2017 ANNUAL REPORT

Phileo Australia

CONTENTS

PHILEO AUSTRALIA LTD | ABN 52 007 608 755

CHAIRMAN'S ADDRESS

I again welcome this opportunity to provide some commentary and additional background information on what has been an eventful and successful year for Phileo Australia Limited, one where our shareholders have benefited from the sensible, professional and patient investment in our property holdings.

I would like to draw your attention to our company's financial performance as reflected in the Financial Statements.

> WE ACHIEVED AN INCREASE IN OPERATING REVENUE OF 265 PER CENT TO $46.7 MILLION, AND AN INCREASE IN PROFIT AFTER TAX AND ATTRIBUTABLE TO MEMBERS OF 145 PER CENT TO $23.3 MILLION (EQUAL TO EARNINGS PER SHARE OF 81 CENTS).

The net tangible asset backing per share is $4.29 based on the valuations included in the Financial Statements. The notional asset backing as at 30 June 2017, which takes into consideration the current market value of all properties, is of the order of $11.12. The notional asset backing also includes the future amount that will be received as a result of the company's sale of its development land at Black Forest Road, Wyndham Vale, which occurred after the balance date. This amount has been valued as a receivable (adjusted for risk and time costs).

Your Directors have declared a higher annual dividend per share of 5 cents compared to 2 cents a share paid last year.

The Board also considers that in a mature property market with some uncertainties ahead, the company should remain conservatively managed and funded.

As previously highlighted, the company sold its development land at Black Forest Road, Wyndham Vale, after the end of the financial year. This transaction will be recognised in the Financial Statements in future years.

The property, which was included in a Precinct Structure Plan and then rezoned for residential development to Urban Growth Zone, was successfully marketed by our appointed agents and, as has been previously disclosed, was sold for a total consideration of $400 million.

The purchaser is a local subsidiary of the Hong Kong listed public company Country Garden Holdings Co Ltd and the transaction has received clearance from the Foreign Investment Review Board. Accordingly, the sale is now unconditional with the full deposit payment having been received.

The transaction involves three contracts for the five titles with settlement progressively to be completed in February 2022. Settlement dates and amounts are disclosed in this Annual Report.

Clearly this outcome is significant for your company.

Your Board actively planned the rezoning process and through diligence and patience have enabled your Company to realise the rewards from the property's readiness for development through this sale transaction.

I would like to provide the following update regarding the balance of our property holdings.

The Rocklea Homemaker Centre was sold during the year for a favourable price as a result of strong demand and compressing yields for regional large format retail property investments, returning your company a net profit before tax of $3.69 million.

I note that we retain the residential land component of the Bendigo property and with its location and the current market demand we see the potential for a small unit industrial project providing spaces that appeal to small businesses and trades personnel.

These projects, often dubbed 'man caves' have been quite successful in the Melbourne suburban market and we see a demand for them in Bendigo. The application for rezoning to allow this changed use is currently in progress.

As you will recall the Box Hill property has been in our portfolio for some years. During this time, the character of Box Hill has changed dramatically with strong demand for residential apartment development sites.

Your Board together with the relevant regulatory bodies have been moving forward to resolve certain matters regarding the historic brickwork buildings that form a portion of the site and the land fill portion of the site.

At the same time, residential areas in the adjoining eastern suburbs continue to enjoy strong appreciation in property values.

Our principal portfolio investment is the 30-storey office building at 303 Collins Street Melbourne on the south-west corner of Elizabeth Street.

The independent valuation of this building has risen strongly and the current fair value of this property is now $132.5 million. This is significantly above the previous fair value of $108.6 million, enabling a net value gain of $23.9 million before tax to be recognised in the Financial Statements.

We are not satisfied with current vacancy rate of this property and we continue to work with our appointed leasing agents to increase the occupancy rate whilst retaining our existing tenants.

Our subsidiary company has continued to operate the Ramada Encore Business Class Hotel in the Dandenong CBD.

It operated less successfully, delivering slightly reduced revenue and trading profit before rent than in the prior year. This, in part, reflects changes in the local business community and increased competition for stays.

Your Board continues to evaluate the future of this property, its presentation and options and we will be alert to any opportunities that may arise.

Regarding outlook, I think most financial and property market commentators agree there is some uncertainty ahead.

I believe that interest rates look likely to remain materially unchanged in the immediate future but they will inevitably rise at some point.

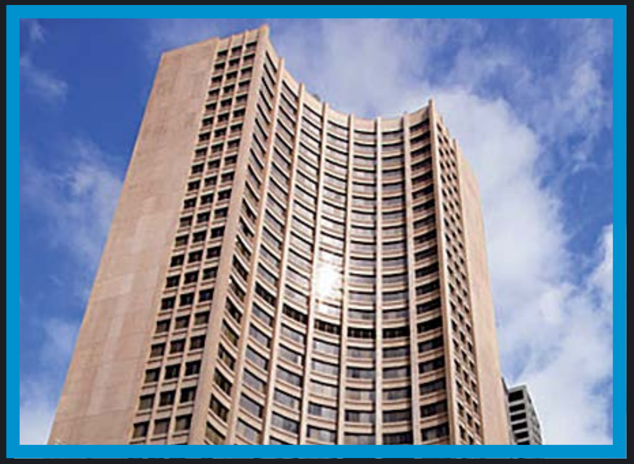
With a valuable and strong property portfolio and a strong balance sheet I believe we can look forward with confidence.

In what has been a signature and successful year, I would like to pay regard to our small head office management support team, our executives and the agents and consultants who have worked with us.

All these contributions are recognised with thanks and appreciation.

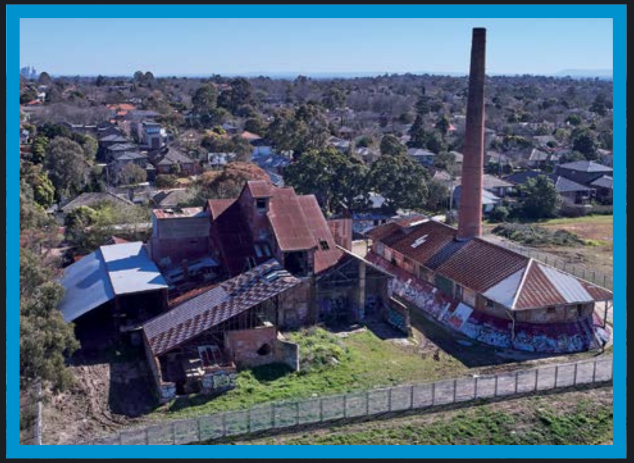
Graham Homes
Chairman
25 September 2017

PROJECTS UPDATE



303 COLLINS STREET, MELBOURNE

As we continue to refurbish the vacant floors, there has been keen interest from existing and new tenants resulting in signing of new leases.



14 FEDERATION STREET, BOX HILL

We have constructed high security fence to prevent unlawful entry into the heritage brickworks. We are also doing extensive repair works for the heritage brickworks to preserve the buildings.

1A RAILWAY STREET, BENDIGO

We are applying to council for rezoning together with a 96A application for change of land-use from residential to industrial with plans to build 48 compact office warehouses.

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 2017 ("financial year").

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

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN NATURE OF ACTIVITIES

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

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

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

OPERATING RESULTS

The consolidated net operating profit before income tax for the year was $26,976,000 (2016: $13,681,000 profit). The change in profit before tax of $13,295,000 from 2016 was mainly due to the following:

- The current year profit includes:
  - a fair value gain of $23,897,000 (before tax) (2016:$12,466,000) which was recognised on revaluation of investment property at 303 Collins Street, Melbourne. The current year gain represents the excess of an independent valuer assessment of the asset's current fair value of $132,500,000 over its previous carrying value of $108,603,000;
  - a profit before tax of $3,693,000 from the sale of the development property held at Rocklea Homemaker Centre in Bendigo ("Rocklea Homemaker Centre"). No development properties were sold during 2016; and
  - a gain of $1,711,000 from the fair value accounting of interest swap held by the company (2016: $297,000 loss).
- The current year profit was offset by a net asset impairment loss of $451,000 (before tax) (June 2016: Nil). The asset impairment relates to the carrying value of residential land in Bendigo, recognised to reflect its current market valuation.
- The current year profit was reduced because the rental income from Rocklea Homemaker Centre for the year was lower than 2016 by $1,208,000, as the property was sold in November 2016.
- The profit for 2016 included a gain on recoupment of remaining prior year accumulated impairment losses of $2,003,000 (before tax) in respect to the Rocklea Homemaker Centre. No further gain on recoupment of prior year accumulated impairment loss was recognised during the year.

The profit attributable to members after tax was $23,393,000 (2016: $9,537,000 after deducting the profit attributable to minority interests).

REVIEW OF OPERATIONS

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

Total consolidated revenue for the year was $46,787,000 (2016: $13,151,000), excluding fair value gain on revaluation of the investment property of $23,897,000, and a gain of $1,711,000 from the fair value accounting of interest swap. During the year, the consolidated entity:

- sold its development property, Rocklea Homemaker Centre, for $35,000,000;
- earned rental income totaling $8,372,000 (2016: $9,781,000) from its rental properties, which included rental of $7,309,000 (2016: $7,364,000) inclusive of recovery of outgoings from the 30-storey commercial office building at 303 Collins Street, Melbourne; 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 at McCrae Street, Dandenong. The hotel operation contributed revenue of $3,100,000 (2016: $3,249,000).

The decrease in rental revenue was mainly due to sale of the Rocklea Homemaker Centre in November 2016. The occupancy rate at 303 Collins Street, Melbourne has increased from 65% at the beginning of the financial year to 68% as at June 2017.

Profit (before tax but after borrowing costs) from rental activities has decreased to $1,142,000 (2016: $2,039,000) mainly due to lower rental income following the sale of the Rocklea Homemaker Centre.

The hotel's profitability before tax and intercompany rent has reduced to $566,000 (2016: $771,000 profit). The room occupancy rate for the year has decreased by 6% from 73% for the year ended June 2016 to 67% for the year ended June 2017. The effect of lower occupancy rate together with an increase in operating costs resulted in reduced profitability before intercompany rent from the hotel operation for the year.

The company is currently holding vacant land in Bendigo. This vacant land is currently zoned as Residential land. The company intends to apply for the rezoning of this vacant land to service industry zone and is in discussions with the relevant authorities. If successful, the company is considering developing and selling workshops suitable for small to medium sized business.

The company's site at Black Forest Road, Wyndham Vale (the Land), comprises approximately 363 hectares of land which has been gazetted under Precinct Structure Plan PSP 42N Black Forest Road and rezoned for residential development to Urban Growth Zone.

During the year, the company appointed selling agents to market the Land for sale by selected tendering process. The tendering process was closed on 28 June 2017. For further information on the sale result, refer to the Future Developments, Prospects and Business Strategies section of this report.

The land is currently leased for cattle grazing activities. The company recorded a loss after tax for the year of $1,127,000 (2016: $846,000 loss), arising mainly from land holding costs, including land tax and council rates, in relation to this property.

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

During the year, the entity's result per share after tax was $0.81 profit (2016: $0.33 profit).

FINANCIAL POSITION

At 30 June 2017, the consolidated entity's property portfolio had a carrying value of $169,890,000 (2016: $173,828,000). This property portfolio consists of an investment property with a carrying value of $132,500,000 and development properties with carrying values of $37,390,000. In accordance with the accounting policy, only the carrying value of the investment property is stated at a fair value in the financial report. The development properties are valued at cost or net realisable value whichever is lower. The fair value or net realisable value of these properties were consistent with Directors' valuation based on the latest available independent market valuations and/or other available financial data.

The total loan facility of the entity as at 30 June 2017 was $45,000,000 (2016: $57,500,000). As at balance date the entity total bank borrowings amounted to $45,000,000 (2016:$56,500,000).

The reduction in loan facility and total bank borrowings is due to the repayment of debt secured over the Rocklea Homemaker Centre in Bendigo from the proceeds received from its sale.

The remaining loan of $45,000,000 was used to partially fund the acquisition of 303 Collins Street property, and is secured against that property. The entities' other properties are unencumbered at 30 June 2017.

As at balance date, the entity had approximately $19,331,000 (2016: $924,000) in cash and at bank, and $37,390,000 (2016: $36,127,000) in carrying value of unencumbered properties that were available to secure new borrowings if required.

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

As at 30 June 2017, the economic entity's net tangible asset backing per share was $4.29 (2016: $3.50).

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 $0.05 per ordinary share final dividend for this financial year. The dividend was declared after 30 June 2017 and has not been provided for in the accounts as at 30 June 2017.

A fully franked final dividend of 2 cents per ordinary share for the financial year ended 30 June 2016 was declared after 30 June 2016. This final dividend was paid in October 2016.

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 2017 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 its investment property at 303 Collins Street, Melbourne. Subsequent to the year end, the company has negotiated two new lease agreements for the available vacancies at 303 Collins Street, Melbourne. The lease commencement dates for these new leases range from August to September 2017. Management, in consultation with the appointed leasing agents, is actively looking for new tenants to lease the vacancies of 303 Collins Street, Melbourne.

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

TITLE REFERENCE	CONTRACT SUM	SECURITY DEPOSIT RECEIVED BY SOLICITORS IN JULY 2017	BALANCE OF THE CONTRACT SUM	SETTLEMENT DATE
Volume 11202 Folio 514 & 515 (2 titles)	$122,222,222.22	$12,222,222.22	$110,000,000	15 February 2018
Volume 11202 Folio 518 (1 title)	$55,555,555.56	$5,555,555.56	$50,000,000	17 February 2020
Volume 11202 Folio 516 & 517 (2 titles)	$222,222,222.22	$22,222,222.22	$200,000,000	15 February 2022
Total	**$400,000,000.00**	**$40,000,000.00**	**$360,000,000**	

The sale was conditional on the purchaser obtaining approval of the acquisition from the Foreign Investment Review Board (FIRB) which was received on 14 August 2017. Accordingly, the sale is now unconditional and the company has received the full amount of the deposit.

According to the contracts of sale, the titles will be progressively transferred to the purchaser on payment of the relevant amount of the contract sum on the specified settlement date. In accordance with the Accounting Standard AASB 15 – Revenue from Contracts with Customers and the company's accounting policy on Profit and Revenue Recognition, the sale of the above property and the resultant profit before tax of $383.11m (Sale Price: $400m less Carrying costs: $16.89m) will be recorded progressively in the respective financial year of settlement of each contract.

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

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 71. Joined the Board in December 1995 in a non-executive independent capacity. Member of the Remuneration and the Audit Committee. Graham has over 40 years of professional involvement in real estate agency, property portfolio management and consultancy in Melbourne. He established his own property consultancy, Homes Property Consultants, in 1991 that he sold in 2000. He is currently engaged as an independent property consultant.

Rudy Eng Wah Koh

Managing Director and Chief Executive Officer. Former practising barrister and solicitor in Malaysia. Aged 58. 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 72. Joined the Board in September 1997. Alfred has over 30 years of professional experience as an architect on a wide variety of building types. He has extensive experience in the establishment and management of development projects with particular skills in building and property procurement.

Michael Tan Chung Loke

Non-Executive Director. Chairman of the Audit Committee. A former barrister and solicitor in Malaysia. Aged 58. Joined the Board in March 1999. Michael was formerly a partner of a legal practice in Malaysia and has significant experience in property development with both private and public listed companies in Malaysia.

Andrew Chooi Seng Hang

Non-Executive and Independent Director. Qualified engineer. Member of the Audit Committee. Property developer in Melbourne and Malaysia with over 20 years' experience. Aged 64. 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 Group Financial Controller is Tejas Gandhi. Tejas is a member of Chartered Accountants Australia and New Zealand and has over 20 years' experience in profession, audit, regulatory and corporate accounting, and financial management.

DIRECTORS' SHAREHOLDINGS

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

DIRECTOR	FULLY PAID ORDINARY SHARES	PERCENTAGE HELD
Rudy Koh (Managing Director/CEO)	10,348,814	35.78%
Michael Loke (Non-Executive Director)	3,345,500	11.57%
Andrew Hang (Non-Executive & Independent Director)	2,590,196	8.95%
Alfred Sung (Executive Director)	1,896,849	6.56%
Graham Homes (Chairman & Non-Executive Independent Director)	59,116	0.20%

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

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

MEETINGS OF DIRECTORS

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

DIRECTOR	BOARD MEETINGS	
	HELD	ATTENDED
Graham Homes (Chairman & Non-Executive Independent Director)	10	9
Rudy Koh (Managing Director/CEO)	10	10
Alfred Sung (Executive Director)	10	9
Andrew Hang (Non-Executive & Independent Director)	10	6
Michael Loke (Non-Executive Director)	10	6

MEETING OF THE AUDIT COMMITTEE

Audit Committee meetings held during the year:

DIRECTOR	MEETINGS	
	HELD	ATTENDED
Michael Loke (Chairman)	2	2
Graham Homes	2	2
Andrew Hang	2	1

INDEMNIFYING OFFICERS OR AUDITOR

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

OPTIONS

As at the date of this report, there were no share options or other options outstanding (2016: Nil).

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

NON-AUDIT SERVICES

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

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

There were no fees for non-audit services paid or payable to the external auditor during the financial year ended 30 June 2017.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the financial year ended 30 June 2017 has been received and can be found on page 16 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.

Table of Benefits and Payments

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

For the Year Ended 30 June 2017

NAME	OFFICE	SALARY & FEES $	BENEFITS, INCL. SUPERANNUATION $	TOTAL $
Rudy Koh	Managing Director/CEO	464,411	34,805	499,216
Alfred Sung	Executive Director	414,278	62,527	476,805
Graham Homes	Chairman & Non-Executive Independent Director	36,000	–	36,000
Andrew Hang	Non-Executive & Independent Director	24,000	4,054	28,054
Michael Loke	Non-Executive Director	24,000	2,280	26,280
TOTAL		962,689	103,666	1,066,355

For the Year Ended 30 June 2016

NAME	OFFICE	SALARY & FEES $	BENEFITS, INCL. SUPERANNUATION $	TOTAL $
Rudy Koh	Managing Director/CEO	444,216	38,032	482,248
Alfred Sung	Executive Director	410,420	64,203	474,623
Graham Homes	Chairman & Non-Executive Independent Director	36,000	–	36,000
Andrew Hang	Non-Executive & Independent Director	24,000	2,974	26,974
Michael Loke	Non-Executive Director	24,000	2,280	26,280
TOTAL		938,636	107,489	1,046,125

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

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

Performance-based Remuneration

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

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

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.

End of Remuneration Report (Audited).

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

Rudy Koh
Managing Director

Melbourne
25 September 2017

MOORE STEPHENS

Moore Stephens Audit (Vic)

Level 18, 530 Collins Street
Melbourne Victoria 3000

T +61 (0)3 9608 0100
F +61 (0)3 9608 0192
E victoria@moorestephens.com.au

www.moorestephens.com.au

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 2017, there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Moore Stephens

MOORE STEPHENS AUDIT (VIC)
ABN 16 847 721 257

ANDREW JOHNSON
Partner
Audit & Assurance Services

Melbourne, Victoria

25 September 2017

MOORE STEPHENS

Moore Stephens Audit (Vic)

Level 18, 530 Collins Street
Melbourne Victoria 3000

T +61 (0)3 9608 0100
F +61 (0)3 9608 0192
E victoria@moorestephens.com.au

www.moorestephens.com.au

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Phileo Australia Limited and Controlled Entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

a) the accompanying financial report of the Group is in accordance with the *Corporations Act 2001,* including:

   i. giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Basis for Opinion

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

Key Audit Matters

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

KEY AUDIT MATTER 1 – VALUATION OF INVENTORIES
Refer to Note 15 "Inventory"

As at 30 June 2017, the Group held inventories to the value of $37.4 million (2016: $65.8 million). The Group's inventory balance is largely comprised of land and buildings either held for sale or in the process of improvement for sale in accordance with *AASB 102 Inventories*. Inventories are recognised at the lower of cost and net realisable value.

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

Our procedures included, amongst others:

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

KEY AUDIT MATTER 2 – VALUATION OF INVESTMENT PROPERTY
Refer to Note 17 "Investment Property"

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

As at 30 June 2017, the investment property of $132.5 million (2016: $108.0 million) is recorded at fair value as disclosed in Note 17 – Investment Property.

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

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

Our procedures included, amongst others:

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

KEY AUDIT MATTER 3 – TAX CONSOLIDATION
Refer to Note 6 "Income Tax"

During the year, the Group elected to tax consolidate Phileo Australia Limited and Controlled Entities effective 1 July 2016.

We focused on this area due to the size of the tax balances and because of the expertise required to assess the impact of the tax consolidation to the balances.

Our procedures included, amongst others:

- Engaging with our tax specialist to review the tax consolidation calculation provided by management with the assistance of their tax professionals; and
- Assessed the adequacy of the Group's disclosure relating to tax consolidation in the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the Directors for the Financial Report

The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by directors;
- conclude on the appropriateness of director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group's to cease to continue as a going concern; and

MOORE STEPHENS

- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 15 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Phileo Australia Limited and Controlled Entities, for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Group are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Moore Stephens

MOORE STEPHENS AUDIT (VIC)
ABN 16 847 721 257

ANDREW JOHNSON
Partner
Audit & Assurance Services

Melbourne, Victoria

25 September 2017

DIRECTORS' DECLARATION

The Directors declare that:

1. the financial statements and notes, as set out on pages 22 to 60, 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 2017 and of the performance for the year ended on that date of the company and the consolidated group;

2. the Chief Executive Officer and Chief Finance Officer have each declared that:

   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and

   (c) the financial statements and notes for the financial year give a true and fair view;

3. in the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Rudy Koh
Managing Director

Melbourne
25 September 2017

For the financial year ended 30 June 2017.

CONSOLIDATED INCOME STATEMENT

	NOTE	CONSOLIDATED GROUP	
		2017 $	2016 $
Revenue and other income	4	72,394,666	27,619,947
Cost of development property sold		(31,307,147)	–
Rental property expenses		(4,088,904)	(4,428,793)
Hotel operating expenses		(1,641,336)	(1,587,083)
Development property expenses		(1,933,554)	(1,454,801)
Employee benefits expense		(2,340,126)	(2,167,019)
Depreciation and amortisation expense	18	(92,246)	(130,030)
Finance costs		(3,073,408)	(3,207,726)
Inventory write down	15	(450,521)	–
Net change in value of Interest swap	16	–	(296,607)
Other expenses		(490,691)	(667,603)
Profit (Loss) before income tax	5	26,976,733	13,680,285
Income tax benefit (expense)	6	(3,583,299)	(4,142,553)
Profit (Loss) from continuing operations		23,393,434	9,537,732
Profit (Loss) for the year	5	23,393,434	9,537,732
Profit (Loss) attributable to:			
Members of the parent entity		23,393,434	9,536,239
Non-controlling interest		–	1,493
		23,393,434	9,537,732
Earnings per share			
From continuing and discontinued operations:			
Basic profit (loss) in cents per share	11	81	33
Diluted profit (loss) in cents per share	11	81	33
From continuing operations:			
Basic profit (loss) in cents per share	11	81	33
Diluted profit (loss) in cents per share	11	81	33

For the year ended 30 June 2017.

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	NOTE	CONSOLIDATED GROUP	
		2017 $	2016 $
Profit (Loss) for the year		23,393,434	9,537,732
Add (Less) Comprehensive income/(expense) for the year		–	–
Total comprehensive profit (loss) income for the year		23,393,434	9,537,732
Total comprehensive profit (loss) attributable to:			
Members of the parent entity		23,393,434	9,536,239
Non-controlling interest		–	1,493
		23,393,434	9,537,732

For the year ended 30 June 2017

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	CONSOLIDATED GROUP 2017 $	CONSOLIDATED GROUP 2016 $
CURRENT ASSETS			
Cash	12	19,330,752	924,305
Receivables	13	10,898	137,562
Inventory	15	4,862,844	–
Other	19	624,454	645,779
TOTAL CURRENT ASSETS		24,828,948	1,707,646
NON-CURRENT ASSETS			
Inventory	15	32,526,938	65,828,484
Investment Property	17	132,500,000	108,000,000
Plant and equipment	18	734,984	795,389
Deferred tax asset	6	5,253,777	7,275,644
Other	19	1,947,899	2,813,309
TOTAL NON-CURRENT ASSETS		172,963,598	184,712,826
TOTAL ASSETS		197,792,546	186,420,472
CURRENT LIABILITIES			
Payables	20	1,496,104	1,229,759
Current tax payable		391,841	129,216
Dividend payable	10	–	–
Provisions	22	332,052	287,073
TOTAL CURRENT LIABILITIES		2,219,997	1,646,048
NON-CURRENT LIABILITIES			
Interest bearing liabilities	21	45,000,000	56,500,000
Derivatives	16	3,489,972	5,201,082
Deferred tax liability	6	22,349,143	21,050,336
Other creditors	20	488,785	610,348
Provisions	22	64,133	47,036
TOTAL NON-CURRENT LIABILITIES		71,392,033	83,408,802
TOTAL LIABILITIES		73,612,030	85,054,850
NET ASSETS		**124,180,516**	**101,365,622**
EQUITY			
Issued capital	23	19,910,650	19,910,650
Reserves	28	13,539	13,539
Retained earnings	28	104,256,327	81,441,433
Minority interest		–	–
TOTAL EQUITY		**124,180,516**	**101,365,622**

As at 30 June 2017.

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 2015		19,910,650	13,539	72,483,734	(1,493)	92,406,430
Profit/(Loss) for the year		–	–	9,536,239	1,493	9,537,732
Subtotal		19,910,650	13,539	82,019,973	–	101,944,162
Dividends paid or provided for	10	–	–	(578,540)	–	(578,540)
Balance at 30 June 2016	23,28	19,910,650	13,539	81,441,433	–	101,365,622
Balance at 1 July 2016		19,910,650	13,539	81,441,433	–	101,365,622
Profit/(Loss) for the year		–	–	23,393,434	–	23,393,434
Subtotal		19,910,650	13,539	104,834,867	–	124,759,056
Dividends paid or provided for	10	–	–	(578,540)	–	(578,540)
Balance at 30 June 2017	23,28	19,910,650	13,539	104,256,327	–	124,180,516

For the year ended 30 June 2017.

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	NOTE	CONSOLIDATED GROUP 2017 $	2016 $
CASHFLOW FROM OPERATING ACTIVITIES			
Proceeds from sale of development property		35,000,000	–
Receipts from ordinary activities		13,651,066	14,258,310
Payment to suppliers & employees		(13,805,341)	(12,049,719)
Payment for property development		(935,610)	(908,046)
Net Cash produced/(used) in Operating Activities	25	33,910,119	1,300,545
CASHFLOW FROM INVESTING ACTIVITIES			
Payment for investment property development		(603,456)	(534,268)
Payment for purchase of plant & equipment		(31,841)	(55,348)
Cash flow from/(used) in Investing Activities		(635,297)	(589,616)
CASHFLOW FROM FINANCING ACTIVITIES			
Interest paid		(3,073,408)	(3,207,726)
Interest received		283,573	14,373
Loan repaid		(13,500,000)	2,992,480
Loan received		2,000,000	–
Dividend paid		(578,540)	(578,540)
Cash flow from/(used) in Financing Activities		(14,868,375)	(779,413)
Net increase (decrease) in cash		18,406,447	(68,484)
Cash at beginning of the year		924,305	992,789
Cash at end of the year	12	19,330,752	924,305

For the year ended 30 June 2017.

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Preparation

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

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

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

(a) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of all of the subsidiaries controlled by Phileo Australia Limited at the end of the reporting period. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of controlled entities is contained in Note 14 to the financial statements.

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

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

(b) Plant and Equipment

Plant and Equipment

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

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

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.

For the financial year ended 30 June 2017.

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

Leasehold Improvements	**Over the Term of the Lease**
Plant and equipment	2 – 15 years
Office equipment, furniture and fittings	2 – 15 years
Plant and machinery under finance lease	3 – 15 years
Office equipment, furniture and fittings under finance lease	2 – 15 years

(c) Inventories

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

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

(d) Investment Properties

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

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

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

(e) Profit and Revenue Recognition

Rental Revenue

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

Revenue and Profit Recognition on Sale of Inventories (Properties)

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

Revenue from Services Rendered

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

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

(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.

For the financial year ended 30 June 2017.

(g) Leased Assets

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

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

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

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

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

(h) Provisions

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

(i) Receivables

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

(j) Accounts Payable

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

(k) Employee Entitlements

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

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

(l) Income Tax

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

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

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

For the financial year ended 30 June 2017.

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

Tax Consolidation

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

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

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

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

(m) Goods and Services Tax

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

(n) Rental Lease

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

(o) Financial Instruments

Recognition and Initial Measurement

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

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

Derecognition

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

For the financial year ended 30 June 2017.

Classification and Subsequent Measurement

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

(v) Financial liabilities

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

Fair Value

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

Impairment of Financial Assets

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

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

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

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

Financial Guarantees

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

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

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

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

(p) Impairment of Non-Financial Assets

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

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

Calculation of Recoverable Amount

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

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

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

Reversals of Impairment

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

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

(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 Derivates

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

(s) Key Estimates

i) Inventory

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

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

ii) Measurement of Fair Value

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

- derivative financial instruments; and
- investment properties.

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

Level 1:

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

Level 2:

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

Level 3:

Measurements based on unobservable inputs for the asset or liability.

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

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

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

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

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

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

Note 16 – Derivative financial instrument; and
Note 17(a) – Investment properties.

(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

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

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

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

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

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

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

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

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

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

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

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

Although the directors anticipate that the adoption of AASB 15 may have an impact on the group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 16 Leases (applicable for annual reporting periods commencing on or after 1 January 2019)
Under IFRS 16 there is no longer a distinction between finance and operating leases. Lessees will now bring to account a right-to-use asset and lease liability onto their balance sheets for all leases. Effectively this means the vast majority of operating leases as defined by the current AASB 117 Leases which currently do not impact the balance sheet will be required to be capitalised on the balance sheet once IFRS 16 is adopted.

Although the directors anticipate that the adoption of AASB 16 may have an impact on the group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

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.

	2017 $	2016 $
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	18,706,527	792,122
Non-current assets	61,688,881	91,763,263
TOTAL ASSETS	80,395,408	92,555,385
LIABILITIES		
Current liabilities	1,012,142	1,036,556
Non-current liabilities	2,596,176	15,869,372
TOTAL LIABILITIES	3,608,318	16,905,928
NET ASSETS	76,787,090	75,649,457
EQUITY		
Issued capital	19,910,650	19,910,650
Retained earnings	56,862,901	55,725,268
Capital profits reserve	13,539	13,539
TOTAL EQUITY	76,787,090	75,649,457
STATEMENT OF COMPREHENSIVE INCOME		
Total profit/(loss)	1,716,173	1,999,556
Total comprehensive income/(loss)	1,716,173	1,999,556

For the financial year ended 30 June 2017.

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

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

Contingent Liabilities
At 30 June 2017, Phileo Australia Limited had no material undisclosed contingent liabilities (2016: $Nil).

Contractual Commitments
At 30 June 2017, Phileo Australia Limited had not entered into any material contractual commitments for the acquisition of property, plant and equipment (2016: $Nil).

	NOTE	CONSOLIDATED GROUP 2017 $	2016 $
4. REVENUE AND OTHER INCOME			
a. Revenue from continuing operations			
Sale of property		35,000,000	–
Other revenue from ordinary activities:			
Rental income from properties		8,372,231	9,780,774
Hotel income		3,100,412	3,249,066
Interest revenue – bank		283,573	14,373
Other		30,797	107,123
Total Revenue from ordinary activities		46,787,013	13,151,336
b. Other Income			
Gain on recoupment of impairment of inventories	15	–	2,002,879
Gain on fair value adjustment of interest SWAP		1,711,109	–
Gain on fair value adjustment of investment properties	17	23,896,544	12,465,732
Total other income		25,607,653	14,468,611
Total Revenue and Other Income		**72,394,666**	**27,619,947**

5. PROFIT (LOSS) FOR THE YEAR

	2017 $	2016 $
Profit (Loss) before income tax from continuing operations includes the following specific expenses:		
Borrowing costs – financial institutions	3,073,408	3,207,726
Land tax and rates	3,086,301	2,673,818
Bad debts written off	–	9,548
Rental expense on operating leases – minimum office lease payments	147,245	162,394
Inventory write down/(up) – Rocklea Homemaker Centre	450,521	(2,002,879)

For the financial year ended 30 June 2017.

6. INCOME TAX

	CONSOLIDATED GROUP 2017 $	2016 $
(a) The component of tax (benefit) expense comprises of:		
Current tax	391,841	–
Deferred tax	3,191,458	4,142,553
	3,583,299	4,142,553
(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	26,976,733	13,680,285
Income tax expense (benefit) calculated at 30% (2016: 30%) of operating (loss) profit from ordinary activities before income tax	8,093,020	4,104,085
Add/(less), Tax effect of permanent differences:		
Non-deductible items	3,433	2,175
Once-off tax benefit on formation of tax consolidated group	(4,300,485)	–
Adjustment relating to prior years	(83,453)	36,293
Other	(129,216)	–
	(4,509,721)	38,468
Income Tax Expense (Benefit) Attributable to Profit from Ordinary Activities before Income Tax	3,583,299	4,142,553

(c) Deferred Tax Asset ("DTA")

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

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

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

ENTITY		30 JUNE 2017	30 JUNE 2016
Phileo Australia Limited	Tax losses	$13,173,706	$1,510,554
Phileo 303 Collins Pty Ltd	Tax losses	–	$10,606,731
Daleston Pty Ltd	Tax losses	–	$6,019,719
Sequoia Management Pty Ltd	Tax losses	–	$297,975
Phileo Australia Limited	Capital losses	79,684	$79,684

In 2017, Phileo Australia Limited recognised the deferred tax assets arising from the unused tax losses of the controlled entities in the tax consolidated group.

For the financial year ended 30 June 2017.

	CONSOLIDATED GROUP 2017 $	2016 $
Deferred tax asset	5,253,777	7,275,644
Deferred tax asset reconciliation:		
Opening balance at 1 July	7,275,644	6,973,578
Adjustment to prior year's timing differences	20,826	4,279
Once off tax expenses on formation of tax consolidated group	646	–
Restated opening balance	7,297,116	6,977,857
Tax losses/(utilised)	(1,730,985)	196,129
Other timing differences	(312,354)	101,658
Closing balance at 30 June	5,253,777	7,275,644
(d) Deferred tax liability ("DTL")	22,349,153	21,050,336
Deferred tax liability reconciliation:		
Opening balance at 1 July	21,050,336	16,605,717
Once-off tax benefit on formation of tax consolidated group	(4,372,832)	–
Adjustment to prior year's timing differences	(62,626)	40,572
Restated opening balance	16,614,878	16,646,289
Difference between tax and accounting written down values (includes Deferred tax liability of $20,878,837 (2016:$13,707,474) recognised on fair value adjustment to the investment property)	5,734,265	4,404,047
Closing balance at 30 June	22,349,143	21,050,336

7. PROFIT ON SALE OF DEVELOPMENT PROPERTIES

Sale of Rocklea Homemaker Centre	35,000,000	–
Less: Carrying costs of Rocklea Homemaker Centre	(31,307,147)	–
Profit on Sale of Development Properties	3,692,853	–

For the financial year ended 30 June 2017.

8. INTERESTS OF KEY MANAGEMENT PERSONNEL ("KMP")

	CONSOLIDATED GROUP	
	2017 $	2016 $
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 2017.		
In summary, the totals of remuneration paid to KMP of the company and the Group during the year are as follows:		
Short and Long term employee benefits	1,066,355	1,046,125
	1,066,355	1,046,125

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 2017	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	59,116	–	–	–	59,116
Rudy Koh	10,348,814	–	–	–	10,348,814
Alfred Sung	1,896,849	–	–	–	1,896,849
Michael Loke	3,345,500	–	–	–	3,345,500
Andrew Hang	2,590,196	–	–	–	2,590,196
	18,240,475	–	–	–	18,240,475

30 June 2016	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	59,116	–	–	–	59,116
Rudy Koh	10,348,814	–	–	–	10,348,814
Alfred Sung	1,896,849	–	–	–	1,896,849
Michael Loke	3,345,500	–	–	–	3,345,500
Andrew Hang	2,590,196	–	–	–	2,590,196
	18,240,475	–	–	–	18,240,475

Other KMP Transactions

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

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

There were no loans to KMP during the financial year (2016: $Nil).

9. AUDITOR'S REMUNERATION

	CONSOLIDATED GROUP	
	2017 $	2016 $
Remuneration of the auditor for:		
Auditing or reviewing the financial statements	45,700	45,150

For the financial year ended 30 June 2017.

10. DIVIDENDS

	NOTE	CONSOLIDATED GROUP	
		2017 $	2016 $
a) Distributions paid:			
2016 final dividend (fully franked) of 2 cents per share declared and paid in 2017		578,540	578,540
b) Declared final 2017 fully franked ordinary dividend $Nil (2016: Nil cents) per share franked at the tax rate of 30% (2016: 30%)		–	–
c) Movement in Franking Account:			
Balance at 1 July		19,641,598	19,889,544
Franking debits arising from payment of dividends (above)		(247,946)	(247,946)
Balance at 30 June		19,393,652	19,641,598

The directors have declared a fully franked $0.05 per ordinary share final dividend for this financial year after 30 June 2017. Therefore, the dividend has not been provided for in the accounts as at 30 June 2017.

11. EARNINGS PER SHARE

		2017	2016
Profit/(Loss) profit after tax		23,393,434	9,537,732
Add/(Less): (Profit) /Loss profit attributable to minority equity interest		–	(1,493)
Profit/(Loss) profit attributable to members of the parent entity		23,393,434	9,536,239
The Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share		28,927,016	28,927,016
Basic gain/(loss) profit per share in cents		81	33

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

12. CASH AND CASH EQUIVALENTS

	NOTE	2017	2016
Cash at bank and in hand		2,330,752	924,305
Short-term bank deposits		17,000,000	–
	25	19,330,752	924,305

The effective interest rate on short-term bank deposits was 2.5% (2016: Nil%); These deposits have an average maturity of 70 days (2016: Nil 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:

	NOTE	2017	2016
Cash and cash equivalents		19,330,752	924,305
	25	19,330,752	924,305

For the financial year ended 30 June 2017.

13. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED GROUP 2017 $	2016 $
CURRENT		
Trade receivables	10,898	137,562
Provision for impairment	–	–
Total current trade and other receivables	10,898	137,562

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) <30 $	31 – 60 $	61 – 90 $	>90 $	WITHIN INITIAL TRADE TERMS $
2017							
Trade receivables	10,898	–	10,274	624	–	–	10,898
Total	10,898	–	10,274	624	–	–	10,898
2016							
Trade receivables	137,562	–	61,783	36,082	35,570	4,127	137,562
Total	137,562	–	61,783	36,082	35,570	4,127	137,562

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

Collateral Held as Security

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

Collateral Pledged

Group has not provided any charges over the trade receivables.

14. CONTROLLED ENTITIES

(a) Controlled Entities Consolidated and Principal Activities

	COUNTRY OF INCORPORATION	PERCENTAGE OWNED 2017	2016
Subsidiaries of Phileo Australia Limited:			
Phileo 303 Collins Pty Ltd (Investment Property Holding)	Australia	100%	100%
Sequoia Management Pty Ltd (Hotel Operation)	Australia	100%	100%
Daleston Pty Ltd (Property Holding)	Australia	100%	100%
Rocklea Homemaker Centre Pty Ltd (Dormant)	Australia	100%	100%

(b) Acquisition of Controlled Entities

There were no entities acquired during the financial year.

For the financial year ended 30 June 2017.

15. INVENTORY

	CONSOLIDATED GROUP 2017 $	2016 $
(a) Current:	4,862,944	–

Current Inventory: Includes carrying costs of two titles of the vacant land at Black Forest Road in Wyndham Vale due for settlement in February 2018.

	2017 $	2016 $
(b) Non-Current: *(i)*		
Freehold land and buildings (at cost) – Opening	65,828,484	62,917,559
Add: Development cost incurred during the year	935,610	908,046
Add: Write up during the year (ii)	–	2,002,879
Less: Cost of development land sold during the year	(28,923,791)	–
Less: Cost of development land reclassified as current	(4,862,944)	–
Less: Write down during the year (ii)	(450,521)	–
	32,526,838	65,828,484
(c) Total Inventory:		
Acquisition cost	25,413,282	28,509,784
Development cost	15,617,315	39,458,514
Borrowing cost	614,964	1,665,445
Inventory write down *(ii)*	(4,255,779)	(3,805,259)
Total inventory *(iii)*	37,389,782	65,828,484

(d) Inventory Pledged as Security

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

	2017	2016
Rocklea Homemaker Centre and residential land at Bendigo:		
– Carrying amount	–	29,701,959
– Loan facility	–	12,500,000

(i) Non-Current Inventory. Includes carrying costs of the vacant land at 14 Federation Street in Box Hill, remaining three titles of the vacant land at Black Forest Road in Wyndham Vale which is sold subsequent to the year end and will be settled progressively by February 2022; the Residential land at Kangaroo Flat, off the Calder Highway near Bendigo; the 108-room business class hotel at 50-52 McCrae Street, Dandenong; all stated at lower of cost or market value. Carrying costs of non current inventory as at June 2016 included the carrying costs of Rocklea Homemaker Centre in Bendigo. This property was sold during the year.

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

(ii) Inventory Write Down: As at balance date, the write down of $4,255,759 represents the balance of inventory write down recognised for the Residential land in Bendigo of $450,521 (2016: $Nil), and the write down for the McCrae Street property of $3,805,259 (2016: $3,805,259).

(iii) Aggregate Carrying Value: The aggregate carrying value of all inventory held at 30 June 2017, based on the lower of cost and net realisable value was estimated at $37,389,782 (2016: $65,828,484).

For the financial year ended 30 June 2017.

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

- the latest independent valuation for Residential land in Bendigo of $870,000 obtained in August 2016;
- the latest independent valuation for Federation Street residential development land of $20,000,000 obtained in June 2016;
- the latest independent valuation for Wyndham Vale future residential development land of $120,000,000 obtained in May 2016 and three sales contracts that were entered subsequent to the year end for sale of the Wyndham Vale land over 4½ years for a total price of $400m payable progressively;
- the McCrae Street building at latest independent valuation of $8,900,000 obtained in June 2014.

16. DERIVATIVES

	CONSOLIDATED GROUP 2017 $	2016 $
Interest rate swap for hedging the commercial bills	3,489,972	5,201,082
Total non-current derivatives	3,489,972	5,201,082

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

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

17. INVESTMENT PROPERTY

	2017 $	2016 $
Opening balance at 1 July	108,000,000	95,000,000
Add: Additions for the period	603,456	534,268
Add/(Less): Net gain/(loss) from fair value adjustment [17(a)]	23,896,544	12,465,732
Closing Balance at 30 June	132,500,000	108,000,000

17(a): Determining Fair Value

(i) As stated in the accounting policy note, Investment properties are stated at fair value. The fair value of the investment property has been determined at $132,500,000 based on valuation performed by Knight Frank Valuations Victoria (KF), an accredited independent valuer, as at 28 June 2017. KF is a specialist firm in valuing these types of investment properties. The directors reviewed the valuation at the reporting date and determined the fair value of the property at $132,500,000. The directors' estimate of the fair value of investment property is based on the KF's valuation for the property, amended for changes (if any) to the leasing and market conditions at the reporting date. The key assumptions used in the director's estimate of the fair value are listed below as 17(a)(ii). All of the key assumptions have been compared to the last independent valuation report for the investment property.

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

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

The following primary inputs have been used:

CAP APPROACH ASSUMPTIONS		DCF APPROACH ASSUMPTIONS	
Adopted Cap Rate	6.25%	Discount Rate	7.25%
		Terminal Yield	6.75%
		Weighted Rental Growth (Average 10 years)	3.80%
		CPI (Average 10 years)	2.40%

	CONSOLIDATED GROUP 2017 $	2016 $
17(b). Investment property pledged as security		
303 Collins Street, Melbourne		
– Carrying amount	132,500,000	108,000,000
– Loan facility	45,000,000	45,000,000

18. PLANT AND EQUIPMENT

	2017 $	2016 $
Leasehold improvements:		
At cost	943,065	943,065
less: Accumulated depreciation	(404,292)	(336,910)
	538,773	606,155
Plant and machinery:		
At cost	337,424	334,181
less: Accumulated depreciation	(318,466)	(312,860)
	18,958	21,321
Office equipment, furniture and fittings:		
At cost	844,603	816,005
less: Accumulated depreciation	(667,350)	(648,092)
	177,253	167,913
	734,984	795,389

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

CONSOLIDATED GROUP	LEASEHOLD IMPROVEMENTS $	PLANT AND MACHINERY $	OFFICE EQUIPMENT, FURNITURE AND FITTINGS $	TOTAL $
Balance at beginning of the year	606,155	21,321	167,913	795,389
Additions	–	3,243	28,598	31,841
Deductions/Adjustments	–	–	–	–
Depreciation expense	(67,382)	(5,606)	(19,258)	(92,246)
Carrying amounts at end of year	538,773	18,958	177,253	734,984

19. OTHER ASSETS

	CONSOLIDATED GROUP	
	2017 $	2016 $
CURRENT		
Prepayments	575,435	588,704
Hotel stocks	13,167	18,108
Other debtors	35,852	38,967
	624,454	645,779
NON-CURRENT		
Prepayments	1,891,106	2,756,516
Other debtor	56,793	56,793
	1,947,899	2,813,309

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	658,015	689,964
Sundry payables and accrued expenses	838,089	539,795
	1,496,104	1,229,759
NON-CURRENT		
Unsecured liabilities:		
Tenants' incentives	309,554	309,554
Tenants' bond monies	179,231	300,794
	488,785	610,348

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

21. BORROWINGS

NON-CURRENT		
Secured liabilities:		
Commercial bills	45,000,000	56,500,000
Total non-current borrowings	45,000,000	56,500,000

a. Total current and non-current secured liabilities:		
Commercial bills	45,000,000	56,500,000
	45,000,000	56,500,000

b. The carrying amounts of non-current assets pledged as security are:		
Freehold land and buildings	132,500,000	137,701,959
	132,500,000	137,701,959

For the financial year ended 30 June 2017.

c. Collateral Provided

The commercial bill is secured by a first registered mortgage over property at 303 Collins Street Melbourne owned by the Group. (2016: Commercial bills were secured by a first registered mortgage over property at 303 Collins Street Melbourne and Rocklea Homemaker Centre and adjoining residential land in Bendigo).

Covenants imposed by the bank for loan against 303 Collins Street, Melbourne require total bank debt not to exceed 65% (2016: 65%) of total independent valuation of the pledged securities and 1.30 (2016:1.30) times interest cover.

The loan against Rocklea Homemaker Centre and adjoining residential land in Bendigo was repaid during the year. Till the date of the repayment, covenants imposed by the bank for this loan required total bank debt not to exceed 50% (2016: 50%) of total independent valuation of the pledged securities and 2 (2016: 2) times interest cover.

		CONSOLIDATED GROUP	
MATURITY DATES	EFFECTIVE INTEREST RATE (%)	2017 $	2016 $
30 September 2018	6.32	45,000,000	45,000,000
30 September 2017	4.20	–	11,500,000
		45,000,000	56,500,000

d. During the year, the Company has repaid its debt secured over the Rocklea Homemaker Centre in Bendigo from the proceeds received from its sale.

The total loan facility of the group as at 30 June 2017 was $45,000,000 (2016: $57,500,000).

22. PROVISIONS

Consolidated Group	ANNUAL LEAVE $	LONG SERVICE LEAVE $	TOTAL $
Opening balance at 1 July	75,807	258,302	334,109
Additional provisions	18,452	43,624	62,076
Amounts used	–	–	–
Balance at 30 June	94,259	301,926	396,185

	CONSOLIDATED GROUP	
	2017 $	2016 $
Analysis of Total Provisions		
Current	332,052	287,073
Non-current	64,133	47,036
	396,185	334,109

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.

For the financial year ended 30 June 2017.

23. ISSUED CAPITAL

	CONSOLIDATED GROUP	
	2017 $	2016 $
(a) Issued Share Capital		
28,927,016 (2016: 28,927,016) ordinary shares each fully paid	19,910,650	19,910,650

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Authorised Share Capital

Authorised share capital consists of 198,000,000 (2016: 198,000,000) ordinary shares and 2,000,000 (2016: 2,000,000) preference shares.

(c) Share Options

At 30 June 2017 there were no options outstanding (2016: 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 long term external debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

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

There are no externally imposed capital requirements.

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

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. This strategy is to ensure that the Group's capital gearing ratio remains between 50% and 70%. However, as at June 2017, the Capital Gearing Ratio was lower than the company's adopted strategy due to the following reasons:

- During the year, the company sold its development property – Rocklea Homemaker Centre in Bendigo for $35,000,000. Part of the proceeds was applied to repay a total debt of $13,500,000 secured against the property and fund the company's working capital requirement. As at the year end the company is holding the remaining sales proceeds of $17,000,000 in a short term deposit. The company intends to use the remaining sales proceeds held in a short term deposit to fund its working capital and fund the future development of its properties; and
- Total equity of the company has significantly improved due to a fair value gain of $23,897,000 (before tax) (2016:$12,466,000) which was recognised on revaluation of investment property at 303 Collins Street, Melbourne. The current year gain represents the excess of an independent valuer assessment of the asset's current fair value of $132,500,000 over its previous carrying value of $108,603,000.

The company intends to continue operating with lower capital gearing ratio for future investments opportunities.

The gearing ratios for the year ended 30 June 2017 and 30 June 2016 are as follows:

	2017	2016
Total Borrowings	45,000,000	56,500,000
Less Cash and Cash Equivalents	(19,330,752)	(924,305)
Net Debt	25,669,248	55,575,695
Total Equity	124,180,516	101,365,622
Capital Gearing Ratio	21%	55%

For the financial year ended 30 June 2017.

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, Melbourne and the Rocklea Homemaker Centre.

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

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

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

Basis of accounting for purposes of reporting by operating segments

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

Inter-segment transactions

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

Segment assets

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

Segment liabilities

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

Unallocated items

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

For the financial year ended 30 June 2017.

24. OPERATING SEGMENTS (CONTINUED)

For the financial year ended 30 June 2017.

Industry Segments	REVENUES 2017 $	REVENUES 2016 $	RESULTS 2017 $	RESULTS 2016 $	ASSETS 2017 $	ASSETS 2016 $	LIABILITIES 2017 $	LIABILITIES 2016 $
Rental of properties	8,372,231	9,780,774	1,141,528	2,039,152	135,245,071	141,064,855	50,080,987	51,686,233
Hotel operation	3,100,412	3,249,066	566,686	770,766	8,993,723	9,048,010	264,700	174,569
Development sites	35,000,000	–	1,759,299	(1,454,801)	28,667,782	27,404,525	–	–
Investment at bank	283,573	14,373	283,573	14,373	19,015,271	922,405	–	–
Administration	–	–	(1,962,282)	(1,968,332)	–	–	–	–
Unallocated items (c)	25,638,450	14,575,734	25,187,930	14,279,127	5,870,699	7,980,677	23,266,343	33,194,048
Total	72,394,666	27,619,947	26,976,733	13,680,285	197,792,546	186,420,472	73,612,030	85,054,850
(a) The above total reconciles to – Amount reported in Note 4:								
Group revenue	72,394,666	27,619,947	–	–	–	–	–	–
Amount reported on the Income Statement before Income tax	–	–	26,976,733	13,680,285	–	–	–	–
Amount reported on the Balance Sheet	–	–	–	–	197,792,546	186,420,472	73,612,030	85,054,850
(b) Intra-group rent and outgoings excluded from 'Rental of properties' (above)	787,488	756,080	787,488	756,080	–	–	–	–
(c) Significant non-cash items included in the results (above)								
(i) Gain on fair value adjustment to investment properties	23,896,544	12,465,732	23,896,544	12,465,732	–	–	–	–
(ii) Gain/(Loss) on fair value adjustment to Interest swap	1,711,109	–	1,711,109	(296,607)	–	–	–	–
(iii) Recoupment of impairment /(impairment) of inventories	–	2,002,879	(450,521)	2,002,879	–	–	–	–
(iv) Depreciation	–	–	(92,246)	(130,030)	–	–	–	–

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

25. CASH FLOW INFORMATION

	CONSOLIDATED GROUP 2017 $	2016 $
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	19,330,752	924,305
(b) Reconciliation of net cash provided by ordinary activities to operating profit or loss after income tax		
Profit (Loss) after income tax	23,393,434	9,537,732
Non-cash flows in profit or loss from ordinary activities:		
Gain on fair value adjustments from investment properties	(23,896,544)	(12,465,732)
Loss on fair value adjustments for interest swap	(1,711,109)	296,607
Current year's depreciation	92,246	130,030
Bad Debts written off	–	9,548
Loss on disposal/discard of assets	–	–
Write down/(up) of inventory	450,521	(2,002,879)
Items treated from Financing activities:		
Interest Paid	3,073,408	3,207,726
Interest received	(283,573)	(14,373)
Changes in net assets and liabilities		
(Increase) decrease in:		
Current receivables	126,664	(126,833)
Inventory	27,988,181	(908,046)
Other current assets	21,325	(57,256)
Deferred tax assets	2,021,867	(302,066)
Other non current assets	865,410	(72,298)
Increase (decrease) in:		
Payables	144,781	(397,349)
Other creditors	–	–
Deferred tax liability	1,298,807	4,444,619
Current tax payable	262,625	–
Employee provisions	62,076	21,115
Net cash produced/(used) in operating activities	33,910,119	1,300,545
(c) Financing Facilities		
Secured commercial bank facilities:		
Drawn	45,000,000	56,500,000
Undrawn	–	1,000,000

For the financial year ended 30 June 2017.

(d) Interest Rates

The effective interest rate on short-term bank deposits during the period was approximately 2.5% p.a. (2016: Nil% p.a. approximately).

(e) Non-cash Financing and Investing Activities

There were no non-cash financing and investing activities during the financial years ended 30 June 2017 and 30 June 2016.

26. RELATED PARTY DISCLOSURES

(a) Transactions with directors and director-related entities

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

(ii) Other than directors' remuneration, the following were the additional transactions with directors or their related entities during the financial year. The terms and conditions of the transaction with the directors or their related entities were no more favourable than those available, or which might reasonably expected to be available, on similar transactions to non-related entities on an arm's length basis.

	TRANSACTION VALUE		BALANCE OUTSTANDING AS AT	
TRANSACTION	2017	2016	30/06/17	30/06/16
Consultancy fees*	$80,175	$55,635	$0	$11,880

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

(b) Directors' Shareholdings

As at 30 June 2017, fully paid ordinary shares in Phileo Australia Limited held by directors and their director related entities amounted to 18,240,475 shares representing 63.06% controlling interest (2016: 18,240,475 ordinary shares representing 63.06% controlling interest).

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

(c) Transactions Within the Group

Group entities are disclosed in Note 14: Controlled Entities.

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

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

(d) Controlling Entities

The parent entity of the group is Phileo Australia Limited.

27. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

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

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

	CONSOLIDATED GROUP	
	2017 $	2016 $
Financial Assets		
Cash	19,330,752	924,305
Receivables	10,898	137,562
	19,341,650	1,061,867
Financial Liabilities		
Payables	1,984,889	1,840,107
Interest bearing liabilities	45,000,000	56,500,000
Interest swap – fair value through profit and loss account	3,489,972	5,201,082
Income tax payable	391,841	129,216
	50,866,702	63,670,405
Net Position	(31,525,052)	(62,608,538)

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

As in the previous financial year end, the deficit in the group's net financial asset position at 30 June 2017 was mainly due to borrowings to assist the acquisition of 303 Collins Street, Melbourne, funding of development of properties and the group's investments and working capital requirements.

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

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

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

Interest Rate Risk

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

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

Interest rate risk is managed using interest rate swaps to convert the debt to fixed rate. Interest rate swap transactions are entered into by the Group to exchange variable and fixed interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. At 30 June 2017, 100% of the group variable rate debt (2016: 80%) is swapped at fixed rate.

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

At the end of the reporting period, the details of outstanding contracts, of which $45,000,000 (100%) (2016: $45,000,000 – 80%) are to pay-fixed interest rate swaps, are as follows:

CONSOLIDATED GROUP	EFFECTIVE AVERAGE FIXED INTEREST RATE PAYABLE		NOTIONAL PRINCIPAL	
	2017 %	2016 %	2017 $	2016 $
Maturity of notional amounts				
Less than 1 year			–	–
1 to 2 Years	–	4.20%	–	11,500,000
2 to 5 years	6.32%	6.15%	45,000,000	45,000,000
			45,000,000	56,500,000

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

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

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

	CONSOLIDATED GROUP	
	2017 $	2016 $
Financial Assets		
Cash	19,330,752	924,305
	19,330,752	924,305
Financial Liabilities		
Interest bearing liabilities	45,000,000	56,500,000
	45,000,000	56,500,000
Net Position	(25,669,248)	(55,575,695)

As in the previous financial year end, the deficit in the net position at 30 June 2017 was mainly due to borrowings to assist in the acquisition of 303 Collins Street, Melbourne and funding of the group development properties and the group's investment and working capital requirements. Borrowings by the group includes 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 HIGHER/(LOWER)		EQUITY HIGHER/(LOWER)	
	2017 $	2016 $	2017 $	2016 $
Consolidated Group				
Plus 1% (100 basis points)	(280,000)	(548,377)	(280,000)	(548,377)
Minus 1% (100 basis points)	280,000	548,377	280,000	548,377
Parent Entity				
Plus 1% (100 basis points)	170,000	(98,377)	170,000	(98,377)
Minus 1% (100 basis points)	(170,000)	98,377	(170,000)	98,377

This analysis includes interest bearing liabilities.

For the financial year ended 30 June 2017.

Foreign Currency Risk

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

Price and Commodity Risk

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

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

	PRE-TAX PROFIT HIGHER/(LOWER)		EQUITY HIGHER/(LOWER)	
	2017 $	2016 $	2017 $	2016 $
Consolidated Group				
Plus 1% (100 basis points)	1,412,220	1,464,240	1,412,220	1,464,240
Minus 1% (100 basis points)	(1,412,220)	(1,464,240)	(1,412,220)	(1,464,240)
Parent Entity				
Plus 1% (100 basis points)	87,220	384,240	87,220	384,240
Minus 1% (100 basis points)	(87,220)	(384,240)	(87,220)	(384,240)

Credit Risk

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

Liquidity Risk

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

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

The liquidity profile of the financial instruments of the group demonstrates that, based on the closing position as at 30 June 2017 the company has sufficient cash on hand and in short term deposit to meet the short-mid term financing obligations. The overall deficit position in the consolidated group is due to part of the interest bearing liability used to fund the acquisition of 303 Collins Street, Melbourne. The group intends to renew the borrowing facility of $45m at the end of the term to manage its liquidity position.

For the financial year ended 30 June 2017.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity Profile

	BALANCE AT 30/06/2017 $	0 – 6 MONTHS $	6 – 12 MONTHS $	OVER 1 YEAR LESS THAN 5 YEARS $	OVER 5 YEARS $	TOTAL $
Consolidated Group:						
Financial Assets						
Cash	19,330,752	19,330,752	–	–	–	19,330,752
Receivables	10,898	10,898	–	–	–	10,898
	19,341,650	19,341,650	–	–	–	19,341,650
Financial Liabilities						
Payables	1,984,889	1,496,104	–	488,785	–	1,984,889
Interest bearing liability	45,000,000	–	–	45,000,000	–	45,000,000
Interest swap – fair value through profit and loss account	3,489,972	–	–	3,489,972	–	3,489,972
Income tax payable	391,841	–	391,841	–	–	391,841
Dividend payable	–	–	–	–	–	–
	50,866,702	1,496,104	391,841	48,978,757	–	50,866,702
Net Position	(31,525,052)	17,845,546	(391,841)	(48,978,757)	–	(31,525,052)

	BALANCE AT 30/06/2016 $	0 – 6 MONTHS $	6 – 12 MONTHS $	OVER 1 YEAR LESS THAN 5 YEARS $	OVER 5 YEARS $	TOTAL $
Consolidated Group:						
Financial Assets						
Cash	924,305	924,305	–	–	–	924,305
Receivables	137,562	137,562	–	–	–	137,562
	1,061,867	1,061,867	–	–	–	1,061,867
Financial Liabilities						
Payables	1,840,107	1,229,759	–	610,348	–	1,840,107
Interest bearing liability	56,500,000	–	–	56,500,000	–	56,500,000
Interest swap – fair value through profit and loss account	5,201,082	–	–	–	5,201,082	5,201,082
Income tax payable	129,216	–	129,216	–	–	129,216
Dividend payable	–	–	–	–	–	–
	63,670,405	1,229,759	129,216	57,110,348	5,201,082	63,670,405
Net Position	(62,608,538)	(167,892)	(129,216)	(57,110,348)	(5,201,082)	(62,608,538)

For the financial year ended 30 June 2017.

28. RETAINED PROFITS AND RESERVES

	CONSOLIDATED GROUP 2017 $	2016 $
Retained profits at beginning	81,441,433	72,483,734
(Loss) profit for the financial year attributable to members of the parent entity	23,393,434	9,536,239
Dividends provided	(578,540)	(578,540)
Retained profits at end	104,256,327	81,441,433
Capital profits	13,539	13,539

There was no movement in capital profits reserves during the financial year (2016: $Nil).

29. RENTAL LEASE RECEIVABLES

	2017 $	2016 $
Non-cancellable operating leases:		
No longer than one year	7,428,731	8,427,755
Longer than one year and not longer than 5 years	17,043,106	18,182,776
Longer than 5 years	671,713	4,792,984
Future rental lease receivables	25,143,550	31,403,515

(a) Non-cancellable operating leases

The group derived part of its revenue during the financial year from its rental properties. In the financial year, rental and fixed and variable outgoings recovered had totalled $8,372,231 (2016: $9,780,774).

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 2017, the group owned properties at McCrae Street (Dandenong), and 303 Collins Street, Melbourne that are being leased to various tenants over varying periods and are secured by non-cancellable operating lease contracts. At 30 June 2016, the group also owned Rocklea Homemaker Centre in Bendigo which was leased to various tenants. This property was sold during the year.

(c) As at 30 June 2017, the carrying value of leasable properties was $141,222,000 (2016: $146,423,959) and the net lettable area was 25,610 square metres (2016: 43,990 square metres).

For the financial year ended 30 June 2017.

29. RENTAL LEASE RECEIVABLES (CONTINUED)

	CONSOLIDATED GROUP	
	2017 $	2016 $
Rental properties	75,431,135	104,537,637
Fair value adjustments	69,596,123	45,691,580
Write (downs) to net realisable value	(3,627,258)	(3,627,258)
Provision for selling costs	(178,000)	(178,000)
Net rental properties	141,222,000	146,423,959
Other properties, including land	28,667,782	27,404,525
Total properties	169,889,782	173,828,484
Total write (downs)/up to net realisable value during the year	23,446,023	14,468,611

30. ECONOMIC DEPENDENCY

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

31. EVENTS AFTER THE REPORTING PERIOD

The company has sold its residential subdivision site at Black Forest Road, Wyndham Vale (the Land) to Country Garden Mambourin Pty Ltd, a subsidiary of the Hong Kong-listed entity, Country Garden Holdings Co Ltd. The land, which consists of 5 titles, and has been sold under three contracts which settle over 4½ years for a total price of AUD400 million, payable progressively, with the final contract settling in February 2022. The sale was conditional on the purchaser obtaining approval of the acquisition from the Foreign Investment Review Board (FIRB) which was received on 14 August 2017. Accordingly, the sale is now unconditional and the company has received the full amount of the deposit.

According to the contracts of sale, the titles will be progressively transferred to the purchaser on payment of the relevant amount of the contract sum on the specified settlement date. The sale of the above property and the resultant profit before tax of $ 383.11m (Sale Price: $400m less Carrying costs: $16.89m) will be recorded progressively in the respective financial year of settlement of each contract.

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

The directors have declared a fully franked $0.05 per ordinary share final dividend for this financial year (2016: final dividend $0.02 fully franked). The dividend was declared after 30 June 2017 and has not been provided for in the accounts as at 30 June 2017.

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

32. CAPITAL COMMITMENT

For Rental Property	372,940	510,585
For Development Properties	356,667	–

For the financial year ended 30 June 2017.

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 280 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	54	21,664	0.075
1,001 – 5,000	156	407,255	1.408
5,001 – 10,000	30	228,854	0.791
10,001 – 100,000	23	666,146	2.303
100,001 – 99,999,999,999	17	27,603,097	95.423
Totals	**280**	**28,927,016**	**100.000**

Holdings Less Than a Marketable Parcel

1 – 57	10	47	0.0003

SUBSTANTIAL SHAREHOLDERS

ORDINARY SHAREHOLDERS	FULLY PAID NUMBER	%
PAL INVESTMENTS (AUST) PTY LTD	10,053,678	34.755
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,170,381	14.417
PIUCO ENTERPRISES CORP	2,750,000	9.507
J P MORGAN NOMINEES AUSTRALIA LIMITED	2,750,000	9.507
BEELYE PTY LIMITED <B L SUPER FUND A/C>	1,962,196	6.783
ACEQ PTY LTD (SUPERANNUATION FUND)	1,896,849	6.557
RADIANCE GROUP TRADING LTD	1,470,824	5.085
	25,053,928	86.611

As at 21 September 2017.

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	4,170,381	14.417
3	PIUCO ENTERPRISES CORP	2,750,000	9.507
4	J P MORGAN NOMINEES AUSTRALIA	2,750,000	9.507
5	BEELYE PTY LIMITED <B L SUPER FUND A/C>	1,962,196	6.783
6	ACEQ PTY LTD (SUPERANNUATION FUND)	1,896,849	6.557
7	RADIANCE GROUP TRADING LTD	1,470,824	5.085
8	SLW CORPORATION PTY LTD	620,000	2.143
9	BENGER SUPERANNUATION PTY LIMITED <BENGER SUPER FUND>	459,197	1.587
10	SIENA NOMINEES PTY LTD <THE SLATTERY FAMILY S/F A/C>	280,650	0.970
11	ZELCREST CAPITAL LIMITED	237,422	0.821
12	HAYMAN INVESTMENTS CO LTD	220,000	0.761
13	MR BRIAN GARFIELD BENGER	192,811	0.667
14	HAYMAN INVESTMENTS CO LTD	161,204	0.557
15	MR RUDY ENG WAH KOH & MRS FUI KYUN CHIEW <KOH S/F A/C>	139,834	0.483
16	EQUITY BRIDGE SDN BHD	122,749	0.424
17	KRR INVESTMENTS PTY LTD	115,302	0.399
18	SHANDORA ONE PTY LTD <BENGER SUPER FUND A/C>	96,468	0.333
19	HOMEGOODE NOMINEES PTY LTD <HOMES PROPERTY FUND A/C>	59,116	0.204
20	MRS ROSY SOH	56,045	0.194
	Total shares held by twenty largest shareholders	27,814,726	96.155
	Total shares held by other shareholders	1,112,290	3.845
	Total number of shares	28,927,016	100.000

Company Secretary
Tejas Gandhi, Chartered Accountant

Principal Registered Office and Principal Place of Business
Level 14, 303 Collins Street
Melbourne, Victoria 3000
Ph: (61 3) 9663 8018
Fax: (61 3) 9663 8038
phileo@palltd.com.au

Share Registry
Boardroom Pty Limited
(ABN 14 003 209 836)
Level 12, 225 George Street
Sydney NSW 2000

(Correspondence: GPO Box 3993, Sydney 2001)
General Ph: (61 2) 9290 9600
Fax: (61 2) 9279 0664
Contact: Mr Colin Fawns, 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".

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

As at 21 September 2017.

Phileo
Australia