reporting periods commencing on or after 1 January 2013].

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
  - a) the objective of the entity's business model for managing the financial assets; and
  - b) the characteristics of the contractual cash flows.

**AASB 124: Related Party Disclosures** [applicable for annual reporting periods commencing on or after 1 January 2011].

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

**AASB 2009-4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]** [applicable for annual reporting periods commencing from 1 July 2009] and **AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]** [applicable for annual reporting periods commencing from 1 January 2010].

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

For the Financial Year Ended 30 June 2010

## 2. Change in Accounting Policies and Australian Accounting Standards (continued)

AASB 2009-8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] [applicable for annual reporting periods commencing on or after 1 January 2010].

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

AASB 2009-9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] [applicable for annual reporting periods commencing on or after 1 January 2010].

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

AASB 2009-10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] [applicable for annual reporting periods commencing on or after 1 February 2010].

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] [applicable for annual reporting periods commencing on or after 1 January 2011].

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] [applicable for annual reporting periods commencing on or after 1 July 2010].

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

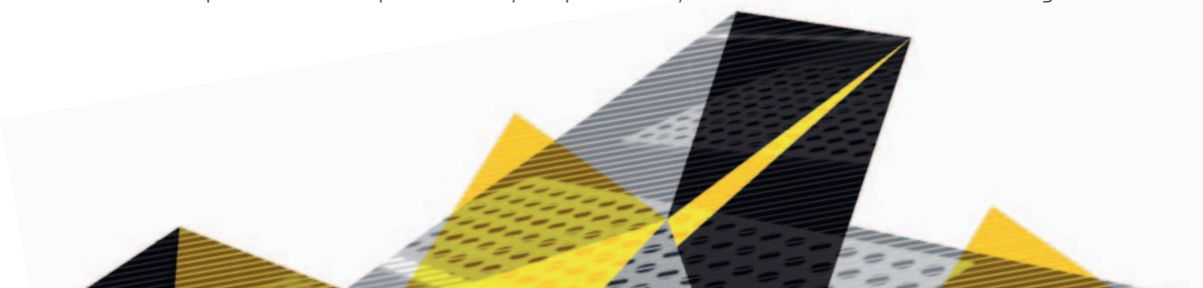
AASB 2009-14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] [applicable for annual reporting periods commencing on or after 1 January 2011].

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments [applicable for annual reporting periods commencing on or after 1 July 2010].

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.



For the Financial Year Ended 30 June 2010

### 3. Revenue

#### OPERATING ACTIVITIES

Sale of property

*Other revenue from ordinary activities:*

Rental income from properties

Rental income from controlled entity

Hotel income

Recoverable amount writeup

Interest revenue – bank

Interest revenue – other persons

Other

#### TOTAL REVENUE

|  | <b>CONSOLIDATED GROUP</b> |                  | <b>PARENT ENTITY</b> |                  |
|--|---------------------------|------------------|----------------------|------------------|
|  | <b>2010</b>               | <b>2009</b>      | <b>2010</b>          | <b>2009</b>      |
|  | <b>\$</b>                 | <b>\$</b>        | <b>\$</b>            | <b>\$</b>        |
| Sale of property                               | -                         | -                | -                    | -                |
| <i>Other revenue from ordinary activities:</i> |                           |                  |                      |                  |
| Rental income from properties                  | 11,329,558                | 2,018,171        | 2,393,891            | 2,018,171        |
| Rental income from controlled entity           | -                         | -                | 49,014               | 66,667           |
| Hotel income                                   | 2,140,018                 | 2,841,119        | -                    | -                |
| Recoverable amount writeup                     | -                         | -                | -                    | -                |
| Interest revenue – bank                        | 290,892                   | 2,374,767        | 7,341                | 666,955          |
| Interest revenue – other persons               | 278                       | -                | 694,977              | -                |
| Other  | 95,766                    | 2,686            | 15,000               | 477              |
|  | <b>13,856,512</b>         | <b>7,236,743</b> | <b>3,160,223</b>     | <b>2,752,270</b> |
| <b>TOTAL REVENUE</b>                           | <b>13,856,512</b>         | <b>7,236,743</b> | <b>3,160,223</b>     | <b>2,752,270</b> |

### 4. Results from Ordinary Activities

Results from ordinary activities before income tax expense has been determined after:

#### [a] Expenses

Borrowing costs – financial institutions

Borrowing costs – related parties

Finance lease charges

Transfers to (from) provisions – staff entitlements

Rental expense on operating leases – minimum lease payments

#### [b] Significant revenues and expenses

The following significant expense items are relevant in explaining financial performance

Write down of recoverable amount

|   |                |                  |                |                  |
|---|----------------|------------------|----------------|------------------|
| Borrowing costs – financial institutions                    | 3,535,392      | 2,885            | 698,484        | 2,477            |
| Borrowing costs – related parties                           | -              | -                | -              | -                |
| Finance lease charges                                       | -              | 14,687           | -              | -                |
| Transfers to (from) provisions – staff entitlements         | 59,051         | (16,987)         | 53,227         | (17,551)         |
| Rental expense on operating leases – minimum lease payments | 84,500         | 82,604           | 84,500         | 82,604           |
|   | <b>692,252</b> | <b>1,363,141</b> | <b>692,252</b> | <b>1,363,141</b> |

### 5. Income Tax

#### [a] The component of tax (benefit) expense comprises:

Current tax

Deferred tax

|              |                 |                |                  |                  |
|--------------|-----------------|----------------|------------------|------------------|
| Current tax  | 334,248         | (316,109)      | 316,108          | (316,109)        |
| Deferred tax | (426,344)       | 441,595        | (707,385)        | 60,680           |
|              | <b>(92,096)</b> | <b>125,486</b> | <b>(391,277)</b> | <b>(255,429)</b> |

#### [b] The prima facie tax/(benefit) on profit (loss) from ordinary activities before income tax is reconciled to the income tax as follows:

Operating profit (loss)

Income tax expense (benefit) calculated at 30% (2009: 30%) of operating (loss) profit from ordinary activities before income tax

#### Add/(less), Tax effect of permanent differences:

Non-deductible items

Adjustment for prior years

Tax losses of parent not recognised as Deferred Tax Asset

Tax losses of subsidiaries not recognised as Deferred Tax Asset

Capital allowances – deductible, now recognised

Over/under provision of prior years

Less: Recoupment of prior year tax losses not recognised as deferred tax asset

|  |                  |                  |                  |                    |
|--|------------------|------------------|------------------|--------------------|
| Operating profit (loss)  | <b>2,440,637</b> | <b>451,467</b>   | <b>(651,228)</b> | <b>(1,246,916)</b> |
| Income tax expense (benefit) calculated at 30% (2009: 30%) of operating (loss) profit from ordinary activities before income tax | 732,191          | (135,440)        | (195,368)        | 374,075            |
| Add/(less), Tax effect of permanent differences:   |                  |                  |                  |                    |
| Non-deductible items   | (2,242)          | (5,662)          | -                | -                  |
| Adjustment for prior years   |                  |                  |                  |                    |
| Tax losses of parent not recognised as Deferred Tax Asset  | (412,111)        | -                | (412,111)        | -                  |
| Tax losses of subsidiaries not recognised as Deferred Tax Asset  | (626,136)        | -                | -                | -                  |
| Capital allowances – deductible, now recognised  | 216,202          | 216,202          | 216,202          | 216,202            |
| Over/under provision of prior years  | -                | (334,848)        | -                | (334,848)          |
|  | <b>(92,096)</b>  | <b>(259,748)</b> | <b>(391,277)</b> | <b>255,429</b>     |
| Less: Recoupment of prior year tax losses not recognised as deferred tax asset   | -                | 134,262          | -                | -                  |
|  | <b>(92,096)</b>  | <b>(125,486)</b> | <b>(391,277)</b> | <b>255,429</b>     |
| Income tax (benefit) expense attributable to profit from ordinary activities before income tax                                   | <b>(92,096)</b>  | <b>(125,486)</b> | <b>(391,277)</b> | <b>255,429</b>     |



For the Financial Year Ended 30 June 2010

### 5. Income Tax (continued)

#### (c) Deferred Tax Asset Not Brought to Account

Deferred tax asset mainly comprises of income tax losses brought forward. The taxation benefits of tax losses and timing differences not 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 affects the realisation of the benefit

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

|                            |                | 30 June 2010 | 30 June 2009 |
|----------------------------|----------------|--------------|--------------|
| Phileo Australia Limited   | Tax losses     | \$3,760,270  | \$2,427,396  |
| Phileo 303 Collins Pty Ltd | Tax losses     | \$1,895,845  | \$562,890    |
| Daleston Pty Ltd           | Tax losses     | \$760,683    | \$1,065,254  |
| Sequoia Management Pty Ltd | Tax losses     | \$Nil        | \$1,527,312  |
| Shuttlecrest Pty Ltd       | Tax losses     | \$36,480     | \$26,743     |
| Phileo Australia Limited   | Capital losses | \$79,684     | \$79,684     |

|  | <u>CONSOLIDATED GROUP</u> |           | <u>PARENT ENTITY</u> |          |
|--|---------------------------|-----------|----------------------|----------|
|  | 2010                      | 2009      | 2010                 | 2009     |
|  | \$                        | \$        | \$                   | \$       |
| <b>(d) Deferred Tax Asset</b>  | 2,219,607                 | 411,856   | 1,262,453            | 35,480   |
| <i>Deferred tax asset reconciliation:</i>  |                           |           |                      |          |
| Opening balance  | 411,856                   | 96,159    | 35,480               | 96,159   |
| Reclassification of DTA in prior year, reflected in the provision for income tax | 316,107                   | -         | 316,107              | -        |
| Restated opening balance   | 727,963                   | 96,159    | 351,587              | 96,159   |
| Tax losses   | 802,549                   | 397,630   | 399,862              | -        |
| Deferred tax asset of parent not previously recognised                           | 412,111                   | -         | 412,111              | -        |
| Deferred tax asset from subsidiaries not previously recognised                   | 626,136                   | 359,662   | -                    | -        |
| Other timing differences   | 191,345                   | [441,595] | 98,893               | [60,679] |
| Tax losses utilised  | [540,497]                 | -         | -                    | -        |
| Closing balance at 30 June   | 2,219,607                 | 411,856   | 1,262,453            | 35,480   |

Deferred tax asset mainly comprises of income tax losses brought forward.

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| <b>(e) Deferred Tax Liability</b>                         | 2,686,629 | 1,305,222 | 1,824,810 | 1,305,222 |
|   | 2,686,629 | 1,305,222 | 1,824,810 | 1,305,222 |
| <i>Deferred tax liability reconciliation:</i>             |           |           |           |           |
| Opening balance   | 1,305,222 | 1,305,222 | 1,305,222 | 1,305,222 |
| Adjustment for prior years now recognised                 | 216,202   | -         | 216,202   | -         |
| Difference between tax and accounting written down values | 1,165,205 | -         | 303,386   | -         |
| Closing balance at 30 June                                | 2,686,629 | 1,305,222 | 1,824,810 | 1,305,222 |

Comprises of difference between tax and accounting written down value of development and investment properties.

For the Financial Year Ended 30 June 2010

## 6. Current Receivables

|                                   | <u>CONSOLIDATED GROUP</u> |         | <u>PARENT ENTITY</u> |         |
|-----------------------------------|---------------------------|---------|----------------------|---------|
|                                   | 2010                      | 2009    | 2010                 | 2009    |
|                                   | \$                        | \$      | \$                   | \$      |
| Trade receivables                 | 534,370                   | 524,764 | 14,575               | 250,497 |
| Amount receivable from subsidiary | –                         | –       | –                    | –       |
| Less: Provision for impairment    | –                         | –       | –                    | –       |
|                                   | 534,370                   | 524,764 | 14,575               | 250,497 |

Trade receivables comprise mainly rent and hotel account receivables.

## 7. Other Current Assets

|               |           |           |         |         |
|---------------|-----------|-----------|---------|---------|
| Prepayments   | 1,573,785 | 1,361,208 | 688,052 | 685,243 |
| Other debtors | 279,838   | 184,972   | 152     | 130,622 |
|               | 1,853,623 | 1,546,180 | 688,204 | 815,865 |

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

## 8. Inventory

### [a] Current: (i)

|                            |             |             |             |             |
|----------------------------|-------------|-------------|-------------|-------------|
| Hotel property at cost     | 12,527,258  | 12,527,258  | 12,525,908  | 12,525,908  |
| Inventory write down (iii) | (4,185,258) | (4,185,258) | (4,183,908) | (4,183,908) |
| Net                        | 8,342,000   | 8,342,000   | 8,342,000   | 8,342,000   |

|                                      |          |          |   |   |
|--------------------------------------|----------|----------|---|---|
| Industrial land, Broadmeadows (cost) | 852,239  | 849,614  | – | – |
| Inventory write down                 | (25,488) | (25,488) | – | – |
|                                      | 826,751  | 824,126  | – | – |

|                         |           |           |           |           |
|-------------------------|-----------|-----------|-----------|-----------|
| Total current inventory | 9,168,751 | 9,166,126 | 8,342,000 | 8,342,000 |
|-------------------------|-----------|-----------|-----------|-----------|

### [b] Non-Current: (ii)

|                                       |             |             |             |             |
|---------------------------------------|-------------|-------------|-------------|-------------|
| Freehold land and buildings (at cost) | 105,172,939 | 104,633,375 | 30,094,000  | 30,435,670  |
| Acquisition cost                      | 82,206,216  | 82,206,216  | 8,909,119   | 8,909,119   |
| Development cost                      | 23,654,562  | 22,397,258  | 22,007,232  | 21,656,650  |
| Borrowing cost                        | 1,391,692   | 1,391,692   | 1,231,692   | 1,231,692   |
| Inventory write down (iii)            | (2,079,531) | (1,361,791) | (2,054,043) | (1,361,791) |
|                                       | 105,172,939 | 104,633,375 | 30,094,000  | 30,435,670  |

### [C] Inventory Pledged as Security

The following properties have been pledged to a financial institution as security in consideration for loan facilities

#### 303 Collins Street, Melbourne

|                   |            |            |   |   |
|-------------------|------------|------------|---|---|
| – Carrying amount | 59,272,752 | 59,386,702 | – | – |
| – Loan facility   | 35,000,000 | 35,000,000 | – | – |

#### Rocklea Homemaker Centre

|                   |            |            |            |            |
|-------------------|------------|------------|------------|------------|
| – Carrying amount | 20,671,200 | 21,300,000 | 20,671,200 | 21,300,000 |
| – Loan facility   | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 |

### [D] Capitalised Borrowing Costs

|  |   |         |   |   |
|--|---|---------|---|---|
| Borrowing costs capitalised during the financial year            | – | 160,000 | – | – |
| Weighted average capitalisation rate on funds borrowed generally | – | –       | – | – |

The borrowing cost of \$160,000 capitalised at 30 June 2009 comprised establishment fee paid to a financial institution for a loan facility amounting to \$45,000,000 to acquire 303 Collins Street, Melbourne [Note 12(d)]. This was expended during the financial year ended 30 June 2010.

For the Financial Year Ended 30 June 2010

### 8. Inventory [Continued]

(i) Current Inventory. Includes the hotel property at McCrae Street, Dandenong with independent valuation obtained as at April 2009, and the vacant land at Northcorp Industrial Park, Broadmeadows, both stated at cost.

(ii) Non-Current Inventory. Includes 14 Federation Street (Box Hill); the Rocklea Homemaker Centre at Kangaroo Flat (Bendigo); the rural property at Wyndham Vale; and the 29-storey office complex at 303 Collins Street, Melbourne, all stated at cost.

(iii) Inventory Write Down. Cumulative inventory write down of \$5,193,525 [2009: \$4,501,272] for the company's properties included mainly the write down of \$2,054,044 [2009: \$1,361,791] for the Rocklea Homemaker Centre and \$3,371,993 [2009: \$3,371,993] for the McCrae Street property in the financial year ended 30 June 2010.

(iv) Aggregate Carrying Value. The aggregate carrying value of all inventory held at 30 June 2010, based on the lower of cost and net realisable value was estimated at \$114,341,690 [2009: \$113,799,501].

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

- Rocklea Homemaker Centre at High Street, Kangaroo Flat (in Bendigo) developed up to Stage 1, with independent valuation obtained in July 2010;
- the vacant land at Federation Street, Box Hill with independent valuation obtained in July 2007;
- the rural property at Wyndham Vale with independent valuation obtained in July 2008;
- the 29-storey office complex at 303 Collins Street, Melbourne CBD with independent valuation obtained in July 2010;
- Ramada Encore Dandenong hotel at McCrae Street, Dandenong independent valuation obtained in April 2009; and
- vacant industrial land at Northcorp Blvd in Broadmeadows.

### 9. Plant and Equipment

|  | CONSOLIDATED GROUP |           | PARENT ENTITY |           |
|--|--------------------|-----------|---------------|-----------|
|  | 2010               | 2009      | 2010          | 2009      |
|  | \$                 | \$        | \$            | \$        |
| Leasehold improvements:                          |                    |           |               |           |
| At cost  | 175,477            | 108,910   | 175,477       | 108,910   |
| less: Accumulated depreciation                   | (108,910)          | (108,910) | (108,910)     | (108,910) |
|  | 66,567             | -         | 66,567        | -         |
| Plant and machinery under finance lease:         |                    |           |               |           |
| At cost  | 306,605            | 309,533   | -             | -         |
| less: Accumulated depreciation                   | (245,041)          | (261,052) | -             | -         |
|  | 61,564             | 48,481    | -             | -         |
| Plant, office equipment, furniture and fittings: |                    |           |               |           |
| At cost  | 795,642            | 808,213   | 275,513       | 249,875   |
| less: Accumulated depreciation                   | (518,316)          | (651,886) | (230,242)     | (215,293) |
|  | 277,326            | 156,327   | 45,271        | 34,582    |
|  | 405,457            | 204,808   | 111,838       | 34,582    |

All depreciation allocated has been recognised as an expense during the financial year.

For the Financial Year Ended 30 June 2010

### 9. Plant and Equipment (Continued)

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 economic entity and parent entity:

|                                  | Leasehold<br>improvements<br>\$ | Plant and<br>machinery<br>[finance lease]<br>\$ | Plant and<br>machinery<br>\$ | Office<br>equipment,<br>furniture and<br>fittings<br>\$ | Total<br>\$ |
|----------------------------------|---------------------------------|---|------------------------------|---|-------------|
| <b>CONSOLIDATED GROUP</b>        |                                 |   |                              |   |             |
| Balance at beginning of the year | –                               | 48,481  | –                            | 156,327   | 204,808     |
| Additions                        | 66,568                          | –   | –                            | 25,638  | 92,206      |
| Disposals                        | –                               | –   | –                            | –   | –           |
| Depreciation expense             | –                               | [21,827]  | –                            | [53,780]  | [75,607]    |
| Depreciation write back          | –                               | 34,910  | –                            | 149,140   | 184,050     |
| Write off of assets              | –                               | –   | –                            | –   | –           |
| Carrying amounts at end of year  | 66,568                          | 61,564  | –                            | 277,325   | 405,457     |
| <b>PARENT ENTITY</b>             |                                 |   |                              |   |             |
| Balance at beginning of the year | –                               | –   | –                            | 34,582  | 34,582      |
| Additions                        | 66,568                          | –   | –                            | 25,638  | 92,206      |
| Disposals                        | –                               | –   | –                            | –   | –           |
| Depreciation expense             | –                               | –   | –                            | [14,950]  | [14,950]    |
| Write off of assets              | –                               | –   | –                            | –   | –           |
| Carrying amounts at end of year  | 66,568                          | –   | –                            | 45,270  | 111,838     |

| <b>CONSOLIDATED GROUP</b> |      | <b>PARENT ENTITY</b> |      |
|---------------------------|------|----------------------|------|
| 2010                      | 2009 | 2010                 | 2009 |
| \$                        | \$   | \$                   | \$   |

### 10. Non-Current Investments

At Cost:

|   |   |   |       |       |
|---|---|---|-------|-------|
| Shares in controlled entities [Note 20] | – | – | 9,075 | 9,075 |
|---|---|---|-------|-------|

### 11. Other Non-Current Assets

|             |           |           |           |           |
|-------------|-----------|-----------|-----------|-----------|
| Prepayments | 339,533   | 1,100,559 | 399,533   | 1,100,559 |
| Other       | 1,707,977 | 138,291   | 1,100,336 | –         |
|             | 2,047,510 | 1,238,850 | 1,499,869 | 1,100,559 |

Prepayments include property agents' commissions amortised over the relevant tenancy period.  
Other include 'straight line' accounts receivable and lease incentives.



For the Financial Year Ended 30 June 2010

## 12. Payables, Interest Bearing Liabilities, Other Creditors and Provisions

### [a] Current Accounts Payable – Secured:

|                    |   |           |   |   |
|--------------------|---|-----------|---|---|
| Vendor finance (i) | - | 5,336,673 | - | - |
|--------------------|---|-----------|---|---|

### Current Accounts Payable – Unsecured:

|  |           |           |         |         |
|--|-----------|-----------|---------|---------|
| Trade payables, accruals and builders' retention | 1,535,545 | 1,023,372 | 852,627 | 903,784 |
| Rent received in advance                         | 19,384    | 229,965   | 19,384  | 18,924  |
|  | 1,554,929 | 6,590,010 | 872,011 | 922,708 |

### [b] Current Interest Bearing Liabilities – Secured:

|  |   |        |   |   |
|--|---|--------|---|---|
| Loan   | - | -      | - | - |
| Commercial bill (iii)                            | - | -      | - | - |
| Hire purchase and finance lease liabilities (ii) | - | 46,917 | - | - |
|  | - | 46,917 | - | - |

### Current Interest Bearing Liabilities – Unsecured

|                 |   |        |   |   |
|-----------------|---|--------|---|---|
| Loan            | - | -      | - | - |
| Commercial bill | - | -      | - | - |
|                 | - | 46,917 | - | - |

(i) Vendor finance in the previous year, being the balance of the purchase price owing to the vendor and secured over the Wyndham Vale farm, was fully paid during the year.

(ii) Secured over the assets leased and subject to hire purchase.

### [c] Current Provisions

|                         |        |        |        |        |
|-------------------------|--------|--------|--------|--------|
| Staff entitlements (iv) | 58,325 | 59,278 | 26,515 | 33,291 |
|-------------------------|--------|--------|--------|--------|

Number of permanent full time staff (excludes contractors and professional consultants hired for various developments projects as required from time to time, and part-time staff).

|    |    |   |   |
|----|----|---|---|
| 23 | 15 | 5 | 4 |
|----|----|---|---|

### [d] Non-Current Interest Bearing and Secured:

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Commercial bills                                | 45,000,000 | 45,000,000 | 10,000,000 | 10,000,000 |
| Hire purchase and finance lease liabilities (i) | -          | -          | -          | -          |
|   | 45,000,000 | 45,000,000 | 10,000,000 | 10,000,000 |

The commercial bills are secured over inventory described in Note 8 [c], as well as a term deposit of \$1,900,000, a guarantee and indemnity for \$35,000,000 given by Phileo Australia Limited, and a negative pledge. The facilities mature on 30 June 2012 and may be extended by mutual agreement with the financial institution.

### [e] Non-Current Non-Interest Bearing:

|                     |   |   |   |   |
|---------------------|---|---|---|---|
| Vendor finance (ii) | - | - | - | - |
|---------------------|---|---|---|---|

(i) Secured over the assets leased and subject to hire purchase.

(ii) Vendor finance, being the balance of the purchase price owing to the vendor, secured over the Wyndham Vale farm.

For the Financial Year Ended 30 June 2010

|   | <u>CONSOLIDATED GROUP</u> |                | <u>PARENT ENTITY</u> |               |
|---|---------------------------|----------------|----------------------|---------------|
|   | 2010                      | 2009           | 2010                 | 2009          |
|   | \$                        | \$             | \$                   | \$            |
| <b>12. Payables, Interest Bearing Liabilities, Other Creditors and Provisions (Continued)</b> |                           |                |                      |               |
| <b>(f) Non-Current Provisions:</b>  |                           |                |                      |               |
| Staff entitlements  | 120,027                   | 61,763         | 120,027              | 61,763        |
| (iii) Reconciliation of staff entitlement provisions  |                           |                |                      |               |
| (Current and Non-Current)   |                           |                |                      |               |
| Opening balance at 1 July   | 121,041                   | 138,028        | 95,054               | 112,605       |
| Additional provisions   | 92,686                    | 5,806          | 58,263               | 1,740         |
| Amounts used  | (35,375)                  | (22,793)       | (6,775)              | (19,291)      |
| <b>Balance at 30 June</b>   | <b>178,352</b>            | <b>121,041</b> | <b>146,542</b>       | <b>95,054</b> |
| Represented as:   |                           |                |                      |               |
| Current   | 58,325                    | 59,278         | 26,515               | 33,291        |
| Non Current   | 120,027                   | 61,763         | 120,027              | 61,763        |
| <b>Balance at 30 June</b>   | <b>178,352</b>            | <b>121,041</b> | <b>146,542</b>       | <b>95,054</b> |

### 13. Minority Interests

Minority interests comprise:

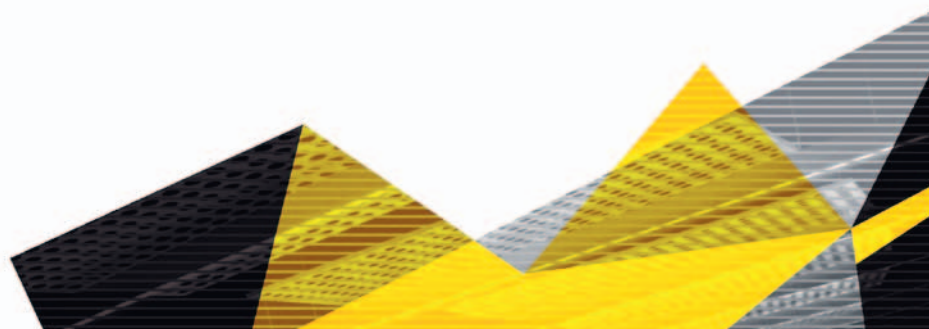
Sequoia Management Pty Ltd (20%)

|   |          |           |   |   |
|---|----------|-----------|---|---|
| (June 2009: 20%)                            | (11,481) | (317,520) | - | - |
| Shuttlecrest Pty Ltd (25%) (June 2009: 25%) | (10,151) | (10,453)  | - | - |
|   | (21,632) | (327,973) | - | - |

Represented by:

|   |                 |                  |          |          |
|---|-----------------|------------------|----------|----------|
| Interest in Accumulated Losses at end of the financial year | (21,639)        | (327,980)        | -        | -        |
| Interest in share capital                                   | 7               | 7                | -        | -        |
| <b>*Total minority interests</b>                            | <b>(21,632)</b> | <b>(327,973)</b> | <b>-</b> | <b>-</b> |

\*The minority shareholders equity is reflected in deficit. This treatment is acceptable per AASB 127 Consolidated Financial Statements, due to the fact that the minority shareholder has made a loan to the company with an undertaking that the loan will not be recalled until the subsidiary's assets fairly valued exceeds its liabilities.



For the Financial Year Ended 30 June 2010

## 14. Share Capital

### (a) Issued Share Capital

28,927,016 (2009: 28,927,016) ordinary shares each fully paid

|  | <u>CONSOLIDATED GROUP</u> |            | <u>PARENT ENTITY</u> |            |
|--|---------------------------|------------|----------------------|------------|
|  | 2010                      | 2009       | 2010                 | 2009       |
|  | \$                        | \$         | \$                   | \$         |
|  | 19,910,650                | 19,910,650 | 19,910,650           | 19,910,650 |

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 (2009: 198,000,000) ordinary shares and 2,000,000 (2009: 2,000,000) preference shares.

### (c) Share Options

At 30 June 2010 there were no options outstanding (2009: Nil).

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.

### (d) Capital Management

Management controls the capital of the Group in order to maintain a good 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. Management controls the capital of the Group in order to maintain a good 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 debt and capital includes ordinary share capital and financial liabilities, 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 gearing ratio remains between 50% and 70%. The gearing ratios for the year ended 30 June 2010 and 30 June 2009 are as follows:

|                                | <u>CONSOLIDATED GROUP</u> |            | <u>PARENT ENTITY</u> |            |
|--------------------------------|---------------------------|------------|----------------------|------------|
|                                | 2010                      | 2009       | 2010                 | 2009       |
|                                | \$                        | \$         | \$                   | \$         |
| Total borrowings               | 45,000,000                | 51,035,949 | 10,000,000           | 10,000,000 |
| Less cash and cash equivalents | 4,382,320                 | 10,270,535 | 128,089              | 167,832    |
| Net debt                       | 40,617,680                | 40,765,414 | 9,871,911            | 9,832,168  |
| Total equity                   | 74,163,677                | 73,077,295 | 73,402,309           | 75,108,610 |
| Total capital                  | 19,910,650                | 19,910,650 | 19,910,650           | 19,910,650 |
| Gearing ratio                  | 55%                       | 56%        | 13%                  | 13%        |

For the Financial Year Ended 30 June 2010

|  | <u>CONSOLIDATED GROUP</u> |             | <u>PARENT ENTITY</u> |             |
|--|---------------------------|-------------|----------------------|-------------|
|  | 2010                      | 2009        | 2010                 | 2009        |
|  | \$                        | \$          | \$                   | \$          |
| Retained profits [losses] at beginning                                     | 53,481,079                | 54,263,593  | 55,184,421           | 57,957,107  |
| Profit for the financial year attributable to members of the parent entity | 2,226,399                 | 507,834     | (259,950)            | (1,502,344) |
| Correction to retained profits brought forward                             | –                         | 156,003     | –                    | 176,009     |
| Dividends provided   | (1,446,351)               | (1,446,351) | (1,446,351)          | (1,446,351) |
|  | 780,048                   | (782,514)   | (1,706,301)          | (2,772,686) |
| Retained profits [losses] at end   | 54,261,127                | 53,481,079  | 53,478,120           | 55,184,421  |
| Capital profits  | 13,539                    | 13,539      | 13,539               | 13,539      |

There was no movement in capital profits reserves during the financial year [2009: No movement].

## 16. Commitments for Expenditure

### [a] Development of Land

|                        |   |   |   |   |
|------------------------|---|---|---|---|
| – Due within 12 months | – | – | – | – |
|------------------------|---|---|---|---|

### [b] Operating Leases (i)

Future lease rentals on office premises:

|  |   |   |   |   |
|--|---|---|---|---|
| – Not longer than 1 year                         | – | – | – | – |
| – Longer than 1 year and not longer than 5 years | – | – | – | – |
|  | – | – | – | – |

(i) The lease contract with the lessor expired on 31 August 2007, and is currently on a monthly tenancy basis.

### [c] Hire Purchase And Finance Leases:

Plant & Equipment (ii)

|  |   |         |   |   |
|--|---|---------|---|---|
| – Not longer than 1 year                         | – | 49,365  | – | – |
| – Longer than 1 year and not longer than 5 years | – | –       | – | – |
| Minimum finance lease payments                   | – | 49,365  | – | – |
| Less: Future finance charges                     | – | (2,448) | – | – |
| Hire purchase and finance lease liabilities      | – | 46,917  | – | – |
| Included in the financial statements as:         |   |         |   |   |
| – Current borrowings [note 12b]                  | – | 46,917  | – | – |
| – Non-current borrowings [note 12d]              | – | –       | – | – |
|  | – | 46,917  | – | – |

(ii) Future lease payments are determined by minimum lease amounts payable less future finance charges, over the period of the existing lease contracts. Title of the asset was transferred to the lessee on payment of the final instalment amount in September 2009.

## 17. Contingent Liabilities

As at the balance date, the company had no material undisclosed contingent liabilities or guarantees given.



For the Financial Year Ended 30 June 2010

## 18. Remuneration Of Directors and Executives

### [a] Names and positions held by parent entity directors and specified executives in office at any time during the financial year:

|              |  |
|--------------|--|
| Graham Homes | Chairman, Non-Executive and Independent Director |
| Rudy Koh     | Managing Director and Chief Executive Officer    |
| Alfred Sung  | Executive Director                               |
| Michael Loke | Non-Executive Director                           |
| Andrew Hang  | Non-Executive Director and Independent Director  |

### [b] Parent Entity Directors' Remuneration

|              | SALARY & FEE<br>\$ | SUPERANNUATION<br>\$ | BENEFITS<br>\$ | TOTAL<br>\$ |
|--------------|--------------------|----------------------|----------------|-------------|
| <b>2010</b>  |                    |                      |                |             |
| Graham Homes | 24,000             | –                    | –              | 24,000      |
| Rudy Koh     | 193,328            | 65,610               | 17,062         | 276,000     |
| Alfred Sung  | 186,740            | 112,920              | 9,449          | 309,109     |
| Andrew Hang  | 24,000             | –                    | 10,528         | 34,528      |
| Michael Loke | 24,000             | 2,160                | –              | 26,160      |
|              | 452,068            | 180,690              | 37,039         | 669,797     |
| <b>2009</b>  |                    |                      |                |             |
| Graham Homes | 24,000             | –                    | –              | 24,000      |
| Rudy Koh     | 215,468            | 14,116               | 22,480         | 252,064     |
| Alfred Sung  | 86,671             | 175,381              | 21,032         | 283,084     |
| Andrew Hang  | 24,000             | –                    | 16,422         | 40,422      |
| Michael Loke | 24,000             | 2,160                | 415            | 26,575      |
|              | 374,139            | 191,657              | 60,349         | 626,145     |

### [c] Number of shares held by Parent Entity Directors and Specified Executives

|              | BALANCE<br>01.07.2009 | RECEIVED AS<br>REMUNERATION | OPTIONS<br>EXERCISED | NET CHANGE<br>*1OTHER | BALANCE<br>30.06.2010 |
|--------------|-----------------------|-----------------------------|----------------------|-----------------------|-----------------------|
| Graham Homes | 59,350                | –                           | –                    | –                     | 59,350                |
| Rudy Koh     | 10,093,678            | –                           | –                    | –                     | 10,093,678            |
| Alfred Sung  | 1,892,849             | –                           | –                    | –                     | 1,892,849             |
| Andrew Hang  | 2,590,196             | –                           | –                    | –                     | 2,590,196             |
| Michael Loke | 3,345,500             | –                           | –                    | –                     | 3,345,500             |
|              | 17,981,573            | –                           | –                    | –                     | 17,981,573            |

\*1Net change refers to shares purchased, sold or transferred during the financial year.

### [d] Remuneration Practices

The company's Remuneration Committee [comprising Graham Homes and Rudy Koh] determines the nature and amount of emoluments of board members and senior executives of the company. Remuneration packages are reviewed on an annual basis with due regard to performance and other relevant factors, including length of service, particular experience of the individual concerned, and overall performance of the company.

For the Financial Year Ended 30 June 2010

## 19. Remuneration of Auditor

### Auditor of the Parent Entity

|  | <u>CONSOLIDATED GROUP</u> |        | <u>PARENT ENTITY</u> |        |
|--|---------------------------|--------|----------------------|--------|
|  | 2010                      | 2009   | 2010                 | 2009   |
|  | \$                        | \$     | \$                   | \$     |
| Auditing or reviewing the financial report | 43,391                    | 36,916 | 39,391               | 36,916 |
| Tax services                               | -                         | -      | -                    | -      |
| Other services                             | -                         | -      | -                    | -      |
|  | 43,391                    | 36,916 | 39,391               | 36,916 |

## 20. Details Of Controlled Entities

The economic entity is comprised of:

### Phileo Australia Limited [ACN 007 608 755]

- Parent company incorporated in Australia.
- Main activity: Property investment and development.

### Phileo 303 Collins Pty Ltd (formerly known as Phileo Industries [Australia] Pty Ltd) [ACN 075 015 100]

- Controlled entity 100% owned and incorporated in Australia on 26 July 1996. The book value of the investment in Phileo Industries [Australia] Pty Ltd is \$8,948.
- Main activity: Property investment.

### Sequoia Management Pty Ltd [ACN 108 168 243]

- Controlled entity 80%-owned and incorporated in Australia on 27 February 2006. Phileo Australia Limited subscribed for sixteen \$1 shares in this company.
- Main activity: Hotel operation.

### Shuttlecrest Pty Ltd [ACN 114 765 696]

- Controlled entity 75%-owned and incorporated in Australia on 15 June 2006. Phileo Australia Limited subscribed for nine \$1 shares in this company.
- Main activity: Property holding.

### Daleston Pty Ltd [ACN 111 517 885]

- Controlled entity 100%-owned and incorporated in Australia on 25 October 2006. Phileo Australia Limited subscribed for one hundred \$1 shares in this company.
- Main activity: Property holding and crop cultivation.

### Rocklea Homemaker Centre Pty Ltd [ACN 116 970 097]

- Controlled entity 100%-owned and incorporated in Australia on 15 November 2006. Phileo Australia Limited subscribed for two \$1 shares in this company.
- Main activity: Dormant and non-operating.

All the above controlled entities are classified as small proprietary companies and, in accordance with the Corporations Act 2001, are relieved from the requirement to prepare, audit and lodge financial statements.

For the Financial Year Ended 30 June 2010

| <u>CONSOLIDATED GROUP</u> |      | <u>PARENT ENTITY</u> |      |
|---------------------------|------|----------------------|------|
| 2010                      | 2009 | 2010                 | 2009 |
| \$                        | \$   | \$                   | \$   |

## 21. Cash Flow Information

### (a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, 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:

|                          |           |            |         |         |
|--------------------------|-----------|------------|---------|---------|
| Cash at bank and in hand | 4,382,320 | 10,270,535 | 128,089 | 167,832 |
|--------------------------|-----------|------------|---------|---------|

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

|   |             |              |             |              |
|---|-------------|--------------|-------------|--------------|
| Profit (loss) after income tax                                    | 2,532,732   | 576,953      | (259,951)   | (1,502,344)  |
| <i>Non-cash flows in profit or loss from ordinary activities:</i> |             |              |             |              |
| Current year's depreciation                                       | 75,607      | 203,580      | 14,950      | 203,580      |
| Prior year depreciation adjustment                                | (184,051)   | -            | -           | -            |
| Write down of inventory   | 692,252     | 1,363,141    | 483,452     | 1,363,141    |
| <i>Changes in net assets and liabilities</i>                      |             |              |             |              |
| <i>(Increase) decrease in:</i>                                    |             |              |             |              |
| Current receivables   | (9,576)     | 19,491       | 235,922     | 179,387      |
| Stocks  | (15,990)    | 7,492        | -           | -            |
| Inventory   | (1,234,442) | (57,425,972) | 341,670     | 631,219      |
| Other current assets  | (307,443)   | (1,098,017)  | 127,661     | (618,211)    |
| Other assets  | (1,287,111) | (669,047)    | (539,598)   | (3,230,181)  |
| <i>Increase (decrease) in:</i>                                    |             |              |             |              |
| Current tax payable   | 334,248     | (23,713,965) | 316,108     | (23,713,965) |
| Dividend payable  | -           | (1,446,351)  | -           | (1,446,351)  |
| Employee provisions   | (951)       | (14,827)     | (6,776)     | (15,391)     |
| Rent received in advance  | (210,581)   | 225,831      | 460         | 14,790       |
| Payables  | (4,779,643) | (5,607,740)  | (1,135,647) | 284,914      |
| Net cash used in operating activities                             | (4,394,947) | (87,579,431) | (421,749)   | (28,029,412) |

### (c) Financing facilities

Secured commercial bank bill facilities with various maturity dates and which may be extended by mutual agreement:

|                |            |            |            |            |
|----------------|------------|------------|------------|------------|
| Amount drawn   | 45,000,000 | 45,000,000 | 10,000,000 | 10,000,000 |
| Amount undrawn | -          | -          | -          | -          |
|                | 45,000,000 | 45,000,000 | 10,000,000 | 10,000,000 |

The secured commercial bill facilities totalling \$45,000,000 commenced on 30 June 2009 to assist in funding the purchase of 303 Collins Street, Melbourne. The facilities matures on 30 June 2012 and may be extended by mutual agreement with the financial institution.

### (d) Interest Rates

The effective interest rate on short-term bank deposits was approximately 6% p.a. [2009: 5% p.a. approximately]; these deposits have an average maturity of 90 days.

### (e) Non-cash financing and investing activities

There were no non-cash financing and investing activities during the financial years ended 30 June 2010 and 30 June 2009.

For the Financial Year Ended 30 June 2010

| <u>CONSOLIDATED GROUP</u> | <u>PARENT ENTITY</u> |
|---------------------------|----------------------|
| 2010                      | 2009                 |
| \$                        | \$                   |

## 22. Earnings Per Share

|   |                    |                  |
|---|--------------------|------------------|
| Profit after tax  | 2,532,732          | 576,953          |
| Profit attributable to minority equity interest   | [\$306,334]        | [\$69,119]       |
| <b>Profit attributable to members of the parent entity</b>  | <b>\$2,226,398</b> | <b>\$507,834</b> |
| 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 earnings per share [cents]  | 9 cents profit     | 2 cents profit   |

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

## 23. 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 28). The main rental properties during the year were 303 Collins Street in Melbourne and the Rocklea Homemaker Centre in Bendigo.

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

**Development sites.** Development sites comprise the proposed residential land at Box Hill and industrial site at Broadmeadows.

**Farming.** The vacant land in Wyndham Vale is used for farming. During the year, wheat was cultivated.

**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. Borrowings and 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 down and depreciation. They are not allocated to any particular segments because they are not considered part of the core operations of any segment.

### Comparative Information

This is the first reporting period in which AASB 8 has been adopted. Comparative information has been restated to conform to the requirements of this standard.



**23. Operating Segments (Continued)**

|   | <u>REVENUES</u>   |                  | <u>RESULTS</u>   |                | <u>ASSETS</u>      |                    | <u>LIABILITIES</u> |                   |
|---|-------------------|------------------|------------------|----------------|--------------------|--------------------|--------------------|-------------------|
|   | 2010              | 2009             | 2010             | 2009           | 2010               | 2009               | 2010               | 2009              |
|   | \$                | \$               | \$               | \$             | \$                 | \$                 | \$                 | \$                |
| <b>Industry Segments</b>                                  |                   |                  |                  |                |                    |                    |                    |                   |
| Rental of properties                                      | 11,329,558        | 2,018,171        | 5,363,894        | 1,378,091      | 79,943,951         | 80,686,702         | 45,000,000         | 45,000,000        |
| Hotel operation   | 2,140,018         | 2,841,119        | 424,056          | 459,507        | 8,342,000          | 8,342,000          | 669,126            | 672,491           |
| Development sites   | -                 | -                | [132,610]        | [10,183]       | 10,233,552         | 9,935,796          | -                  | 1,566,173         |
| Farming activity  | -                 | -                | [808,514]        | [369,164]      | 15,806,188         | 14,811,003         | -                  | 5,336,673         |
| Inventory write down                                      | -                 | -                | [692,252]        | [1,646,629]    | -                  | -                  | -                  | -                 |
| Investment at bank  | 290,892           | 2,374,767        | 290,892          | 2,374,767      | 2,639,254          | 9,913,739          | -                  | -                 |
| Administration  | -                 | -                | [1,307,632]      | [1,208,004]    | -                  | -                  | -                  | -                 |
| Unallocated items   | 96,044            | 2,686            | [697,197]        | [526,919]      | 8,847,749          | 4,319,383          | 5,979,891          | 2,355,991         |
| <b>Total</b>  | <b>13,856,512</b> | <b>7,236,743</b> | <b>2,440,636</b> | <b>451,467</b> | <b>125,812,694</b> | <b>128,008,623</b> | <b>51,649,017</b>  | <b>54,931,328</b> |
| <b>[a] The above total reconciles to -</b>                |                   |                  |                  |                |                    |                    |                    |                   |
| Amount reported in Note 3:                                |                   |                  |                  |                |                    |                    |                    |                   |
| Group revenue   | 13,856,512        | 7,236,743        | -                | -              | -                  | -                  | -                  | -                 |
| Amount reported on the Income Statement before Income tax | -                 | -                | 2,440,636        | 451,467        | -                  | -                  | -                  | -                 |
| Amount reported on the Balance Sheet                      | -                 | -                | -                | -              | 125,812,694        | 128,008,623        | 51,649,017         | 54,931,328        |

**[b] Intra-group rent and outgoings excluded from 'Rental of properties' (above)**

|        |        |        |        |   |   |   |   |
|--------|--------|--------|--------|---|---|---|---|
| 49,014 | 66,667 | 49,014 | 66,667 | - | - | - | - |
|--------|--------|--------|--------|---|---|---|---|

**[c] Significant non-cash items included in the results (above)**

|   |   |           |         |   |   |   |   |
|---|---|-----------|---------|---|---|---|---|
| - | - | 75,607    | 182,125 | - | - | - | - |
| - | - | [184,051] | -       | - | - | - | - |

**[d] The consolidated group operates predominantly in one geographic segment, being Australia.**

For the Financial Year Ended 30 June 2010

## 24. Related Party Disclosures

### (a) Transactions With Directors and Director-Related Entities

(i) Other than directors' remuneration, there were no transactions with directors or their related entities during the financial year [2009: \$Nil].

(ii) Details of directors' remuneration are disclosed in note 18 to the financial statements.

### (b) Directors' Shareholdings

As at 30 June 2010, fully paid ordinary shares in Phileo Australia Limited held by directors and their director related entities amounted to 17,941,573 shares representing 62.02% controlling interest [2009: 17,981,573 ordinary shares representing 62.16% 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 20.

Transactions between the group entities during the financial year consisted of 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 20: Controlled entities.

### (d) Controlling Entities

The parent entity in the economic entity is Phileo Australia Limited.

## 25. Dividends

|   | <u>CONSOLIDATED GROUP</u> |                   | <u>PARENT ENTITY</u> |                   |
|---|---------------------------|-------------------|----------------------|-------------------|
|   | 2010                      | 2009              | 2010                 | 2009              |
|   | \$                        | \$                | \$                   | \$                |
| <b>Distributions Payable:</b>   |                           |                   |                      |                   |
| Proposed final fully franked dividend of 5 cents [2009: 5 cents] per share franked at rate of 30% [2009: 30%]   | 1,446,351                 | 1,446,351         | 1,446,351            | 1,446,351         |
| Proposed special fully franked dividend of 5 cents [2009: 5 cents] per share franked at rate of 30% [2009: 30%] | -                         | -                 | -                    | -                 |
| <b>Payable in October 2010</b>  | <b>1,446,351</b>          | <b>1,446,351</b>  | <b>1,446,351</b>     | <b>1,446,351</b>  |
| <b>Movement in Franking Account:</b>  |                           |                   |                      |                   |
| Balance at 1 July 2009  | 21,514,358                | 22,134,223        | 21,514,358           | 22,134,223        |
| a) Franking debits arising from payment of proposed dividends [above]   | (619,865)                 | (619,865)         | (619,865)            | (619,865)         |
| b) payment of provision for income tax  | -                         | -                 | -                    | -                 |
| <b>Balance at 30 June 2010</b>  | <b>20,894,493</b>         | <b>21,514,358</b> | <b>20,894,493</b>    | <b>21,514,358</b> |

For the Financial Year Ended 30 June 2010

## 26. Financial Risk Management

### Financial Risk Management Objectives and Policies

The consolidated group's principal financial instruments during the financial year comprised short and medium term [1-3 years] debt facilities, cash and short term deposits. The consolidated 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 consolidated group's financial instruments are market risk (including interest rate risk), credit risk and liquidity risk.

A summary of the consolidated group's and parent entity's financial assets and liabilities is shown below:

|                                 | <u>CONSOLIDATED GROUP</u> |              | <u>PARENT ENTITY</u> |            |
|---------------------------------|---------------------------|--------------|----------------------|------------|
|                                 | 2010<br>\$                | 2009<br>\$   | 2010<br>\$           | 2009<br>\$ |
| <b>Financial Assets</b>         |                           |              |                      |            |
| Cash                            | 4,382,320                 | 10,270,535   | 128,089              | 167,832    |
| Receivables                     | 534,370                   | 524,764      | 14,575               | 250,497    |
| Loans to subsidiary companies   | -                         | -            | 46,308,814           | 47,900,349 |
|                                 | 4,916,690                 | 10,795,299   | 46,451,478           | 48,318,678 |
| <b>Financial Liabilities</b>    |                           |              |                      |            |
| Payables                        | 2,319,546                 | 1,253,337    | 883,911              | 922,708    |
| Vendor finance                  | -                         | 5,336,673    | -                    | -          |
| Interest bearing liabilities    | 45,000,000                | 45,000,000   | 10,000,000           | 10,000,000 |
| Income tax payable              | 18,140                    | (316,108)    | -                    | (316,108)  |
| Loans from subsidiary companies | -                         | -            | 754,995              | 354,995    |
| Loans from minority shareholder | 699,276                   | 699,276      | -                    | -          |
|                                 | 48,036,962                | 51,973,178   | 11,638,906           | 10,961,595 |
| <b>Net Position</b>             | [43,120,272]              | [41,177,879] | 34,812,572           | 37,357,083 |

The deficit in the consolidated group's net financial asset position at 30 June 2010 was due to borrowings to assist in the acquisition of 303 Collins Street, Melbourne CBD.

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 consolidated group's financial risk policies. The consolidated 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 consolidated 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 consolidated group is exposed to, in addition to reviewing cash flow projections to monitor the liquidity profile of the consolidated group.

### Interest Rate Risk

- A portion of the consolidated 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 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.
- There are also several intercompany loans between the parent and subsidiary companies forming the consolidated group. Interest has been paid on intercompany loans in accordance with the relevant loan agreements, and is eliminated on consolidation.

For the Financial Year Ended 30 June 2010

## 26. Financial Risk Management (continued)

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

|                              | <u>CONSOLIDATED GROUP</u> |                     | <u>PARENT ENTITY</u> |                    |
|------------------------------|---------------------------|---------------------|----------------------|--------------------|
|                              | 2010<br>\$                | 2009<br>\$          | 2010<br>\$           | 2009<br>\$         |
| <b>Financial Assets</b>      |                           |                     |                      |                    |
| Cash                         | 4,382,320                 | 10,270,535          | 128,089              | 167,832            |
|                              | 4,382,320                 | 10,270,535          | 128,089              | 167,832            |
| <b>Financial Liabilities</b> |                           |                     |                      |                    |
| Interest bearing liabilities | 45,000,000                | 45,000,000          | 10,000,000           | 10,000,000         |
|                              | 45,000,000                | 45,000,000          | 10,000,000           | 10,000,000         |
| <b>Net Position</b>          | <b>(40,617,680)</b>       | <b>(34,729,465)</b> | <b>(9,871,911)</b>   | <b>(9,832,168)</b> |

The consolidated group holds surplus funds in interest bearing deposits accounts in Australian dollars, which earn interest at commercial rates.

The deficit in the net positions at 30 June 2010 were due to borrowings to assist in the acquisition of 303 Collins Street, Melbourne CBD. Borrowings by the consolidated group include commercial bills which are interest bearing at commercial interest rates sourced from an Australian financial institution.

### Interest Rate Risk – Sensitivity Analysis

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

|                             | <u>Post Tax Profit</u><br><u>Higher/(Lower)</u> |            | <u>Equity</u><br><u>Higher/(Lower)</u> |            |
|-----------------------------|---|------------|--|------------|
|                             | 2010<br>\$                                      | 2009<br>\$ | 2010<br>\$                             | 2009<br>\$ |
| <i>Consolidated group</i>   |   |            |  |            |
| Plus 1% (100 basis points)  | (315,000)                                       | (315,000)  | (315,000)                              | (315,000)  |
| Minus 1% (100 basis points) | 315,000   | 315,000    | 315,000                                | 315,000    |
| <i>Parent Entity</i>        |   |            |  |            |
| Plus 1% (100 basis points)  | (70,000)  | (70,000)   | (70,000)                               | (70,000)   |
| Minus 1% (100 basis points) | 70,000  | 70,000     | 70,000                                 | 70,000     |

This analysis includes interest bearing liabilities.

### Foreign Currency Risk

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

### Price and Commodity Risk

The consolidated 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 realizable 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.

For the Financial Year Ended 30 June 2010

## 26. Financial Risk Management (continued)

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

|                             | <u>Post Tax Profit</u> |             | <u>Equity</u>         |             |
|-----------------------------|------------------------|-------------|-----------------------|-------------|
|                             | <u>Higher/(Lower)</u>  |             | <u>Higher/(Lower)</u> |             |
|                             | 2010                   | 2009        | 2010                  | 2009        |
|                             | \$                     | \$          | \$                    | \$          |
| <b>Consolidated Group</b>   |                        |             |                       |             |
| Plus 1% (100 basis points)  | 1,143,417              | 1,137,995   | 1,143,417             | 1,137,995   |
| Minus 1% (100 basis points) | (1,143,417)            | (1,137,995) | (1,143,417)           | (1,137,995) |
| <b>Parent Entity</b>        |                        |             |                       |             |
| Plus 1% (100 basis points)  | 384,360                | 387,777     | 384,360               | 387,777     |
| Minus 1% (100 basis points) | (384,360)              | (387,777)   | (384,360)             | (387,777)   |

### Credit Risk

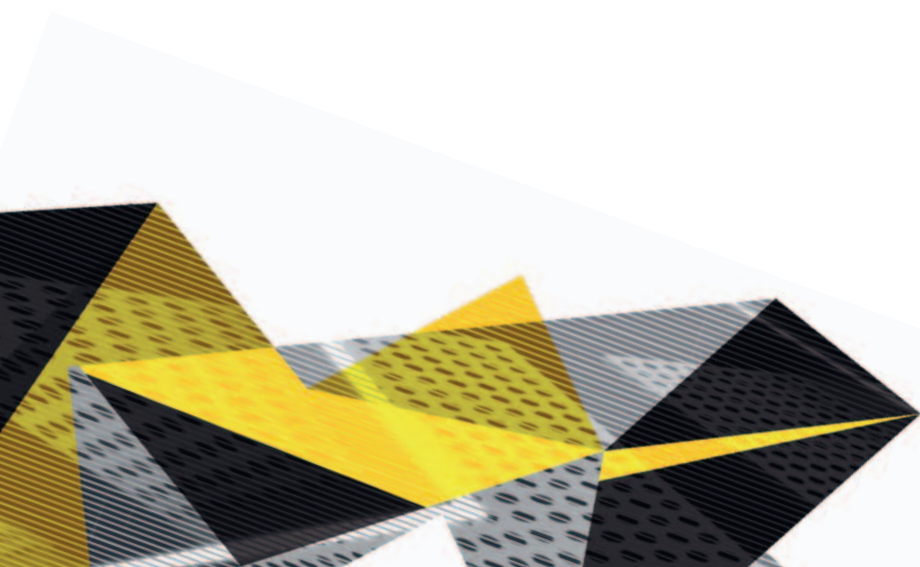
The consolidated group's credit risk arises mainly from receivables. The maximum exposure to credit risk is represented by the total amount of the trade receivables on the balance sheet. Such trade receivables include rent receivable from tenants under non-cancellable leases, commercial clients of the 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 5% 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 consolidated 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 consolidated group has sufficient financial resources to meet the day to day needs of the business. The consolidated group has surplus cash invested in interest bearing term deposits. Interest bearing borrowings by the consolidated group include commercial bill and finance leasing facilities. Some of the consolidated 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 consolidated group demonstrates that, based on the closing position as at 30 June 2010 sufficient inflow of funds would be available to meet the long term financing obligations. The deficit position in the consolidated group is due to the interest bearing liability used to fund the acquisition of 303 Collins Street, Melbourne during the financial year. As reported in Note 12[d], the loan facility expires on 30 June 2012 and may be extend by mutual agreement with the financial institution.





For the Financial Year Ended 30 June 2010

### Liquidity Profile

|                                 | Balance at<br>30/06/2010<br>\$ | 0-6 months<br>\$ | 6-12 months<br>\$ | Over 1 year<br>Less than 5 yrs<br>\$ | Over 5 years<br>\$ | Total<br>\$         |
|---------------------------------|--------------------------------|------------------|-------------------|--------------------------------------|--------------------|---------------------|
| <b>Consolidated Group:</b>      |                                |                  |                   |                                      |                    |                     |
| <b>Financial Assets</b>         |                                |                  |                   |                                      |                    |                     |
| Cash                            | 4,382,320                      | 2,466,910        | 18,140            | 1,897,270                            | –                  | 4,382,320           |
| Receivables                     | 534,370                        | 534,370          | –                 | –                                    | –                  | 534,370             |
|                                 | 4,916,690                      | 3,001,280        | 18,140            | 1,897,270                            | –                  | 4,916,690           |
| <b>Financial Liabilities</b>    |                                |                  |                   |                                      |                    |                     |
| Payables                        | 2,319,546                      | 1,554,929        | –                 | 764,617                              | –                  | 2,319,546           |
| Interest bearing liability      | 45,000,000                     | –                | –                 | 45,000,000                           | –                  | 45,000,000          |
| Income tax payable              | 18,140                         | –                | 18,140            | –                                    | –                  | 18,140              |
| Dividend payable                | 1,446,351                      | 1,446,351        | –                 | –                                    | –                  | 1,446,351           |
| Loans from minority shareholder | 699,276                        | –                | –                 | 699,276                              | –                  | 699,276             |
|                                 | 49,483,313                     | 3,001,280        | 18,140            | 46,463,893                           | –                  | 49,483,313          |
| <b>Net Position</b>             | <b>[44,566,623]</b>            | <b>–</b>         | <b>–</b>          | <b>[44,566,623]</b>                  | <b>–</b>           | <b>[44,566,623]</b> |
| <b>Parent Entity:</b>           |                                |                  |                   |                                      |                    |                     |
| <b>Financial Assets</b>         |                                |                  |                   |                                      |                    |                     |
| Cash                            | 128,089                        | 128,089          | –                 | –                                    | –                  | 128,089             |
| Receivables                     | 14,575                         | 14,575           | –                 | –                                    | –                  | 14,575              |
| Loans to subsidiary companies   | 46,308,814                     | 2,175,698        | –                 | 44,133,116                           | –                  | 46,308,814          |
|                                 | 46,451,478                     | 2,318,362        | –                 | 44,133,116                           | –                  | 46,451,478          |
| <b>Financial Liabilities</b>    |                                |                  |                   |                                      |                    |                     |
| Payables                        | 883,911                        | 872,011          | –                 | 11,900                               | –                  | 883,911             |
| Interest bearing liabilities    | 10,000,000                     | –                | –                 | 10,000,000                           | –                  | 10,000,000          |
| Income tax payable              | –                              | –                | –                 | –                                    | –                  | –                   |
| Dividend payable                | 1,446,351                      | 1,446,351        | –                 | –                                    | –                  | 1,446,351           |
| Loans from subsidiary companies | 754,995                        | –                | –                 | 754,995                              | –                  | 754,995             |
| Loans from minority shareholder | –                              | –                | –                 | –                                    | –                  | –                   |
|                                 | 13,085,257                     | 2,318,362        | –                 | 10,766,895                           | –                  | 13,085,257          |
| <b>Net Position</b>             | <b>33,366,221</b>              | <b>–</b>         | <b>–</b>          | <b>33,366,221</b>                    | <b>–</b>           | <b>33,366,221</b>   |

| CONSOLIDATED GROUP |      | PARENT ENTITY |      |
|--------------------|------|---------------|------|
| 2010               | 2009 | 2010          | 2009 |
| \$                 | \$   | \$            | \$   |

## 27. Loans From Minority Shareholder

|   |         |         |   |   |
|---|---------|---------|---|---|
| Loans from minority shareholder at fair value [i] | 699,276 | 699,276 | – | – |
|---|---------|---------|---|---|

[i] The minority shareholder has made loans to Sequoia Management Pty Ltd [\$480,000] and Shuttlecrest Pty Ltd [\$219,276] with an undertaking that the loans will not be recalled until the relevant company's assets fair value exceeds its liabilities. There is no interest payable on these loans, nor any other fixed repayment terms.

For the Financial Year Ended 30 June 2010

## 28. Rental Lease Receivables

(a) Non-cancelable operating leases:

|  | <u>CONSOLIDATED GROUP</u> |            | <u>PARENT ENTITY</u> |            |
|--|---------------------------|------------|----------------------|------------|
|  | 2010                      | 2009       | 2010                 | 2009       |
|  | \$                        | \$         | \$                   | \$         |
| Not longer than one year                         | 8,499,846                 | 2,000,900  | 2,046,900            |            |
| Longer than one year and not longer than 5 years | 14,633,786                | 6,114,924  | 7,101,062            |            |
| Longer than 5 years                              | 2,258,419                 | 1,820,086  | 1,227,161            | 1,626,250  |
| Future rental lease receivables                  | 32,036,942                | 24,953,718 | 9,342,985            | 10,774,212 |

The consolidated group derived part its revenue during the financial year from its rental properties. In the financial year, rental and fixed and variable outgoings recovered had totalled \$11,329,558 (2009: \$2,018,171)

Rental lease receivables include agreements to lease that are in place and which provides for the construction of new floor space for new tenants where applicable. 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.

(b) As at 30 June 2010, the consolidated group owned properties at McCrae Street (Dandenong), Rocklea Homemaker Centre (Kangaroo Flats, Bendigo) and 303 Collins Street, Melbourne CBD that are being leased to various tenants over varying periods and are secured by non-cancelable operating lease contracts. The rental income stream from 303 Collins Street commenced on 1 July 2009.

(c) The carrying value of leasable properties had totalled \$88,285,951 including the McCrae Street property as at 30 June 2010 (2009: \$89,028,702). Buildings area that were subject to leasing had totalled 38,411 square metres as at 30 June 2010 (2009: 17,629 square metres).

As at the end of the financial year, there were no new pre-lease developments committed to future leasing on completion (2009: Nil).

|   | <u>CONSOLIDATED GROUP</u> |             | <u>PARENT ENTITY</u> |             |
|---|---------------------------|-------------|----------------------|-------------|
|   | 2010                      | 2009        | 2010                 | 2009        |
|   | \$                        | \$          | \$                   | \$          |
| (i) Rental properties – Gross                                       | 94,525,252                | 94,575,751  | 35,252,501           | 35,189,049  |
| Writedowns to net realisable value                                  | (5,772,501)               | (5,289,049) | (5,772,501)          | (5,289,049) |
| Provision for selling costs   | (466,800)                 | (258,000)   | (466,800)            | (258,000)   |
| Net rental properties   | 88,285,951                | 89,028,702  | 29,013,200           | 29,642,000  |
| Other properties, including land                                    | 26,055,739                | 24,770,799  | 9,422,800            | 9,135,670   |
| Total properties  | 114,341,690               | 113,799,501 | 38,436,000           | 38,777,670  |
| (ii) Total write downs down to net realisable value during the year | 692,252                   | 1,363,141   | 692,252              | 1,363,141   |

## 29. Events Subsequent to Balance Date

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 consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

As At 27 September 2010

# Additional Stock Exchange Information

## 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 313 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 were 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  | 37         | 14,936            | 0.052          |
| 1,001 – 5,000  | 187        | 490,907           | 1.697          |
| 5,001 – 10,000   | 40         | 322,616           | 1.115          |
| 10,001 – 100,000   | 33         | 895,673           | 3.096          |
| 100,001 – 99,999,999,999                                       | 16         | 27,202,884        | 94.040         |
| <b>Totals</b>  | <b>313</b> | <b>28,927,016</b> | <b>100.000</b> |
| <b>Holdings less than a marketable parcel (1 – 387 shares)</b> | <b>19</b>  | <b>1,650</b>      | <b>0.006</b>   |

### Substantial Shareholders

| Ordinary Shareholders                | Fully Paid        |              |
|--------------------------------------|-------------------|--------------|
|                                      | Number            | Percentage % |
| PAL Investments [Aust] Pty Ltd       | 10,053,678        | 34.76        |
| HSBC Custody Nominees [Aust] Limited | 6,324,881         | 21.87        |
| Piuco Enterprises Corp               | 2,750,000         | 9.51         |
| ACEQ Superannuation Fund             | 1,892,849         | 6.54         |
| BL Super Fund                        | 1,818,000         | 6.28         |
| Radiance Group Trading Ltd           | 1,470,824         | 5.08         |
|                                      | <b>24,310,232</b> | <b>84.04</b> |

As At 27 September 2010

## Twenty Largest Shareholders

| ORDINARY SHAREHOLDERS   | FULLY PAID SHARES | %              |
|---|-------------------|----------------|
| PAL Investments (Aust) Pty Ltd                                | 10,053,678        | 34.755         |
| HSBC Custody Nominees (Australia) Limited                     | 6,324,881         | 21.865         |
| Piuco Enterprises Corp  | 2,750,000         | 9.507          |
| ACEQ Superannuation Fund A/C                                  | 1,892,849         | 6.544          |
| BL Super Fund A/C   | 1,818,000         | 6.285          |
| Radiance Group Trading Ltd                                    | 1,470,824         | 5.085          |
| SLW Corporation Pty Ltd                                       | 682,000           | 2.358          |
| Mr Michael Tan Chung Loke                                     | 595,500           | 2.059          |
| Siena Nominees Pty Ltd <The Slattery Family S/F A/C>          | 569,475           | 1.969          |
| Hayman Investments Co Ltd                                     | 381,204           | 1.318          |
| Zelcrest Capital Limited                                      | 237,422           | 0.821          |
| Mr Brian Garfield Bengier                                     | 201,000           | 0.695          |
| Equity Bridge Sdn Bhd   | 122,749           | 0.424          |
| Mdm Kiat Yin Chung  | 103,302           | 0.357          |
| Mr James John Clive Rodda                                     | 90,124            | 0.312          |
| Ms Bee Lye Koh  | 82,196            | 0.284          |
| Gaden Investment & Trade Pty Ltd <Kee Saw & Co Superfund A/C> | 64,893            | 0.224          |
| Homegoode Nominees Pty Ltd <Homes Property Fund A/C>          | 59,350            | 0.205          |
| Dr Leng Lu Soh & Mrs Rosy Soh <LI & R Soh Family S/F A/C>     | 56,045            | 0.194          |
| Peter & Olga Abrahams Superannuation Fund Pty Ltd             | 50,000            | 0.173          |
| <b>Total Shares Held By Twenty Largest Shareholders</b>       | <b>27,605,492</b> | <b>95.432</b>  |
| <b>Total Shares Held By Other Shareholders</b>                | <b>1,321,524</b>  | <b>4.568</b>   |
| <b>Total Number Of Shares</b>                                 | <b>28,927,016</b> | <b>100.000</b> |

|                                    |   |
|------------------------------------|---|
| <b>Company Secretary</b>           | Kin S Chan, Chartered Accountant  |
| <b>Principal Registered Office</b> | Level 8, 278 Collins Street<br>Melbourne, Victoria 3000<br>Ph: (61 3) 9663 8018<br>Fax: (61 3) 9663 8038<br>phileo@palltd.com.au  |
| <b>Share Registry</b>              | Registries Limited<br>(ABN 14 003 209 836)<br>Level 7, 207 Kent Street<br>Sydney, NSW, 2000<br>[Correspondence: GPO Box 3993, Sydney 2001]<br>General Ph: (61 2) 9290 9616<br>Fax: (61 2) 9279 0664<br>Contact: Ms Ann Nguyen, Client Service Manager<br>ann.nguyen@registries.com.au<br>www.registriesltd.com.au |

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