

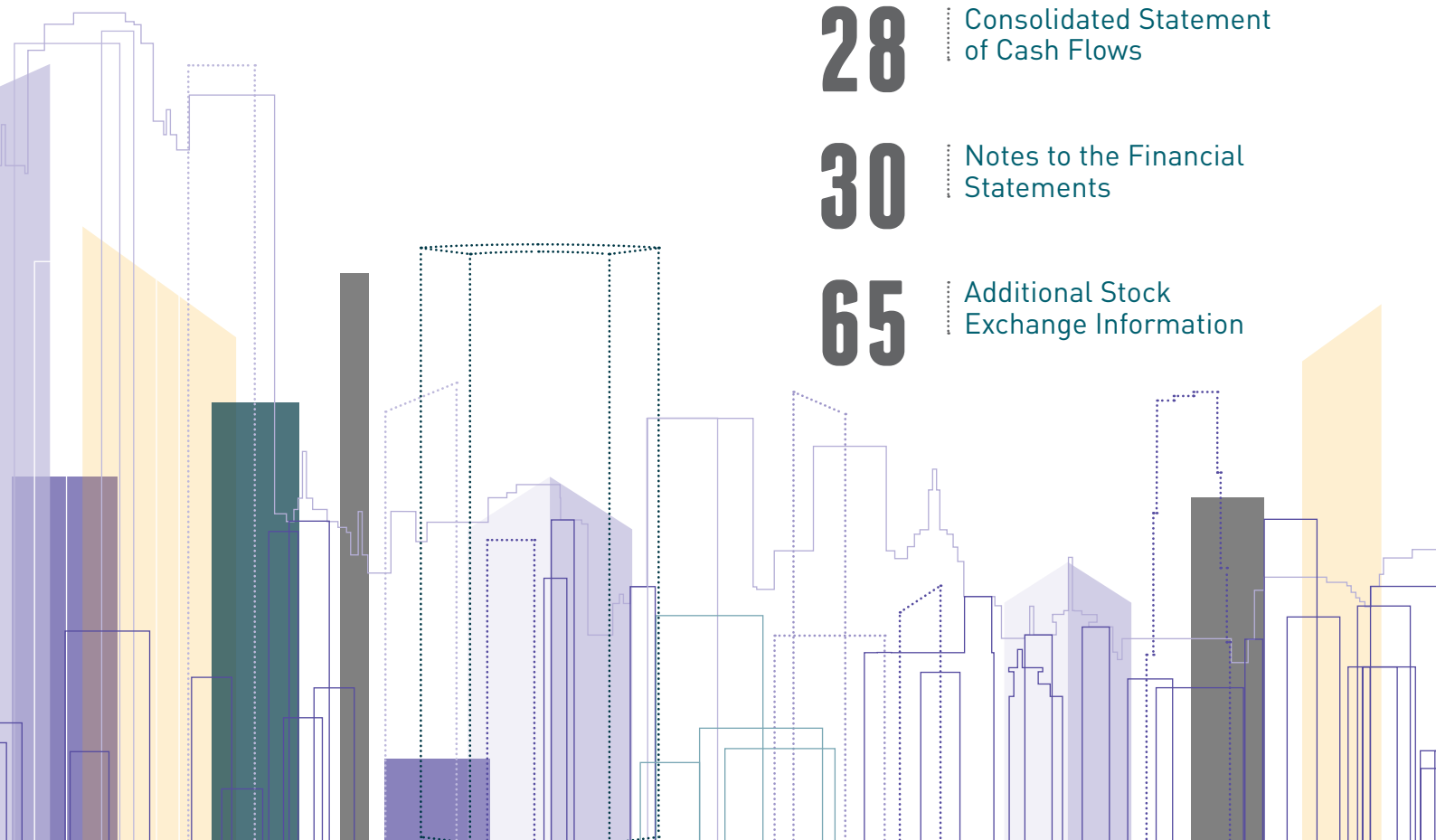


2013 ANNUAL REPORT

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PHILEO AUSTRALIA LIMITED ANNUAL REPORT 2013
ABN 52 007 608 755

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CHAIRMAN'S ADDRESS

I welcome this opportunity to provide fellow shareholders with some additional commentary on the results and achievements of our company in the most recent financial year.

Our achievements included a return to an after tax profit of \$6.080 million after the revaluation of the 303 Collins Street Melbourne Property to Fair Market Value as a result of its reclassification to Investment Property. The attached accounts disclose the year was a successful one and your Board has subsequently declared a fully franked final dividend of 2 cents per share from our earnings of 21 cents per share.

The major asset holding being the prominent 303 Collins Street Melbourne office building with its broad exposure on the Elizabeth Street corner was purchased at a price that recent sales activity indicates was a cyclical low in the Melbourne Central Business District market for office towers. Further sales transactions reported recently confirm there is high demand from offshore based investors in particular for strategic investment holdings of this type.

As mentioned above, your Board has transferred this property from inventory to Investment Property and consequently a profit of \$13.3 million has been recorded to reflect the assets increase in carrying value to \$73.5 million over its previous carrying value at cost in our accounts of \$60.2 million. The building currently has a vacancy factor within our original projections and we have been successful in the

renegotiation of several existing tenancies at current market rates. A new ground floor tenancy has also just been secured from a subsidiary of the ASX listed Suncorp insurance, finance and banking group.

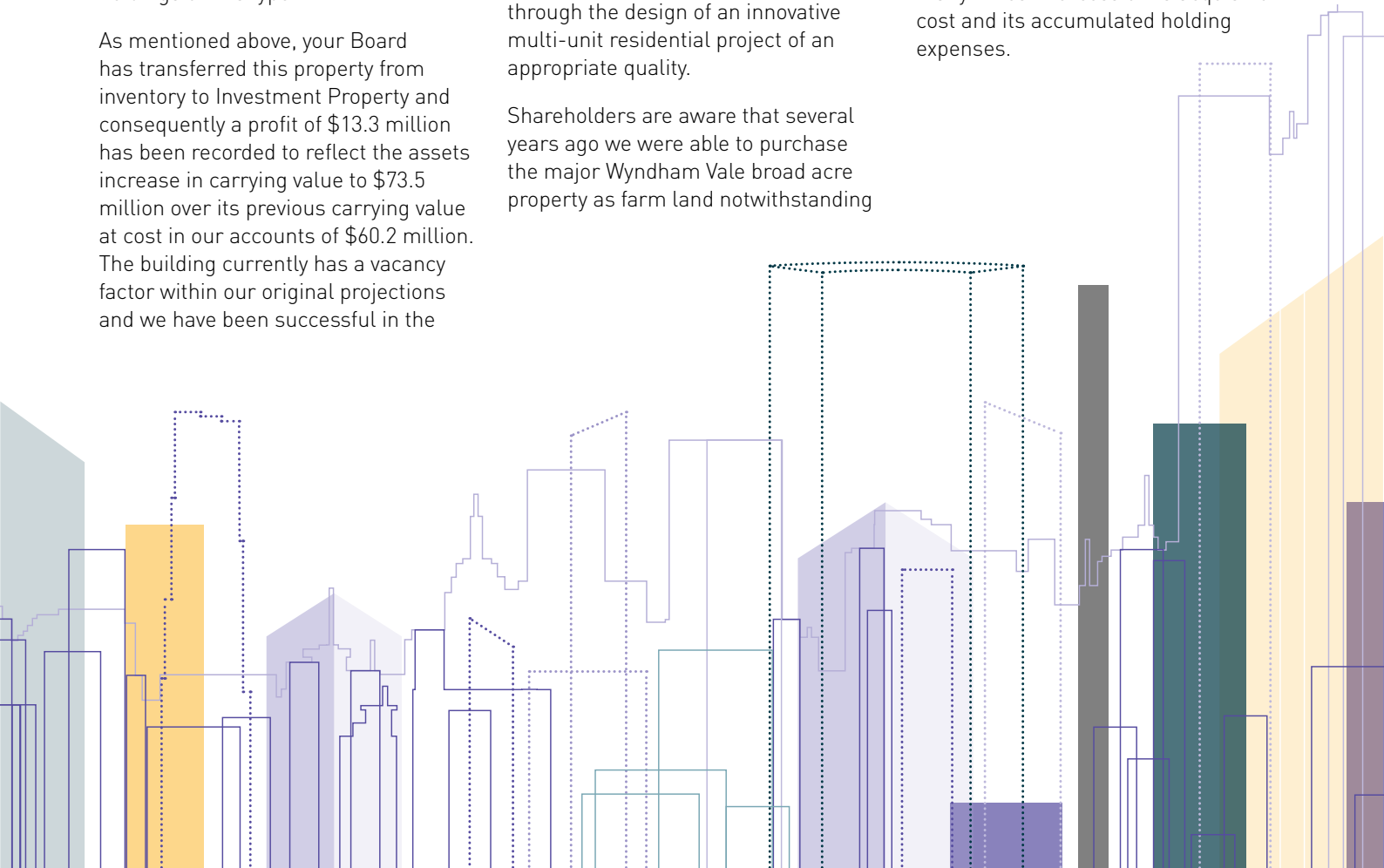
In respect of our Mont Albert Rise property for which we have proposed a 79 unit townhouse development, we continue to work with the Whitehorse City Council and the Environment Protection Authority to resolve the remaining technical issues relating to groundwater monitoring of the filled portion of the site and the historic overlay which is attached to the former brickworks buildings which occupy part of the site.

Fortunately the immediately adjoining suburban areas are amongst some of the strongest precincts for residential property in Melbourne. Our internal staff and our consultants continue to work to bring this project to conclusion through the design of an innovative multi-unit residential project of an appropriate quality.

Shareholders are aware that several years ago we were able to purchase the major Wyndham Vale broad acre property as farm land notwithstanding

that it was in the immediate direction of Melbourne's north western suburban residential development. These new developments virtually adjoin this property which is now within the revised Urban Growth boundaries for Melbourne. While this has materially increased the imputed capital value of this property, it has brought a commensurate significant increase in holding costs, especially the State Land Tax and Council rates. We continue to operate cattle grazing activities by a lease as a partial offset against these holding costs and shareholders should note that the loss incurred by our subsidiary Daleston Pty Ltd which owns this property is in large measure reflective of the expense of the holding charges which relate to it.

I am confident that over the next couple of years, we will be able to commence to realise this property for residential development at a value many times in excess of its acquisition cost and its accumulated holding expenses.



Our McCrae Street Dandenong property that trades as a Ramada Encore business class hotel achieved an increase in turnover notwithstanding that the local competition for business remains strong. This property now obtains regular bookings from both in-bound tour operators and local corporate. With both these key business sectors looking to better conditions ahead the outlook for this property and its business is more positive.

Our Rocklea Homemaker development in Bendigo is being gradually filled up on the available space in Stage 1 development. We continue to work with our leasing agents to secure suitable new tenancies for the currently vacant space of Stage 1 with the intent of commencing the construction of Stage 2 development upon achieving sufficient pre-commitments of tenancies.

As has been stated previously, our Broadmeadows vacant land property has been placed on the market for sale.

Shareholders will be aware from the attached annual accounts that the NTA per share is now \$2.68 compared to \$2.49 a year ago. Recent trading of our shares on the ASX has yet to exceed the NTA.

Phileo Australia operates with a small internal staff supported by appropriate professional consultants. It would be remiss of me not to acknowledge the contributions of our head office and support personnel including my fellow Directors in the conduct of the company's activities and I thank them for their contributions on behalf of all shareholders.



Graham Homes
26 September 2013





**PROJECT
UPDATE**



BLACK FOREST FARM, WYNDHAM VALE

Focused around a naturally occurring degraded tributary that runs into the Lolly Pop Creek system, the Daleston master plan seeks to centralise public/community and private activities around a substantially enhanced riparian corridor.

Meandering from west to east, the water way provides a natural break between functions, schools and parklands whilst enhancing the lineal connectivity of the open space spine. Specifically the location of schools and open space are such that they co-locate and to a degree share facilities lessening the burden of land costs.

The “central park” concept is further bounded by a network of pedestrian friendly “park side” interfaces that abut connector roads which are all bus capable. An extension to the pedestrian network is the north/south “green spines” each with an effective width of 40m. Some of the functions located on the ‘green spines’ are shared-use tracks for pedestrians and bicycles, play grounds, orchards, picnic areas, half courts, etc. These green spines also provide access to a more diverse housing product which can accommodate a higher density much like the streets in Carlton, Elwood, etc.

14 FEDERATION STREET, BOX HILL

This property is located in Melbourne’s eastern corridor in the city of Box Hill which is one of Melbourne’s most sought after established suburbs. It is within walking distance to the shopping centres of Box Hill and is spread across 7ha of prime residential land. The property is directly adjacent to the Box Hill regional sporting centre with its recently renovated public pool.

The proposed development seeks to integrate community facilities with high end residential product that has its aspect over large amounts of park land. Ranging from single detached dwellings over one level to large functional and adaptable one and two bedroom apartments, the diversity of the product caters to a larger demographic of purchasers. As community is the main focus, the considerate adaptive re-use of the heritage buildings into public cafés, office, consulting suites, pool, gym and amenities will become the heart of the development. Extending to the east are the external community facilities that consist of community gardens, orchards and nine hole golf pitch and put, all of these further add to the resort style development.

NORTHCORP BOULEVARD, BROADMEADOWS

The land at Northcorp Boulevard is now officially up for sale.

ROCKLEA HOMEMAKER CENTRE, BENDIGO

Our Rocklea Homemakers’ Centre in Bendigo has attracted new tenants, one of which is Lincraft. We congratulate Lincraft on its recent successfully opening. Lincraft has drawn widespread interest and customers.



A modern office interior featuring a large, light-colored concrete block structure in the foreground. In the background, there are two red armchairs and a glass wall with a pattern of white circles. The ceiling has a perforated metal design with recessed lighting.

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 2013.

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 behavior; 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.

DIVERSITY POLICY

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

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

During the year, the company formed an audit committee. All non-executive directors are the members of the newly formed Audit Committee. Michael Loke is appointed to chair the Audit Committee meetings.

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 are 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 formalized and structured. The main role of the board include:

- reviewing management's preceding month's operating and financial results including cash flows, projections and comparison with budgets, reviewing property reports,



assessing proposed new projects and tenancies, major expenditures, reviewing funding requirements and financing options, and formulating action plans to achieve desired results;

- the formal approval and adoption of annual, half-yearly and monthly financial reports prepared by management;
- the establishment of the medium and long term goals of the company and strategic plans to achieve those goals;
- the review and adoption of management's annual operating budgets and cash flow budget for the financial performance of the company;
- monitoring the property market trend and opportunities, the competitive environment, business and financial risk factors, and developing action plans in anticipation or in response as may be required;
- assessing and providing oversight over management performance and operations; and
- ensuring that the company has implemented adequate policies, operating and back up/recovery procedures, systems of internal and financial controls and risk management, financial reporting systems of integrity, and appropriate monitoring of compliance activities.

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

REMUNERATION COMMITTEE AND REMUNERATION POLICIES

Graham Homes and Rudy Koh are the members of 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 2013 ("financial year").

Where applicable, figures presented in the Directors' Report are rounded to the nearest thousand.

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN NATURE OF ACTIVITIES

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

There were no significant changes in the nature of these activities during the year apart from the reclassification of the property at 303 Collins Street Melbourne from Inventory to Investment Property.

OPERATING RESULTS

The result of the consolidated group after providing for income tax and minority interest was \$6,080,000 profit (2012: \$1,269,000 loss).

The significant improvement in the current year financial performance is on account of recognising a gain of \$13.3m on reclassification of property at 303 Collins Street Melbourne as an investment property. In prior periods, the entire property portfolio held by the company was classified as Inventory. During the year, the company reviewed the intended use of each property to ensure that the classification, measurement and presentation of its property portfolio are correct in light of the current economic climate and intended use of each of the properties.

Following the review, it was decided that in the current economic climate the company's current intention was to hold property at 303 Collins Street Melbourne for rental income, consolidate its tenancies, and improve the building and create capital appreciation in the longer term. There is no intention or commitment to sell the property in foreseeable future. Therefore, it was considered appropriate for this asset to be reclassified from Inventory to Investment property.

Management of the company has decided to apply fair value accounting methodology for its investment property portfolio. In the company's opinion, fair value accounting reflects the true market value of its investment property, provides meaningful information on financial position and the Net Tangible Asset of the company. Consequently, a profit of \$13.3m, being the excess of asset's fair value (\$73.5m) over its carrying cost (\$60.2m), was recorded in the financial performance for the current year.

The above gain was partially offset by loss of \$3,861,000 resulted from the fair value accounting of interest swap held by the company at the reporting date. The application of fair value accounting for Investment properties and Interest swap does not result in additional cash flow or tax liability for the company.

The loss of \$1,269,000 in 2012 was mainly due to asset impairment of \$2,891,000 in respect of the carrying value of Rocklea Homemaker Centre. The impairment was deemed

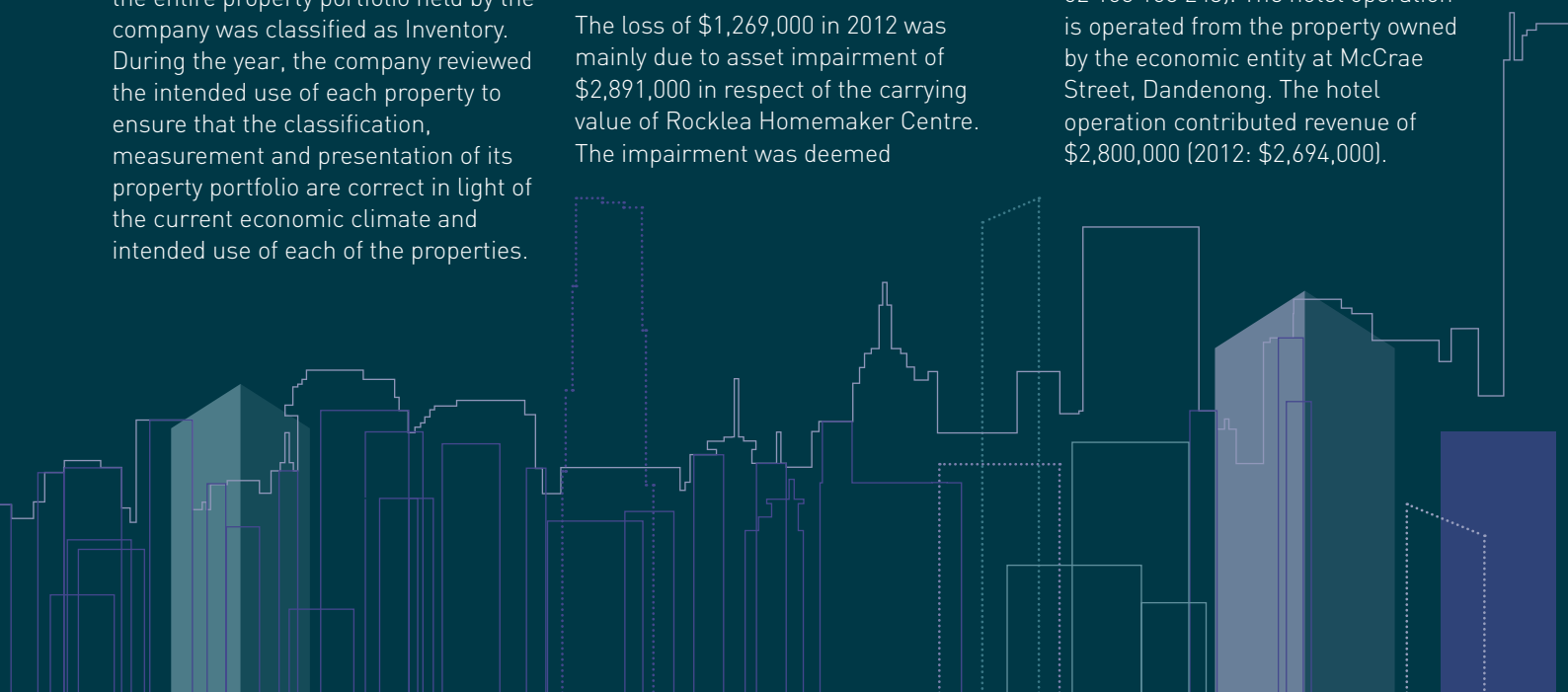
necessary due to early termination of the leases of the two major tenants as a result of business closures. The carrying value of the property was written down to its estimated net realisable value (inclusive of estimated selling costs). The directors are of the opinion that no further write downs are required in 2012-13.

REVIEW OF OPERATIONS

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

Total revenue for the economic entity (excluding fair value gain of \$13,308,000) for the year was \$11,999,000 (2012: \$14,020,000). The consolidated entity:

- earned rental income totaling \$9,034,000 (2012: \$10,679,000) from its rental properties, which included rental of \$7,671,000 inclusive of recovery of outgoings (2012: \$9,152,000) from the 30-storey commercial office building at 303 Collins Street in the Melbourne central business district; and
- continued to operate the 108-room Ramada Encore business class hotel through its wholly owned subsidiary Sequoia Management Pty Ltd (ABN 62 108 168 243). The hotel operation is operated from the property owned by the economic entity at McCrae Street, Dandenong. The hotel operation contributed revenue of \$2,800,000 (2012: \$2,694,000).



The decrease in revenue of \$2,021,000 was mainly on account of a decrease in revenue from the rental properties of \$1,645,000 and a decrease in interest and other income of \$482,000. The decrease in overall property occupancy rates resulted in lower rental income compared to prior period. Management is currently working on various strategies to improve the occupancy rate of the rental properties.

The overall decrease in revenue was offset by an increase of \$106,000 in revenue from the Ramada Encore Dandenong hotel ("Ramada Encore").

Profit from rental activity after borrowing costs decreased to \$1,403,000 (2012: \$2,093,000 profit) mainly due to decrease in rental income for the year. The hotel's operations reported a loss of \$180,000 after tax (2012: \$70,000 loss) mainly due to incurring once off expenditure such as repairs, staff restructuring cost, discard of assets and bad debts.

During the year the broad acre rural property ("Wyndham Vale land") owned by Daleston Pty Ltd (ABN 31 111 517 885), a wholly-owned subsidiary company of Phileo Australia Limited, was leased for cattle grazing. This entity recorded a loss after tax of \$590,000 (2012: \$341,000 loss) for the year, arising mainly from land holding costs including land tax and council rates.

During the year, the entity continued to hold the vacant industrial land at Northcorp Industrial Park, Broadmeadows in Victoria

("Broadmeadows land"). The property is owned by Shuttlecrest Pty Ltd (ABN 46 114 765 696), a 75% owned subsidiary company of Phileo Australia. Other than 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 ("Box Hill property") continues to be held for future development. Various development options are being considered for this property.

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 entity's result per share after tax was \$0.21 profit (2012: \$0.04 loss).

FINANCIAL POSITION

At 30 June 2013 the consolidated entity's property portfolio had a carrying value of \$126,922,000 (30 June 2012: \$112,443,000).

The increase in carrying value during the year was mainly on account of reclassification of 303 Collins Street Melbourne property as an investment property, and the resultant increase in value from restating the value of the property to fair value.

The carrying values of these properties were consistent with directors' valuation based on the latest available independent market valuations and other available financial data.

In assessing any asset impairment, where appropriate, the carrying value is written down to the estimated net realisable value (inclusive of estimated selling costs) for the property concerned.

As at balance date, bank borrowings of \$45,000,000, which was used to partially fund the acquisition of 303 Collins Street property, is secured over that property. During the year, the bank loan facility which originally expired on 30 June 2012 was extended to 31st December 2012 and subsequently refinanced with maturity date being 30 September 2015.

The refinanced facility is solely secured over the Collins Street property, resulting in an increase of the economic entity's carrying value of unencumbered properties to \$53,111,000 (2012: \$34,435,000). In 2012, this loan was secured over the property at 303 Collins and the Rocklea Homemaker Centre. The entities' other properties are unencumbered at 30 June 2013.

As at balance date, the entity had approximately \$1,447,000 (2012: \$3,167,000) in cash, cash management accounts and term deposits at bank, and \$53,111,000 (2012: \$34,435,000) in carrying value of unencumbered properties that were available to secure new borrowings if required.



The entity is currently negotiating a further loan of \$8 million to fund its future development projects and to meet its working capital requirements. The new loan will be secured against the existing unencumbered property-Rocklea Homemaker Centre.

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

As at 30 June 2013, the economic entity's net tangible asset backing per share was \$2.68 (2012: \$2.49).

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 declared a fully franked \$0.02 per ordinary share final dividend for this financial year. The dividend was declared after 30 June 2013 and has not been provided for in the accounts as at 30 June 2013.

A fully franked final dividend of 2 cents per ordinary share for the financial year ended 30 June 2012 was declared after 30 June 2012. This final dividend was paid in October 2012.

SIGNIFICANT AFTER BALANCE DATE EVENTS

As at the date of signing this report, there have not been any events of a significant nature after the balance date of 30 June 2013 that have not already been disclosed in this report.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The main income stream will continue to be from rental of the Collins Street property and the Rocklea Homemaker Centre.

New tenants continue to be sought to lease the remaining Stage 1 vacancies in the Rocklea Homemaker Centre. Management is actively looking for new tenants for the vacant space.

The improved occupancy rate and successful completion of the restructuring exercise is expected to bring ongoing improvement to the profitability of Ramada Encore Hotel operation.

The Wyndham Vale land is within Victoria's urban growth corridor with significant upside potential in a future development. Relevant authority is preparing the precinct structure plan for this property.

The Broadmeadows land has been put on the market for sale.

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, in 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 67. 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 54. 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 68. 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 54. Joined the Board in March 1999. Michael was formerly a partner of a legal practice in Malaysia and has significant experience in property development with both private and public listed companies in Malaysia.

Andrew Chooi Seng Hang

Non-Executive and Independent Director. Qualified engineer. Property developer in Melbourne and Malaysia with over 20 years experience. Aged 61. 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 Tejas Gandhi. Tejas is a member of The Institute of Chartered Accountants in Australia and has over 20 years experience in profession, audit, regulatory and corporate accounting, and financial management.

Directors' Shareholdings

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

Director	Fully Paid Ordinary Shares	Percentage Held
Rudy Koh (Managing Director/CEO)	10,284,314	35.55%
Michael Loke (Non-Executive Director)	3,345,500	11.57%
Andrew Hang (Non-Executive Director and Independent Director)	2,590,196	8.95%
Alfred Sung (Executive Director)	1,896,849	6.56%
Graham Homes (Chairman, Non-Executive and Independent Director)	59,305	0.21%

The board collectively held 18,176,164 shares or 62.83% 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, 9 board meetings were held.

Director	Board Meetings	
	Held	Attended
Graham Homes (Chairman, Non-Executive and Independent Director)	9	9
Rudy Koh (Managing Director/CEO)	9	9
Alfred Sung (Executive Director)	9	9
Andrew Hang (Non-Executive and Independent Director)	9	4
Michael Loke (Non-Executive Director)	9	4

MEETING OF THE AUDIT COMMITTEE

The audit committee was formed during the year. There were no Audit Committee meetings held during the year.

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 (2012: 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 2013.



AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the financial year ended 30 June 2013 has been received and can be found on page 19 of the Annual Report.

REMUNERATION REPORT (AUDITED)

Remuneration Committee

Graham Homes and Rudy Koh form the Remuneration Committee. This committee reviews the remuneration packages of all directors and executive officers on an annual basis.

Remuneration packages are reviewed with due regard to performance and other relevant factors. Non-executive directors' remuneration is based on a structured scale as determined by the Remuneration Committee.

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

Remuneration Policy

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

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

Name	Office	Salary/ Fees \$	Benefits, incl. Superannuation \$	Total \$
Rudy Koh	Managing Director/CEO	332,162	25,000	357,162
Alfred Sung	Executive Director	308,107	30,854	338,961
Graham Homes	Chairman, Non-Executive and Independent Director	36,000	–	36,000
Andrew Hang	Non-Executive and Independent Director	24,000	9,975	33,975
Michael Loke	Non-Executive Director	24,000	2,160	26,160
Total		724,269	67,989	792,258

Table of Benefits and Payments for the Year Ended 30 June 2013

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

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
26 September 2013

A modern office interior featuring a series of large, light-colored concrete planters with square openings, arranged in a row. In the background, two bright red armchairs are visible. The ceiling has a perforated metal design with recessed lighting. A glass partition with a circular pattern is on the right.

AUDITOR'S DECLARATION

**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 2013, 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 MELBOURNE
ABN 16 847 721 257



GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

26 September 2013

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

Report on the Financial Report

We have audited the accompanying financial report of Phileo Australia Limited and Controlled Entities (the consolidated entity), which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (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. Those 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 company's preparation 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.

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*, which has been given to the directors of Phileo Australia Limited and Controlled Entities, would be in the same terms if provided to the directors as at the date of this auditor's report.

Nexia Melbourne

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Auditor's Opinion

In our opinion:

- a. the financial report of Phileo Australia Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- 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 17 of the directors' report for the year ended 30 June 2013. 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 and Controlled Entities for the year ended 30 June 2013 complies with s 300A of the *Corporations Act 2001*.



NEXIA MELBOURNE
ABN 16 847 721 257



GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

26 September 2013



DIRECTORS' DECLARATION

The Directors declare that:

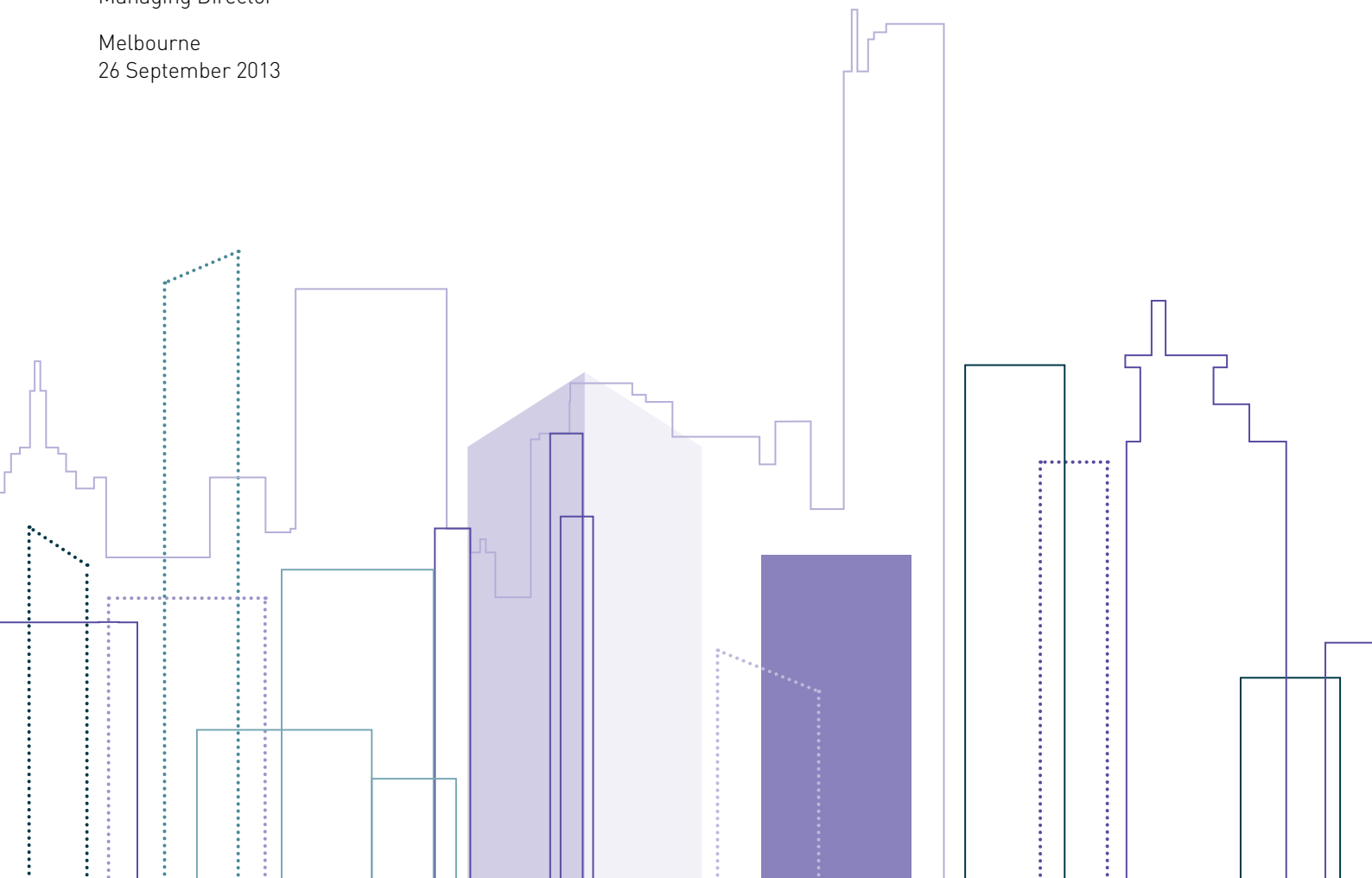
1. the financial statements and notes, as set out on pages 24 to 63, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
 - (b) give a true and fair view of the financial position as at 30 June 2013 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
26 September 2013



CONSOLIDATED INCOME STATEMENT

	Note	<u>Consolidated Group</u>	
		2013 \$	2012 \$
Revenue and other income	4	25,306,736	14,020,324
Rental property expenses		(3,988,872)	(4,823,855)
Hotel operating expenses		(1,633,893)	(1,322,968)
Development property expenses		(1,127,032)	(748,082)
Employee benefits expense		(1,944,235)	(1,756,584)
Depreciation and amortisation expense	18	(132,450)	(139,882)
Finance costs		(3,546,875)	(3,659,398)
Inventory write down	15	–	(2,890,556)
Net change in value of Interest swap	16	(3,860,817)	–
Other expenses		(428,540)	(500,736)
Profit (Loss) before income tax	5	8,644,022	(1,821,737)
Income tax benefit (expense)	6	(2,565,460)	548,895
Profit (Loss) from continuing operations		6,078,562	(1,272,842)
Profit (Loss) for the year	5	6,078,562	(1,272,842)
Profit (Loss) attributable to:			
Members of the parent entity		6,080,037	(1,268,653)
Non-controlling interest		(1,475)	(4,189)
		6,078,562	(1,272,842)

Earnings per share

From continuing and discontinued operations:

Basic profit (loss) in cents per share	11	21	(4)
Diluted profit (loss) in cents per share	11	21	(4)

From continuing operations:

Basic profit (loss) in cents per share	11	21	(4)
Diluted profit (loss) in cents per share	11	21	(4)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	<u>Consolidated Group</u>	
		2013 \$	2012 \$
Profit (Loss) for the year		6,078,562	(1,272,842)
Add (Less) Comprehensive income/(expense) for the year		–	–
Total comprehensive profit (loss) income for the year		<u>6,078,562</u>	<u>(1,272,842)</u>
Total comprehensive profit (loss) attributable to:			
Members of the parent entity		6,080,037	(1,268,653)
Non-controlling interest		(1,475)	(4,189)
		<u>6,078,562</u>	<u>(1,272,842)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Consolidated Group	
		2013	2012
		\$	\$
CURRENT ASSETS			
Cash	12	1,446,576	3,167,384
Receivables	13	80,280	588,711
Inventory	15	–	–
Other	19	1,036,163	954,070
TOTAL CURRENT ASSETS		2,563,019	4,710,165
NON-CURRENT ASSETS			
Inventory	15	53,111,774	112,443,490
Investment Property	17	73,809,741	–
Plant and equipment	18	1,070,991	1,191,546
Deferred tax asset	6	6,323,495	4,094,418
Other	19	784,384	1,138,473
TOTAL NON-CURRENT ASSETS		135,100,385	118,867,927
TOTAL ASSETS		137,663,404	123,578,092
CURRENT LIABILITIES			
Payables	20	1,534,931	1,574,208
Interest bearing liabilities	21	–	45,000,000
Current tax payable		129,216	129,216
Dividend payable	10	–	–
Provisions	22	198,019	58,955
TOTAL CURRENT LIABILITIES		1,862,166	46,762,379
NON-CURRENT LIABILITIES			
Interest bearing liabilities	21	45,000,000	–
Derivatives	16	3,860,817	–
Deferred tax liability	6	8,978,148	4,183,614
Loans from minority shareholder	29	233,467	230,467
Other creditors	20	95,238	122,669
Provisions	22	19,113	164,530
TOTAL NON-CURRENT LIABILITIES		58,186,783	4,701,280
TOTAL LIABILITIES		60,048,949	51,463,659
NET ASSETS		77,614,455	72,114,433
EQUITY			
Issued capital	23	19,910,650	19,910,650
Reserves	28	13,539	13,539
Retained earnings	28	57,707,061	52,205,564
Minority interest		(16,795)	(15,320)
TOTAL EQUITY		77,614,455	72,114,433

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Issued Capital \$	Other Reserves \$	Retained Earnings \$	Minority Interests \$	Total \$
Balance at 1 July 2011		19,910,650	13,539	53,474,233	(11,131)	73,387,291
Adjustment relating to prior years		–	–	(16)	–	(16)
Profit/(Loss) for the period		–	–	(1,268,653)	(4,189)	(1,272,842)
Subtotal		19,910,650	13,539	52,205,564	(15,320)	72,114,433
Dividends paid or provided for	10	–	–	–	–	–
Balance at 30 June 2012	23,28	19,910,650	13,539	52,205,564	(15,320)	72,114,433
Balance at 1 July 2012		19,910,650	13,539	52,205,564	(15,320)	72,114,433
Adjustment relating to prior years		–	–	–	–	–
Profit/(Loss) for the period		–	–	6,080,037	(1,475)	6,078,562
Subtotal		19,910,650	13,539	58,285,601	(16,795)	78,192,995
Dividends paid or provided for	10	–	–	(578,540)	–	(578,540)
Balance at 30 June 2013	23,28	19,910,650	13,539	57,707,061	(16,795)	77,614,455

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Consolidated Group	
		2013 \$	2012 \$
CASHFLOW FROM OPERATING ACTIVITIES			
Receipts from ordinary activities		12,641,130	13,702,175
Payment to suppliers & employees		(9,149,078)	(7,878,501)
Payment for property development		(856,469)	(689,862)
Net Cash produced (used) in Ordinary Activities		2,635,583	5,133,812
CASHFLOW FROM INVESTING ACTIVITIES			
Payment for investment property development		(313,761)	–
Payment for purchase of plant & equipment		(31,995)	(112,048)
Cashflow from Investing Activities		(345,756)	(112,048)
CASHFLOW FROM FINANCING ACTIVITIES			
Interest paid		(3,546,875)	(3,797,857)
Interest received		111,780	121,967
Loan received		3,000	5,750
Dividend paid		(578,540)	(1,446,351)
Cashflow from Financing Activities		(4,010,635)	(5,116,491)
Net increase (decrease) in cash		(1,720,808)	(94,727)
Cash at beginning of period		3,167,384	3,262,211
Cash at end of period	12	1,446,576	3,167,384



NOTES TO THE FINANCIAL STATEMENTS

NOTE CONTENTS

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1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Preparation

The financial report is a general purpose financial statements 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 14 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) Plant and Equipment

Plant and Equipment

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

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



1. Statement of Significant Accounting Policies (continued)

Depreciation

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

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

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

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

(c) Inventories

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

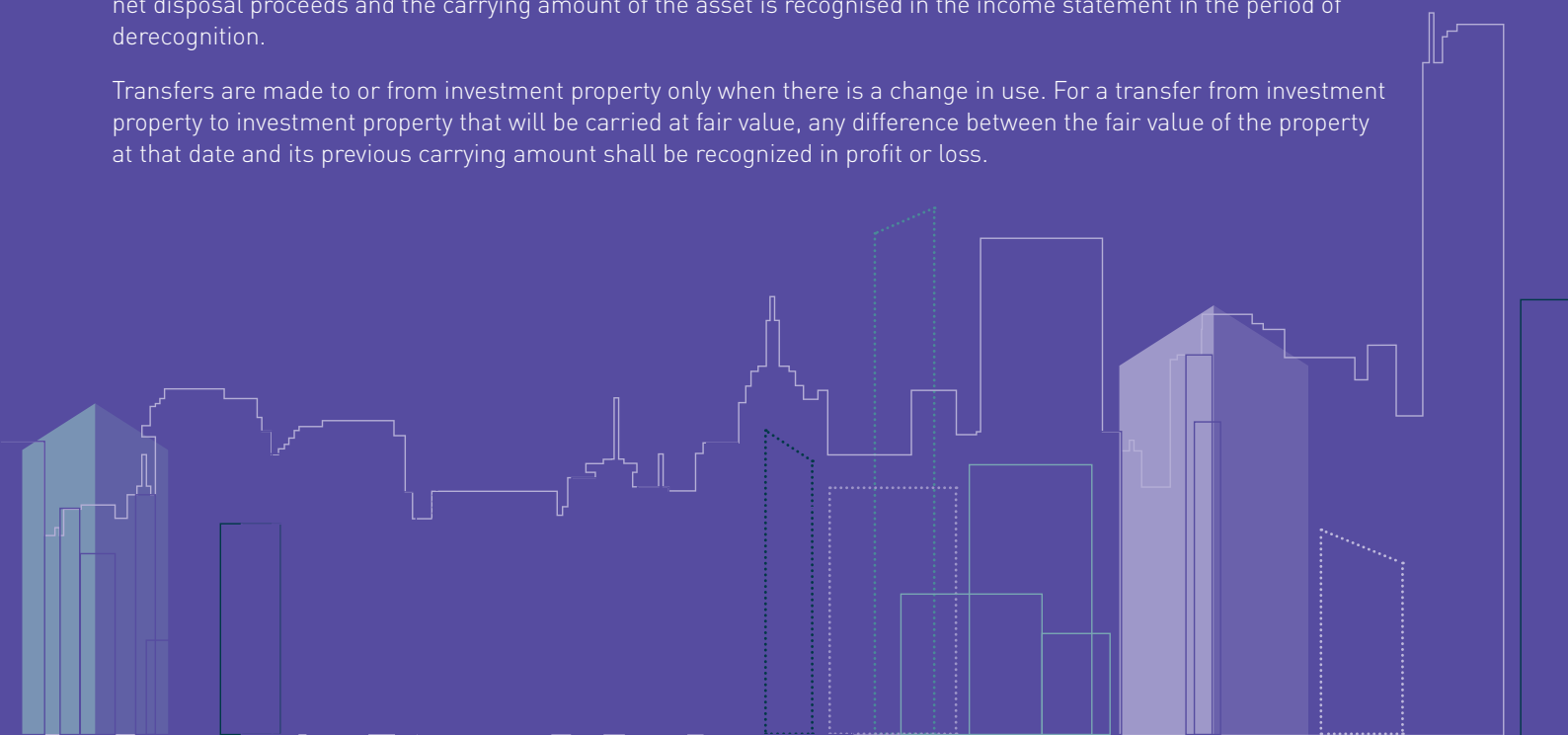
Inventories comprise the property assets of the consolidated entity, and includes the cost of each property, borrowing costs to the extent allowable under AASB 123, and development costs incurred in getting each property to its present location and condition.

(d) Investment Properties

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

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

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



1. Statement of Significant Accounting Policies (continued)

(e) Profit and Revenue Recognition**Rental Revenue**

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

Revenue and Profit Recognition on Sale of Inventories (Properties)

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

Revenue from Services Rendered

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

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

(f) Borrowing Costs

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

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

(g) Leased Assets

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

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

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

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

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

(h) Provisions

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

(i) Receivables

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

(j) Accounts Payable

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



1. Statement of Significant Accounting Policies (continued)

(k) 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.

(l) Income Tax

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

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

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

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

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

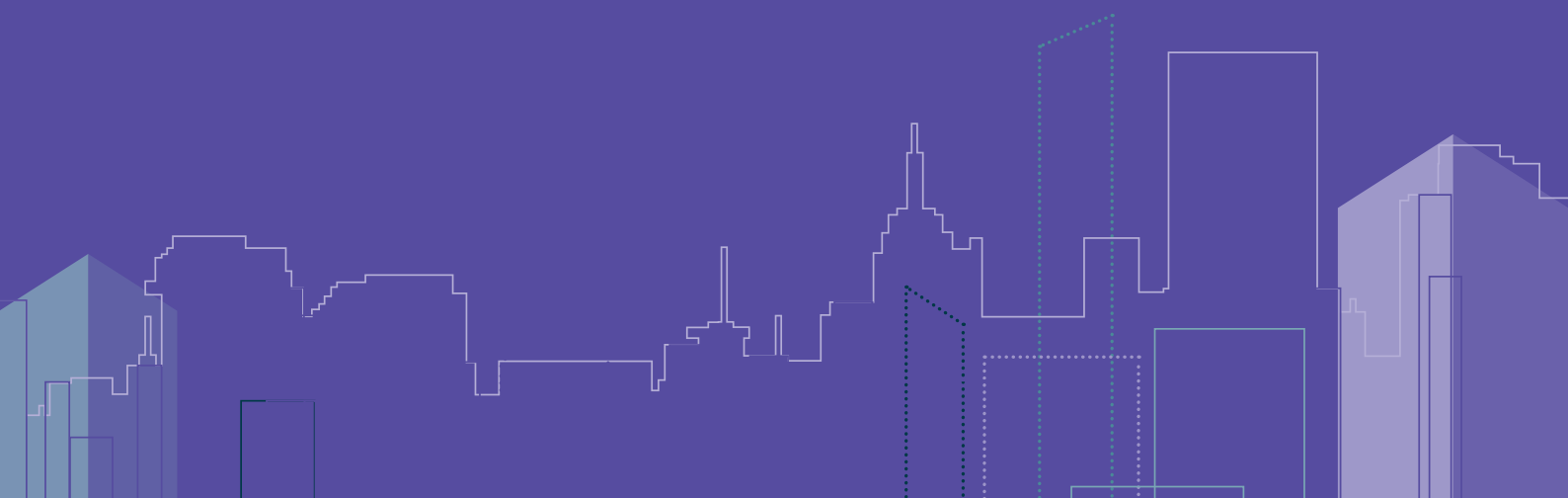
Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset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

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

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

(m) Goods and Services Tax

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



1. Statement of Significant Accounting Policies (continued)

(n) Rental Lease

Rental receivable from tenants on non-cancellable operating leases is recognised on an accrual basis. Lease payments receivable for the remaining period of the lease contract for the applicable tenancy have been disclosed in note 30 to the financial statements. Commissions paid to property agents to secure the tenancy leases, where material, are classified as prepayment and amortised over the period of the tenancy.

(o) Financial Instruments**Recognition and Initial Measurement**

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

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.



1. Statement of Significant Accounting Policies (continued)**(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 of Financial Assets

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.



1. Statement of Significant Accounting Policies (continued)

(p) Impairment of Non-Financial Assets

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

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

Calculation of Recoverable Amount:

Value in use is determined by discounting the expected future net cash flows to their present value. 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.

(q) Cash and Cash Equivalents

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

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

(r) Derivatives instruments:

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

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

Cash flow hedge:

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

Other non-trading derivatives:

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

1. Statement of Significant Accounting Policies (continued)

(s) Key Estimates:**i) Inventory**

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

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

ii) Investment property

The directors' estimate of the fair value of investment property is based on the most recent independent valuation for the property, amended for changes to the leasing and market conditions at the reporting date. The key assumptions used in the director's estimate of the fair value are listed in Note 17 of the financial report. All of the key assumptions have been compared to the last independent valuation report for the investment property.

The directors intend to obtain independent valuation of the investment property at least annually. The critical assumptions underlying the estimate of fair value relates to the receipt of contractual rent including outgoings, expected future market rentals, maintenance requirements, discount and capitalisation rates that reflects current market uncertainties. If there is any change in these assumptions or economic conditions, the fair value of investment properties may differ.

(t) Comparative Amounts

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

2. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

AASB 9: Financial Instruments (December 2010) and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] [applicable for annual reporting periods commencing on or after 1 January 2013].

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key 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;



2. New Accounting Standards for Application in Future Periods (continued)

- 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;
- requiring financial assets to be reclassified 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; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

These Standards were mandatorily applicable for annual reporting periods commencing on or after 1 January 2013. However, AASB 2012-6: Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (issued September 2012) defers the mandatory application date of AASB 9 from 1 January 2013 to 1 January 2015. In light of the change to the mandatory effective date, the Group is expected to adopt AASB 9 and AASB 2010-7 for the annual reporting period ending 31 December 2015. Although the directors anticipate that the adoption of AASB 9 and AASB 2010-7 may have a significant impact on the Group's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

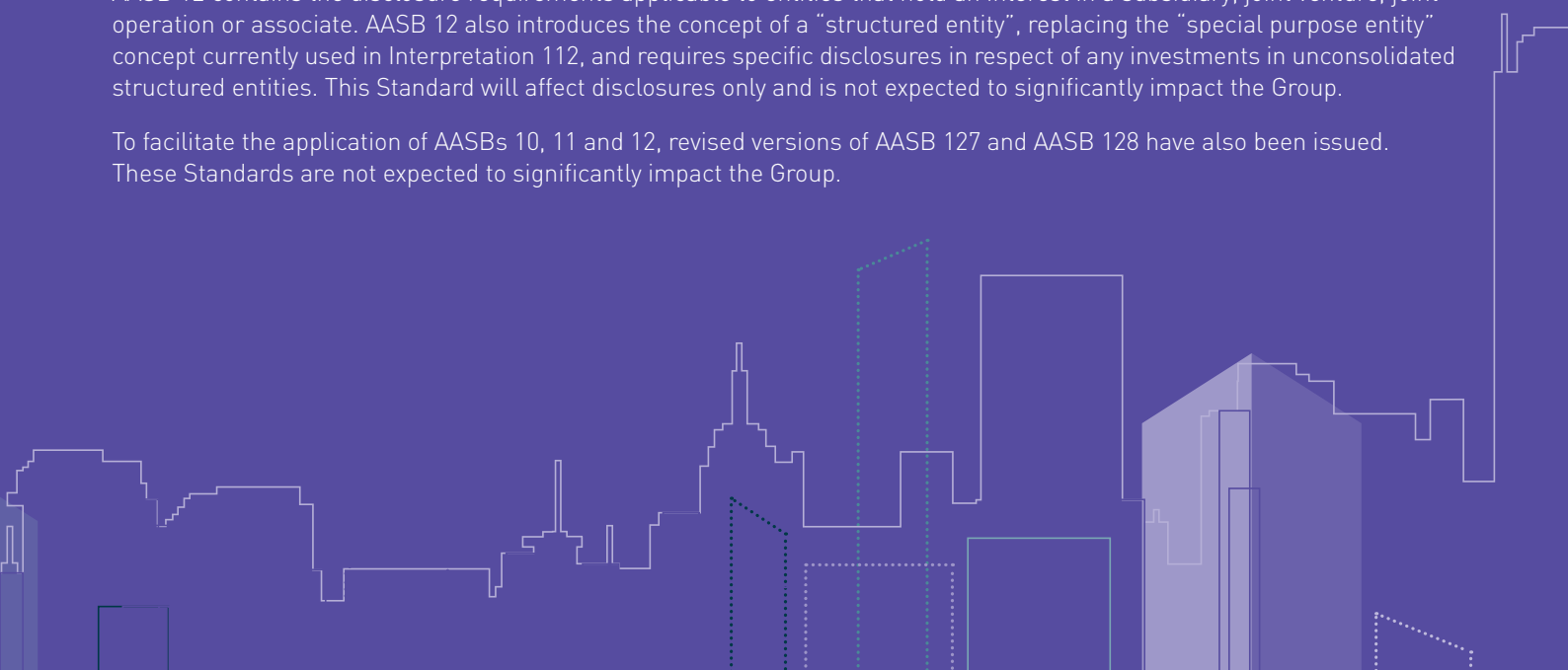
AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the Group.



2. New Accounting Standards for Application in Future Periods (continued)

AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 17, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] [applicable for annual reporting periods commencing on or after 1 January 2013].

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are not expected to significantly impact the Group.

AASB 2011-4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [applicable for annual reporting periods beginning on or after 1 July 2013].

This Standard makes amendments to AASB 124: Related Party Disclosures to remove the individual key management personnel disclosure requirements [including paras Aus29.1 to Aus29.9.3]. These amendments serve a number of purposes, including furthering trans-Tasman convergence, removing differences from IFRSs, and avoiding any potential confusion with the equivalent Corporations Act 2001 disclosure requirements.

This Standard is not expected to significantly impact the Group's financial report as a whole because:

- some of the disclosures removed from AASB 124 will continue to be required under s 300A of the Corporations Act, which is applicable to the Group; and
- AASB 2011-4 does not affect the related party disclosure requirements in AASB 124 applicable to all reporting entities, and some of these requirements require similar disclosures to those removed by AASB 2011-4.

AASB 119: Employee Benefits (September 2011) and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB101, AASB124, AASB134, AASB1049 & AASB 2011-8 and Interpretation 14] [applicable for annual reporting periods commencing on or after 1 January 2013].

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Group does not have any defined benefit plans and so is not impacted by the amendment.

AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

- for an offer that may be withdrawn – when the employee accepts;
- for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
- where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Group has not yet been able to reasonably estimate the impact of these changes to AASB 119.

AASB 2012-2 principally amends AASB 7: Financial Instruments: Disclosures to require entities to include information that will enable users of their financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

This Standard is not expected to significantly impact the Group's financial statements.

3. PARENT INFORMATION

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

	PARENT ENTITY	
	2013	2012
	\$	\$
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	1,230,351	1,420,244
Non-current assets	73,818,225	83,506,404
TOTAL ASSETS	75,048,576	84,926,648
LIABILITIES		
Current liabilities	895,082	10,861,314
Non-current liabilities	3,012,343	2,897,519
TOTAL LIABILITIES	3,907,425	13,758,833
NET ASSETS	71,141,151	71,167,815
EQUITY		
Issued capital	19,910,650	19,910,650
Retained earnings	51,216,962	51,243,626
Capital profits reserve	13,539	13,539
TOTAL EQUITY	71,141,151	71,167,815

STATEMENT OF COMPREHENSIVE INCOME

Total profit / (loss)	551,876	(1,320,834)
Total comprehensive income / (loss)	551,876	(1,320,834)

Guarantees

Phileo Australia Limited has not entered into any other guarantees, in the current year, in relation to the debts of its subsidiaries (previous financial year, guarantee provided to the financial institution to secure the \$45,000,000 facility).

Contingent Liabilities

At 30 June 2013, Phileo Australia had no material undisclosed contingent liabilities (2012: \$Nil).

Contractual Commitments

At 30 June 2013, Phileo Australia Limited had not entered into any material contractual commitments for the acquisition of PROPERTY, PLANT AND EQUIPMENT (2012: \$Nil).

4. REVENUE AND OTHER INCOME

a) Revenue from continuing operations

	Note	<u>Consolidated Group</u>	
		2013 \$	2012 \$
Sale of property		–	–
Other revenue from ordinary activities:			
Rental income from properties		9,034,081	10,679,003
Hotel income		2,799,986	2,694,251
Interest revenue – bank		111,780	125,887
Other		53,094	521,183
		<u>11,998,941</u>	<u>14,020,324</u>
TOTAL REVENUE		<u>11,998,941</u>	<u>14,020,324</u>

b) Other income

Gain on fair value adjustment of investment properties	17	13,307,795	–
		<u>25,306,736</u>	<u>14,020,324</u>

5. PROFIT (LOSS) FOR THE YEAR

Profit (Loss) before income tax from continuing operations includes the following specific expenses:

Borrowing costs – financial institutions	3,546,875	3,659,398
Land tax and Rates	2,352,897	1,619,675
Bad debts written off	26,459	–
Loss on disposal of assets	20,100	–
Rental expense on operating leases – minimum office lease payments	141,363	124,865
Inventory write down	–	2,890,556

6. INCOME TAX

(a) The component of tax (benefit) expense comprises of:

Current tax	–	–
Deferred tax	2,565,460	(548,895)
	<u>2,565,460</u>	<u>(548,895)</u>

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

Operating (loss) profit	8,644,022	(1,821,737)
Income tax expense (benefit) calculated at 30% (2012: 30%) of operating (loss) profit from ordinary activities before income tax	2,593,206	(546,521)
Add/(less), Tax effect of permanent Differences:		
Non-deductible items	369	(2,374)
Adjustment relating to prior years	(28,115)	–
	<u>2,565,460</u>	<u>(548,895)</u>
Income Tax Expense (Benefit) Attributable to Profit from Ordinary Activities before Income Tax	<u>2,565,460</u>	<u>(548,895)</u>

6. Income Tax (continued)

(c) Deferred tax asset

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

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

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

		30 June 2013	30 June 2012
Phileo Australia Limited	Tax losses	\$6,783,926	\$6,529,456
Phileo 303 Collins Pty Ltd	Tax losses	\$6,562,853	\$4,464,458
Daleston Pty Ltd	Tax losses	\$2,586,541	\$1,739,160
Sequoia Management Pty Ltd	Tax losses	\$367,570	\$105,534
Shuttlecrest Pty Ltd	Tax losses	\$74,439	\$66,012
Phileo Australia Limited	Capital losses	\$79,684	\$79,684

	Consolidated Group	
	2013	2012
	\$	\$
(d) Deferred tax asset ("DTA")	6,323,495	4,094,426
Deferred tax asset reconciliation:		
Opening balance at 1 July	4,094,426	2,845,631
Adjustment to prior year's timing differences	175,561	–
Restated opening balance	4,269,987	2,845,631
Tax losses	2,029,573	1,256,740
Other timing differences	23,935	(7,945)
Tax losses utilised	–	–
Closing balance at 30 June	6,323,495	4,094,426

(d) Deferred tax liability ("DTL")	8,978,148	4,183,614
	8,978,148	4,183,614

Deferred tax liability reconciliation:		
Opening balance at 1 July	4,183,614	3,483,722
Adjustment to prior year's timing differences	147,542	–
Restated opening balance	4,331,156	3,483,722
Difference between tax and accounting written down values (includes Deferred tax liability of \$3,992,339 recognised on fair value adjustment to the investment property)	4,646,992	699,892
Closing balance at 30 June	8,978,148	4,183,614

7. DISCONTINUED OPERATIONS

There were no discontinued operations during the financial year.

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

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

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

	Consolidated Group	
	2013	2012
	\$	\$
Short-term employee benefits	792,258	694,751
	792,258	694,751

KMP Shareholdings

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

30 June 2013	Balance at Beginning of Year	Granted as Remuneration During the Year	Issued on Exercise of Options During the Year	Other Changes During the Year	Balance at End of Year
Graham Homes	58,897	–	–	408	59,305
Rudy Koh	10,144,990	–	–	139,324	10,284,314
Alfred Sung	1,896,849	–	–	–	1,896,849
Michael Loke	3,345,500	–	–	–	3,345,500
Andrew Hang	2,590,196	–	–	–	2,590,196
	18,036,432	–	–	139,732	18,176,164

30 June 2012	Balance at Beginning of Year	Granted as Remuneration During the Year	Issued on Exercise of Options During the Year	Other Changes During the Year	Balance at End of Year
Graham Homes	54,000	–	–	4,897	58,897
Rudy Koh	10,115,621	–	–	29,369	10,144,990
Alfred Sung	1,896,849	–	–	–	1,896,849
Michael Loke	3,345,500	–	–	–	3,345,500
Andrew Hang	2,590,196	–	–	–	2,590,196
	18,002,166	–	–	34,266	18,036,432

Other KMP Transactions

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

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

There were no loans to KMP during the financial year (2012: \$Nil).

	<u>Consolidated Group</u>	
	2013	2012
	\$	\$

9. AUDITOR'S REMUNERATION

Remuneration of the auditor of the parent entity for:

Auditing or reviewing the financial statements	41,500	39,400
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10. DIVIDENDS

a) Distributions paid:

2012 final dividend (fully franked) of 2 cents per share declared and paid in 2013	578,540	–
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b) Declared final 2013 fully franked ordinary dividend \$Nil (2012: Nil cents) per share franked at the tax rate of 30% (2012: 30%)

	–	–
--	---	---

c) Movement in Franking Account:

Balance at 1 July	20,274,628	20,274,628
Franking debits arising from payment of proposed dividends (above)	(247,946)	–
Balance at 30 June	20,026,682	20,274,628

The directors have declared a fully franked \$0.02 per ordinary share final dividend for this financial year after 30 June 2013. Therefore, the dividend has not been provided for in the accounts as at 30 June 2013.

11. EARNINGS PER SHARE

Profit/ (Loss) profit after tax	6,078,562	(1,268,653)
Profit /(Loss) profit attributable to minority equity interest	(1,475)	(4,189)
Profit/ (Loss) profit attributable to members of the parent entity	6,080,037	(1,272,842)

The Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	28,927,016	28,927,016
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Basic gain/(loss) profit per share in cents	21	(4)
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There were no options outstanding, or converting preference shares on issue, for the purpose of calculating diluted earnings per share.

Note	Consolidated Group	
	2013 \$	2012 \$

12. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	240,106	1,556,977
Short-term bank deposits	1,206,470	1,610,407
25	1,446,576	3,167,384

The effective interest rate on short-term bank deposits was 4.50% (2012: 5.50%); these deposits have an average maturity of 90 days.

Reconciliation of Cash

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

Cash and cash equivalents	1,446,576	3,167,384
25	1,446,576	3,167,384

13. TRADE AND OTHER RECEIVABLES

CURRENT

Trade receivables	80,280	588,711
Provision for impairment	–	–
Total current trade and other receivables	80,280	588,711

Trade receivables comprise mainly rent and hotel account receivables.

Provision for Impairment of Receivables

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

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

Credit Risk

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

	Gross Amount \$	Past Due and Impaired \$	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms \$
			← 30 \$	31 – 60 \$	61 – 90 \$	→ 90 \$	
2013							
Trade receivables	80,280	–	11,450	6,404	–	62,426	11,450
Total	80,280	–	11,450	6,404	–	62,426	11,450
2012							
Trade receivables	588,711	–	419,398	69,151	10,104	90,058	419,398
Total	588,711	–	419,398	69,151	10,104	90,058	419,398

13. Trade and Other Receivables (continued)

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

Collateral Held as Security

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

Collateral Pledged

Company has not provided any charges over the trade receivables.

14. CONTROLLED ENTITIES

a) Controlled Entities Consolidated and Principal Activities	Country of Incorporation	Percentage Owned	
		2013	2012
Subsidiaries of Phileo Australia Limited:			
Phileo 303 Collins Pty Ltd (investment property holding)	Australia	100%	100%
Sequoia Management Pty Ltd (hotel operation)	Australia	100%	100%
Daleston Pty Ltd (property holding)	Australia	100%	100%
Shuttlecrest Pty Ltd (property holding)	Australia	75%	75%
Rocklea Homemaker Centre Pty Ltd (dormant)	Australia	100%	100%

*Percentage of voting power is in proportion to ownership.

b) Acquisition of Controlled Entities

There were no entities acquired during the financial year.

15. INVENTORY

	Consolidated Group	
	2013	2012
	\$	\$
(a) Current: (i)	–	–
(b) Non-Current: (ii)		
Freehold land and buildings (at cost) – Opening	112,443,490	114,644,233
Add: Development cost incurred during the year	860,490	689,813
Less: Transfer to Investment Properties (ii)	(60,192,206)	–
Less: Write down during the year (iii)	–	(2,890,556)
	53,111,774	112,443,490
Acquisition cost*	27,678,667	86,862,330
Development cost*	34,429,615	34,538,107
Borrowing cost*	1,352,131	1,391,692
Inventory write down (iii)	(10,348,639)	(10,348,639)
Total non-current inventory	53,111,774	112,443,490
Total	53,111,774	112,443,490

* Excludes value of property reclassified as investment property

	<u>Consolidated Group</u>	
	2013	2012
	\$	\$

15. Inventory (continued)

(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	–	60,188,185
– Loan facility	–	35,000,000

Rocklea Homemaker Centre

– Carrying amount	–	17,820,000
– Loan facility	–	10,000,000

(d) Capitalised borrowing costs:

Borrowing costs capitalised during the financial year	–	–
Weighted average capitalisation rate on funds borrowed generally	–	–

(i) Current Inventory. The industrial land at Broadmeadows (carrying value of \$828,443) is actively marketed for sale. This property is classified as non current in the current and previous period as there was no formal contract with buyer for sale of the land.

(ii) Non-Current Inventory. Includes vacant land at 14 Federation Street in Box Hill and Black Forest Road in Wyndham Vale; the Rocklea Homemaker Centre at Kangaroo Flat, off the Calder Highway near Bendigo; the 108-room business class hotel at 50-52 McCrae Street, Dandenong; and the vacant land at Northcorp Industrial Park in Broadmeadows; all stated at lower of cost or market value.

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

Following the review, it is noted that in the current economic climate the company's current intention is to hold the 30-storey office complex at 303 Collins Street, Melbourne CBD for rental income, consolidate its tenancies, and improve the building for capital appreciation in the longer term. There is no intention or commitment to sell the property in foreseeable future. Therefore, it is appropriate for this asset to be reclassified from Inventory to Investment property. Refer Note 17

(iii) Inventory Write Down. Cumulative inventory write down of \$10,348,639 (2012: \$10,348,639) for the company's properties included the write down for the Rocklea Homemaker Centre of \$5,145,892 (2012: \$5,145,892), the write down for the McCrae Street property of \$5,177,258 (2012: \$5,177,258), and write down of industrial land at Broadmeadows of \$25,488 (2012: 25,488).

(iv) Aggregate Carrying Value. The aggregate carrying value of all inventory held at 30 June 2013, based on the lower of cost and net realisable value was estimated at \$53,111,774 (2012: \$112,443,490).

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

- the Rocklea Homemaker Centre developed up to Stage 1, at latest independent valuation of \$18,000,000 obtained in July 2012 and \$19,355,000 in 2013-14 council rate notice ;
- the Federation Street residential development land at latest independent valuation of \$12,600,000 obtained in January 2012;
- the Wyndham Vale future residential development land at latest Council valuation of \$46,218,000 as at July 2012 in rates notice issued in August 2013;
- the McCrae Street building at latest independent valuation of \$7,500,000 obtained in January 2011; and
- the industrial land at Northcorp Blvd in Broadmeadows at the latest Council valuation of \$946,000 as at June 2012 in rates notice issued in August 2013.

16. DERIVATIVES

Interest rate swap for hedging the commercial bills

3,860,817

–

Total non-current derivatives

3,860,817

–

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

17. INVESTMENT PROPERTY

Opening balance at 1 July

–

–

Add: Transfer from Inventory (17 (a))

60,192,206

–

Add: Additions for the period

309,740

–

Add/(Less): Net gain/(loss) from fair value adjustment (17 (b))

13,307,795

–

Closing Balance at 30 June

73,809,741

–

(a) Transfer from Inventory

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

Following the review, it is noted that in the current economic climate the company's current intention is to hold property at 330 Collins street Melbourne for rental income, consolidate its tenancies, and improve the building for capital appreciation in the longer term. There is no intention or commitment to sell the property in foreseeable future. Therefore, it is appropriate for this asset to be reclassified from Inventory to Investment property.

(b) Determining Fair Value

As stated in the accounting policy note, Investment properties are stated at fair value. The fair value of the investment property has been determined at \$73,500,000 based on valuation performed by Jones Lang LaSalle (JLL), an accredited independent valuer, as at 1 November 2012. Jones Lang LaSalle is a specialist firm in valuing these types of investment properties. The directors reviewed the valuation at the reporting date and determined the fair value of the property at \$73,809,000. The directors' estimate of the fair value of investment property is based on the JLL's valuation for the property, amended for changes to the leasing and market conditions at the reporting date. The fair value of the properties has been determined using methods such as Capitalisation of Net Income (CAP) and Discounted Cash flow approach (DCF). The arrived value under the two primary methods of valuation has also been compared to the transactions observable in the market.

The following primary inputs have been used.

CAP approach assumptions

Adopted Cap Rate	8.50%
PV of Adjustments	8.50%

DCF approach assumptions

Discount Rate	9.50%
Terminal Yield	8.75%
Weighted Rental Growth (Average 10 years)	3.33%
CPI (Average 10 years)	2.60%

	Consolidated Group	
	2013	2012
	\$	\$
17. Investment Property (continued)		
(c): Investment Property Pledged as Security		
303 Collins Street, Melbourne		
– Carrying amount	73,809,741	–
– Loan facility	45,000,000	–

18. PLANT AND EQUIPMENT

Leasehold improvements:

At cost	943,065	943,065
less: Accumulated depreciation	(129,950)	(67,382)
	<u>813,115</u>	<u>875,683</u>

Plant and machinery:

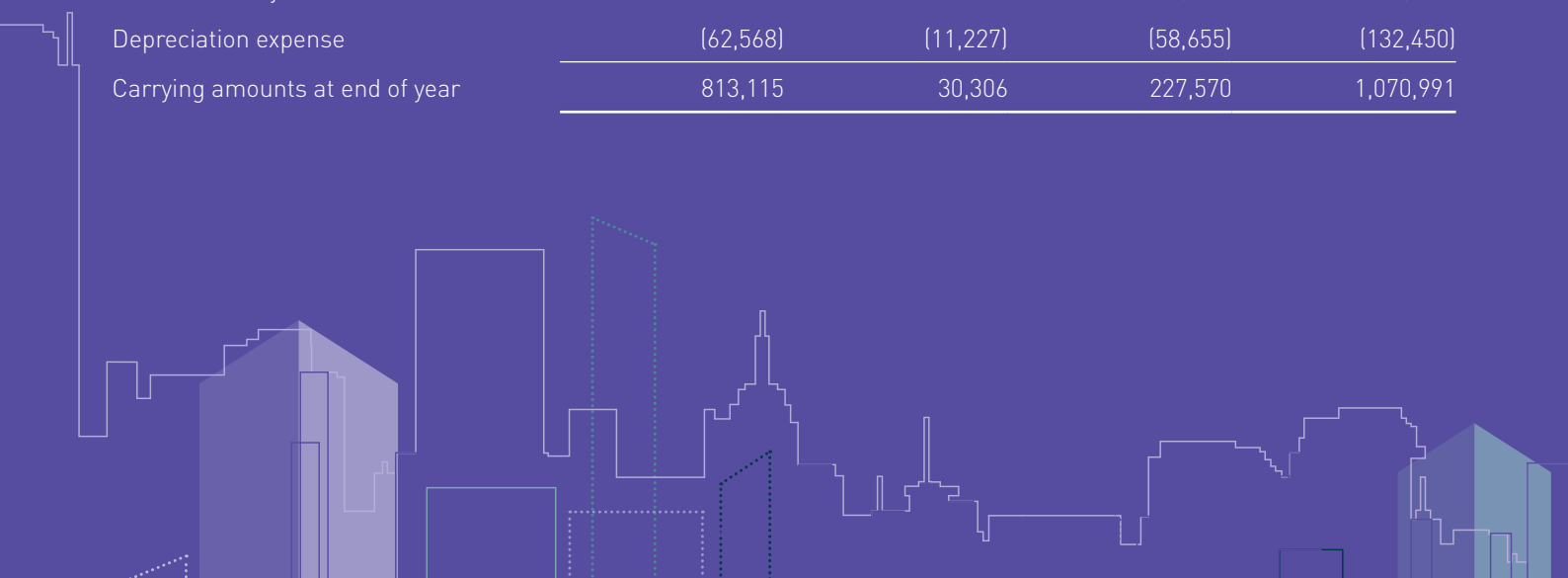
At cost	315,728	310,533
less: Accumulated depreciation	(285,422)	(274,854)
	<u>30,306</u>	<u>35,679</u>

Office equipment, furniture and fittings:

At cost	714,673	756,511
less: Accumulated depreciation	(487,103)	(476,327)
	<u>227,570</u>	<u>280,184</u>
	<u>1,070,991</u>	<u>1,191,546</u>

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

	Leasehold Improvements	Plant and Machinery	Office Equipment, Furniture and Fittings	Total
	\$	\$	\$	\$
CONSOLIDATED GROUP				
Balance at beginning of the year	875,683	35,679	280,184	1,191,546
Additions	–	5,195	26,800	31,995
Deductions/Adjustments	–	659	(20,759)	(20,100)
Depreciation expense	(62,568)	(11,227)	(58,655)	(132,450)
Carrying amounts at end of year	<u>813,115</u>	<u>30,306</u>	<u>227,570</u>	<u>1,070,991</u>



19. OTHER ASSETS

CURRENT

Prepayments	989,282	909,352
Hotel stocks	23,435	23,478
Other debtors	23,446	21,240
	<u>1,036,163</u>	<u>954,070</u>

NON-CURRENT

Prepayments	728,597	1,082,686
Other debtor	55,787	55,787
	<u>784,384</u>	<u>1,138,473</u>

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

20. TRADE AND OTHER PAYABLES

CURRENT

Unsecured liabilities:

Trade payables	593,992	795,906
Sundry payables and accrued expenses	940,939	778,302
	<u>1,534,931</u>	<u>1,574,208</u>

NON-CURRENT

Unsecured liabilities:

Tenants' bond monies	95,238	122,669
	<u>95,238</u>	<u>122,669</u>

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

21. BORROWINGS

CURRENT

Secured liabilities:

Commercial bills	–	45,000,000
Total current borrowings	<u>–</u>	<u>45,000,000</u>

NON-CURRENT

Secured liabilities:

Commercial bills	45,000,000	–
Total non-current borrowings	<u>45,000,000</u>	<u>–</u>
Total borrowings	<u>45,000,000</u>	<u>45,000,000</u>



21. Borrowings (continued)

a) Total current and non-current secured liabilities:

	Consolidated Group	
	2013	2012
	\$	\$
Commercial bills	45,000,000	45,000,000
	45,000,000	45,000,000

b) The carrying amounts of non-current assets pledged as security are:

Freehold land and buildings	73,809,741	78,008,185
	73,809,741	78,008,185

c) Collateral provided

The commercial bills secured by a first registered mortgage over property at 303 Collins Street Melbourne (2012: 303 Collins Street Melbourne and Rocklea Homemaker) owned by the Group. Covenants imposed by the bank require total bank debt not to exceed 65% (2012: 60%) of total independent valuation of the pledged securities and 1.25 (2012:1.5) times interest cover.

Maturity Dates

	Interest Rates (%)	Consolidated Group	
		2013	2012
		\$	\$
30 September 2015	7.17	45,000,000	–
31 December 2012	8.17	–	35,000,000
31 December 2012	8.17	–	10,000,000
		45,000,000	45,000,000

d) During the year, the bank loan facility which expired on 30 June 2012 was extended to 31st December 2012 and subsequently refinanced with maturity date being 30 September 2015. The refinanced bank loan facility was solely secured over the Collins Street property, resulting in an increase of the economic entity's carrying value of unencumbered properties to \$53,111,774 (2012: \$34,435,000).

22. PROVISIONS

Consolidated Group

	Annual Leave	Long Service Leave	Total
	\$	\$	\$
Opening balance at 1 July 2012	58,955	164,530	223,485
Additional provisions	3,980	29,133	33,113
Amounts used	(7,244)	(32,222)	(39,466)
Balance at 30 June 2013	55,691	161,441	217,132

	Consolidated Group	
	2013	2012
	\$	\$
22. Provisions (continued)		
Analysis of total provisions		
Current	198,019	58,955
Non-current	19,113	164,530
	<u>217,132</u>	<u>233,485</u>

Provision for Current Employee Benefits

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

Provision for Non-Current Employee Benefits

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

23. ISSUED CAPITAL

(a) Issued Share Capital

28,927,016 (2012: 28,927,016) ordinary shares each fully paid	19,910,650	19,910,650
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Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Authorised Share Capital

Authorised share capital consists of 198,000,000 (2012: 198,000,000) ordinary shares and 2,000,000 (2012: 2,000,000) preference shares.

(c) Share Options

At 30 June 2013 there were no options outstanding (2012: 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.

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.

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 2013 and 30 June 2012 are as follows:

	Consolidated Group	
	2013	2012
	\$	\$
23. Issued Capital (continued)		
Total borrowings	45,000,000	45,000,000
Less Cash and cash equivalents	(1,446,576)	(3,167,384)
Net debt	43,553,424	41,832,616
Total equity	77,614,455	72,114,433
Gearing ratio	56%	58%

24. OPERATING SEGMENTS

Segment Information

Identification of reportable segments

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

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

Types of products and services by segment

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

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

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

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

Basis of accounting for purposes of reporting by operating segments

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

Inter-segment transactions

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

Segment assets

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

Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. 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.

24. Operating Segments (continued)

Industry Segments

	Revenues		Results		Assets		Liabilities	
	2013	2012	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$	\$	\$
Rental of properties	9,034,081	10,679,033	1,403,661	2,093,701	92,234,794	78,008,185	45,000,000	45,000,000
Hotel operation	2,799,986	2,694,251	350,502	505,997	7,350,000	7,350,000	543,848	440,002
Development sites	-	-	(1,127,032)	(748,082)	27,336,721	27,085,305	-	-
Inventory write down	-	-	-	(2,890,556)	-	-	-	-
Investment at bank	111,780	125,887	111,780	125,887	1,372,536	3,138,763	-	-
Administration	-	-	(1,594,961)	(1,429,867)	-	-	-	-
Unallocated items (c)(i)	13,360,889	521,183	9,500,072	521,183	9,369,353	7,995,839	14,505,101	6,023,657
Total	25,306,736	14,020,324	8,644,022	(1,821,737)	137,663,404	123,578,092	60,048,949	51,463,659

(a) The above total reconciles to:-

Amount reported in Note 4:

Group revenue	25,306,736	14,020,324	-	-	-	-	-	-
Amount reported on the Income Statement before Income tax	-	-	8,644,022	(1,821,737)	-	-	-	-
Amount reported on the Balance Sheet	-	-	-	-	137,663,404	123,578,092	60,048,949	51,463,659

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

	627,393	615,439	627,393	615,439	-	-	-	-
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(c) Significant non-cash items included in the results (above)

(i) Gain on fair value adjustment to investment properties	13,307,795	-	13,307,795	-	-	-	-	-
(iii) Loss on fair value adjustment to Interest swap	-	-	(3,860,817)	-	-	-	-	-
(ii) Depreciation	-	-	(132,450)	139,882	-	-	-	-

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

Consolidated Group

2013	2012
\$	\$

25. CASH FLOW INFORMATION**(a) Reconciliation of Cash**

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

Cash at bank and in hand	1,446,576	3,167,384
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(b) Reconciliation of net cash provided by ordinary activities to operating profit or loss after income tax

Profit (Loss) after income tax	6,078,562	(1,272,842)
Non-cash flows in profit or loss from ordinary activities:		
Gain on fair value adjustments from investment properties	(13,307,795)	–
Loss on fair value adjustments for interest swap	3,860,817	–
Current year's depreciation	132,450	139,882
Bad Debts written off	26,459	–
Loss on disposal/discard of assets	20,100	–
Write down of inventory	–	2,890,556
Items treated from Financing activities:		
Interest paid	3,546,875	3,797,857
Interest received	(111,780)	(121,967)

Changes in net assets and liabilities**(Increase) decrease in:**

Current receivables	481,972	(196,182)
Inventory	(856,469)	(689,829)
Other current assets	(82,093)	779,929
Deferred tax assets	(2,229,077)	(1,248,787)
Other non current assets	354,089	614,187

Increase (decrease) in:

Payables	(66,708)	(276,862)
Other creditors	–	–
Deferred tax liability	4,794,534	699,892
Current tax payable	–	–
Employee provisions	(6,353)	17,978
Net cash produced in operating activities	2,635,583	5,133,812

(c) Financing Facilities

Secured commercial bank facilities:

Drawn	45,000,000	45,000,000
Undrawn	–	–

(d) Interest Rates

The effective interest rate on short-term bank deposits during the period was approximately 4.5% p.a. (2012: 5.5% 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 2013 and 30 June 2012.

26. RELATED PARTY DISCLOSURES

(a) Transactions with directors and director-related entities

Other than directors' remuneration, there were no transactions with directors or their related entities during the financial year (2012: \$Nil).

(ii) Details of directors' remuneration are disclosed in Note 8: Interests of Key Management Personnel to the financial statements.

(b) Directors' shareholdings

As at 30 June 2013, fully paid ordinary shares in Phileo Australia Limited held by directors and their director related entities amounted to 18,176,164 shares representing 62.83% controlling interest (2012: 18,036,432 ordinary shares representing 62.42% controlling interest).

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

(c) Transactions within the group

Group entities are disclosed in Note 14: Controlled Entities.

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

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

(d) Controlling entities

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

27. 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 and derivatives. 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.

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

	Consolidated Group	
	2013	2012
	\$	\$
Financial Assets		
Cash	1,446,576	3,167,384
Receivables	80,280	588,711
	<u>1,526,856</u>	<u>3,756,095</u>
Financial Liabilities		
Payables	1,534,931	1,574,208
Interest bearing liabilities	45,000,000	45,000,000
Interest swap – fair value through profit and loss account	3,860,817	–
Income tax payable	129,216	129,216
Loan from minority shareholder	233,467	230,467
	<u>50,758,431</u>	<u>46,933,891</u>
Net Position	<u>(49,231,575)</u>	<u>(43,177,796)</u>

27. Financial Risk Management (continued)

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

As in the previous financial year end, the deficit in the consolidated group's net financial asset position at 30 June 2013 was due mainly 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, interest swap and financial leases. Examples of non-interest bearing instruments are amounts owed by customers, owed to suppliers, vendor finance of a property, tax liability, provisions and prepayments.

Interest rate risk is managed using interest rate swaps to convert the debt to fixed rate. Interest rate swap transactions are entered into by the Group to exchange variable and fixed interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. At 30 June 2013, the entire group variable rate debt is swap at fixed rate.

The notional principal amount of the swap contracts equals to the consolidated group's borrowing facilities. The net interest payment, or receipt settlements of the swap contracts occur on every 1st working day of each month and correspond with interest payment dates on the borrowings. The net settlement amounts are brought to account as an adjustment to borrowing costs.

At the end of the reporting period, the details of outstanding contracts, all of which are to pay-fixed interest rate swaps, are as follows:

Consolidated Group	Effective Average Fixed Interest Rate Payable		Notional Principal	
	2013 %	2012 %	2013 \$	2012 \$
Maturity of notional amounts				
Less than 1 year	–	5.67%	–	45,000,000
1 to 2 Years	–	–	–	–
2 to 5 years	4.85%	–	45,000,000	–
			<u>45,000,000</u>	<u>45,000,000</u>

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

27. Financial Risk Management (continued)

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

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

	Consolidated Group	
	2013	2012
	\$	\$
Financial Assets		
Cash	1,446,576	3,167,384
	<u>1,446,576</u>	<u>3,167,384</u>
Financial Liabilities		
Interest bearing liabilities	45,000,000	45,000,000
	<u>45,000,000</u>	<u>45,000,000</u>
Net Position	<u>(43,553,424)</u>	<u>(41,832,616)</u>

As in the previous financial year end, the deficit in the net position at 30 June 2013 was 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:

	Post Tax Profit		Equity	
	Higher/(Lower)		Higher/(Lower)	
	2013	2012	2013	2012
	\$	\$	\$	\$
Consolidated Group				
Plus 1% (100 basis points)	(437,935)	(315,000)	(437,935)	(315,000)
Minus 1% (100 basis points)	437,935	315,000	437,935	315,000
Parent Entity				
Plus 1% (100 basis points)	11,240	(70,000)	11,240	(70,000)
Minus 1% (100 basis points)	(11,240)	70,000	(11,240)	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 is 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.

27. Financial Risk Management (continued)

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

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2013 \$	2012 \$	2013 \$	2012 \$
Consolidated Group				
Plus 1% (100 basis points)	995,848	787,104	995,848	787,104
Minus 1% (100 basis points)	(995,848)	(787,104)	(995,848)	(787,104)
Parent Entity				
Plus 1% (100 basis points)	257,751	245,444	257,751	245,444
Minus 1% (100 basis points)	(257,751)	(245,444)	(257,751)	(245,444)

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 2013 additional inflow of funds would be required to meet the short-mid term financing obligations. The company is currently negotiating a further loan of \$8 million to fund its future development projects and to meet its working capital requirements. The new loan will be secured against the existing unencumbered property-Rocklea Homemaker Centre. The overall deficit position in the consolidated group is due to the interest bearing liability used to fund the acquisition of 303 Collins Street, Melbourne in prior years. As reported in Note 21(d), during the year, the loan facility was extended to 30 September 2015.

27. Financial Risk Management (continued)

Liquidity Profile

	Balance at 30/06/2013 \$	0 – 6 months \$	6 – 12 months \$	Over 1 year Less than 5 years \$	Over 5 years \$	Total \$
Consolidated Group						
Financial Assets						
Cash	1,446,576	1,446,576	–	–	–	1,446,576
Receivables	80,280	80,280	–	–	–	80,280
	1,526,856	1,526,856				1,526,856
Financial Liabilities						
Payables	1,534,931	1,534,931	–	–	–	1,534,931
Interest bearing liability	45,000,000	–	–	45,000,000	–	45,000,000
Interest swap – fair value through profit and loss account	3,860,817	–	–	3,860,817	–	3,860,817
Income tax payable	129,216	–	129,216	–	–	129,216
Dividend payable	–	–	–	–	–	–
Loan from minority shareholder	233,467	–	–	233,467	–	233,467
	50,758,431	1,534,931	129,216	49,094,284		50,758,431
Net Position	(49,231,575)	(8,075)	(129,216)	(49,094,284)	–	(49,231,575)

	Balance at 30/06/2012 \$	0 – 6 months \$	6 – 12 months \$	Over 1 year Less than 5 years \$	Over 5 years \$	Total \$
Consolidated Group						
Financial Assets						
Cash	3,167,384	3,167,384	–	–	–	3,167,384
Receivables	588,711	588,711	–	–	–	588,711
	3,756,095	3,756,095	–	–	–	3,756,095
Financial Liabilities						
Payables	1,574,208	1,574,208	–	–	–	1,574,208
Interest bearing liability	45,000,000	–	–	45,000,000	–	45,000,000
Income tax payable	129,216	–	129,216	–	–	129,216
Dividend payable	–	–	–	–	–	–
Loans from minority shareholder	230,467	–	–	230,467	–	230,467
	46,933,891	1,574,208	129,216	45,230,467	–	46,933,891
Net Position	(43,177,796)	2,181,887	(129,216)	(45,230,467)	–	(43,177,796)

28. RETAINED PROFITS AND RESERVES

	CONSOLIDATED GROUP	
	2013	2012
	\$	\$
Retained profits at beginning	52,205,564	53,474,233
(Loss) profit for the financial year attributable to members of the parent entity	6,080,037	(1,268,653)
Adjustment relating to prior years	–	(16)
Adjustment for minority interest	–	–
Dividends provided	(578,540)	–
Retained profits at end	57,707,061	52,205,564

Capital profits	13,539	13,539
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There was no movement in capital profits reserves during the financial year (2012: \$Nil).

29. LOAN FROM MINORITY SHAREHOLDER

Loan from minority shareholder at fair value	233,467	230,467
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The minority shareholder has made a loan to Shuttlecrest Pty Ltd \$233,467 (2012: \$230,467) with an undertaking that the loan will not be recalled until the relevant company's assets fair value exceeds its liabilities. There is no interest payable on this loan nor are there any fixed repayment terms.

30. RENTAL LEASE RECEIVABLES**Non-cancelable operating leases:**

Not longer than one year	7,333,400	7,840,420
Longer than one year and not longer than 5 years	14,899,864	12,072,846
Longer than 5 years	445,662	260,000
Future rental lease receivables	22,678,926	20,173,266

(a) Non-cancellable operating leases

The consolidated group derived part of its revenue during the financial year from its rental properties. In the financial year, rental and fixed and variable outgoings recovered had totalled \$9,034,081 (2012: \$10,679,003)

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

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

(b) As at 30 June 2013, 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-cancellable operating lease contracts.

(c) As at 30 June 2013 the carrying value of leasable properties had totalled \$99,584,794 (2012: \$85,358,185). Net lettable area had totalled 38,416 square metres as at 30 June 2013 (2012: 38,416 square metres).

As at the end of the financial year, there were no new pre-lease developments committed to future leasing on completion (2012: Nil).

30. Rental Lease Receivables (continued)

	CONSOLIDATED GROUP	
	2013	2012
	\$	\$
Rental properties – Gross	96,600,149	95,681,335
Fair value adjustments	13,307,795	–
Write downs to net realisable value	(9,993,150)	(9,993,150)
Provision for selling costs	(330,000)	(330,000)
Net rental properties	99,584,794	85,358,185
Other properties, including land	27,336,721	27,085,305
Total properties	126,921,515	112,443,490
Total write downs to net realisable value during the year	–	(2,890,556)

31. ECONOMIC DEPENDENCY

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

32. EVENTS AFTER THE REPORTING PERIOD


The directors have declared a fully franked \$0.02 per ordinary share final dividend for this financial year. The dividend was declared after 30 June 2013 and has not been provided for in the accounts as at 30 June 2013.

Other than the above, there were no other 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.

33. CAPITAL COMMITMENT

For rental property	711,025	–
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A modern office interior featuring a large, green, geometric sculpture in the foreground. In the background, there are two red armchairs and a glass wall with a pattern of white circles. The ceiling has a perforated metal design with recessed lighting. The overall atmosphere is contemporary and professional.

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 286 individual shareholders. There were no partly paid ordinary shares issued at the date of this report. All issued ordinary shares carry one vote per share.

Preference Share Capital

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

Options

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

Distribution of Shareholders

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

Holdings Ranges	Holders	Total Units	%
1-1,000	37	15,174	0.052
1,001-5,000	167	444,456	1.536
5,001-10,000	39	304,563	1.053
10,001-100,000	26	766,151	2.649
100,001-99,999,999,999	17	27,396,672	94.710
Totals	286	28,927,016	100.000
Holdings less than a marketable Parcel			
1-244	16	925	0.003

Substantial Shareholders

	Fully Paid	
	Number	%
Ordinary Shareholders		
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
BEELYE PTY LIMITED [B L SUPER FUND A/C]	1,962,196	6.783
ACEQ PTY LTD [SUPERANNUATION FUND A/C]	1,896,849	6.557
RADIANCE GROUP TRADING LTD	1,470,824	5.085
	24,458,428	84.552

Twenty Largest Shareholders

	Ordinary Shareholders	Fully paid shares	%
1	PAL INVESTMENTS (AUST) PTY LTD	10,053,678	34.755
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,324,881	21.865
3	PIUCO ENTERPRISES CORP	2,750,000	9.507
4	BEELYE PTY LIMITED [B L SUPER FUND A/C]	1,962,196	6.783
5	ACEQ PTY LTD (SUPERANNUATION FUND)	1,896,849	6.557
6	RADIANCE GROUP TRADING LTD	1,470,824	5.085
7	SLW CORPORATION PTY LTD	620,000	2.143
8	MR MICHAEL TAN CHUNG LOKE	595,500	2.059
9	SIENA NOMINEES PTY LTD [THE SLATTERY FAMILY S/F A/C]	531,800	1.838
10	HAYMAN INVESTMENTS CO LTD	381,204	1.318
11	ZELCREST CAPITAL LIMITED	237,422	0.821
12	MR BRIAN GARFIELD BENDER	216,700	0.749
13	EQUITY BRIDGE SDN BHD	122,749	0.424
14	BENDER SUPERANNUATION PTY LIMITED [BENDER SUPER FUND A/C]	117,567	0.406
15	KRR INVESTMENTS PTY LTD	115,302	0.399
16	MR JAMES JOHN CLIVE RODDA	80,124	0.277
17	MR RUDY ENG WAH KOH & MRS FUI KYUN CHIEW [KOH S/F A/C]	75,334	0.260
18	HOMEGOOD NOMINEES PTY LTD [HOMES PROPERTY FUND A/C]	59,305	0.205
19	DR LENG LU SOH & MRS ROSY SOH [LL & R SOH FAMILY S/F A/C]	56,045	0.194
20	PETER AND OLGA ABRAHAMS	50,000	0.173
	Total shares held by twenty largest shareholders	27,717,480	95.818
	Total shares held by other shareholders	1,209,536	4.182
	Total number of shares	28,927,016	100.000

Company Secretary

Tejas Gandhi, Chartered Accountant

Principal Registered Office and Principal Place of Business

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 General Ph: (61 2) 9290 9616
 Fax: (61 2) 9279 0664
 Contact: Ms Bridgette Rogers, Client Service Manager
 bridgette.rogers@boardroomlimited.com.au
 www.boardroomlimited.com.au

Stock Exchange Listings

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