

COMPANY ANNOUNCEMENT
19 NOVEMBER 2018**UPDATE ON PROPOSED TRANSACTION – DESPATCH OF EXPLANATORY MEMORANDUM**

Phileo Australia Limited (**Phileo**) is pleased to provide the following update regarding the proposed transaction announced on 5 October 2018 under which Phileo will:

- undertake a selective capital return under which a maximum of 10.50 million of Phileo's shares will be cancelled in exchange for \$12.66 cash per cancelled share (**Capital Return**); and
- apply to remove Phileo from the official list of ASX following the Capital Return (**Delisting**),

(together, **Proposed Transaction**).

Despatch of Explanatory Memorandum

Phileo will today send to all shareholders the explanatory memorandum and three notices of meetings regarding the Proposed Transaction and Phileo's Annual General Meeting (**Explanatory Memorandum**). The Explanatory Memorandum accompanies this announcement. Shareholders will also receive three personalised Proxy Forms and an Opt-Out Election Form. The Explanatory Memorandum provides instructions about how to fill out and return these forms.

Independent Expert's Conclusion

The Explanatory Memorandum also includes a report from Ernst & Young Transaction Advisory Services, the Independent Expert, concluding that the Capital Return is **fair and reasonable** to Phileo shareholders as a whole.

Shareholder meetings

As previously announced, the three shareholder meetings to consider and vote on the Proposed Transaction will be held on **Thursday, 20 December 2018** at **MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria**.

The first meeting of all shareholders will commence at **10.00am**, with the second meeting of Exiting Shareholders and Partially Exiting Shareholders¹ commencing at **10.30am**, or as soon as practicable following the conclusion of the first meeting, whichever is later.

The third meeting, which will also serve as Phileo's Annual General Meeting, will commence at **11.00am** or as soon as practicable following the Special Meeting of Exiting and Partially Exiting Shareholders, whichever is later.

The Explanatory Memorandum explains the voting restrictions that apply at each meeting, and who is entitled to vote. The Independent Directors of Phileo² encourage shareholders to read the Explanatory Memorandum in full, and to vote either by attending the meetings or by lodging a proxy form with Phileo or its share registry. The cut-off time for receipt of proxies is 7.00pm (AEDT) on **Tuesday, 18 December 2018**.

Independent Directors' recommendation

The Independent Directors continue to **unanimously** recommend that shareholders vote in favour of the Proposed Transaction, subject to:

- no superior proposal emerging prior to the shareholder meetings; and
- the Independent Expert maintaining its conclusion that the Capital Return is fair and reasonable to Phileo shareholders as a whole.

Subject to those same qualifications, each Independent Director intends to vote all Phileo shares he owns or otherwise controls in favour of the Proposed Transaction, to the extent they are entitled to vote on the resolutions proposed at each meeting.

Further information

If you have any questions relating to the Proposed Transaction or the Explanatory Memorandum, please contact Phileo's Company Secretary by email at phileo@palltd.com.au.

¹ As defined in the announcement made by Phileo on 5 October 2018.

² As defined in the announcement made by Phileo on 5 October 2018.

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR URGENT ATTENTION.

If you are in any doubt as to how to deal with this Explanatory Memorandum, please consult your legal, financial, taxation or other professional adviser immediately. If you have any questions about voting (including completing your Proxy Forms) or participating in the Capital Return (including completing your Opt-Out Election Form), please email your query to Phileo's Company Secretary at phileo@palltd.com.au.

If you have recently sold all of your Shares, please disregard all enclosed documents.



VOTE IN FAVOUR
YOUR VOTE IS IMPORTANT IN
DETERMINING WHETHER THE
PROPOSED TRANSACTION
PROCEEDS. THE
INDEPENDENT DIRECTORS
UNANIMOUSLY RECOMMEND
THAT YOU VOTE IN FAVOUR
OF THE PROPOSED
TRANSACTION,
IN THE ABSENCE OF A
SUPERIOR PROPOSAL. THE
INDEPENDENT EXPERT HAS
CONCLUDED THAT THE
CAPITAL RETURN IS
FAIR AND REASONABLE TO
SHAREHOLDERS AS A WHOLE.

NOTICES OF MEETING AND EXPLANATORY MEMORANDUM

For the proposed Capital Return, Delisting and the 2018 AGM

Date of Meetings: Thursday, 20 December 2018

Time of Meetings: First meeting commencing at 10.00am

Place of Meetings: MinterEllison, Rialto Towers, Level 23,
525 Collins Street, Melbourne, Victoria

The Notices of Meeting for the proposed Capital Return, Delisting and the 2018 AGM are included as Appendix 2, Appendix 3 and Appendix 4 respectively to this Explanatory Memorandum.

The Proxy Forms for each Meeting and an Opt-Out Election Form for the Capital Return accompany this Explanatory Memorandum.

Legal Adviser to Phileo's Independent Directors

MinterEllison

Overview of this Explanatory Memorandum

What is this Explanatory Memorandum for?

This Explanatory Memorandum has been sent to you to help you understand the terms and effect of a proposed transaction involving a selective capital return and the subsequent removal of Phileo from the official list of ASX, referred to in this Explanatory Memorandum as the **Proposed Transaction**.

Mr Rudy Koh, the major shareholder and Managing Director of Phileo, is the proponent of the Proposed Transaction.

The Proposed Transaction requires the approval of Shareholders to be sought at three consecutive meetings to be held on **Thursday, 20 December 2018**. This Explanatory Memorandum includes information relevant to your decision as a Shareholder on whether to approve the Proposed Transaction.

This Explanatory Memorandum also contains information on the general business to be considered at the Annual General Meeting of Phileo for the financial year ended 30 June 2018, which is the third meeting to be held on **Thursday, 20 December 2018**.

Capital Return

The first element of the Proposed Transaction is a selective capital return under which a maximum of 10.50 million Shares will be cancelled in exchange for \$12.66 cash per Share (**Capital Return**).

As a Shareholder, you have the following three alternative choices:

- participate in the Capital Return in full – all of your Shares will be cancelled and you will receive \$12.66 cash per cancelled Share, thereby completely exiting your investment in Phileo. If you choose this option, you will be classified as an Exiting Shareholder;
- elect to opt-out of the Capital Return in full – you will retain all of your Shares and not receive any payment. If you choose this option, you will be classified as a Continuing Shareholder; or
- elect to opt-out of the Capital Return for some but not all of your Shares – if you choose this option, you will be classified as a Partially Exiting Shareholder. This option is only available to Shareholders who hold more than 10,000 Shares and who, after making their partial Opt-Out Election, would continue to hold at least 10,000 Shares following the Capital Return.

If you do not make a valid election to opt-out, either fully or partially, you will be treated as an Exiting Shareholder.

Mr Koh, as the proponent of the Proposed Transaction, will not participate in the Capital Return. He will therefore retain all of the Shares he currently owns or controls, representing 35.78% of Phileo's currently issued share capital.

If the Proposed Transaction is approved and implemented and, if the maximum of 10.50 million Shares potentially available for cancellation are cancelled, Mr Koh's proportionate percentage shareholding would increase to 56.16% of Phileo's reduced issued share capital.

In those circumstances, Mr Koh will become the controlling shareholder of Phileo, which would then be an unlisted, privately owned company, with the remainder of the Shareholders being those that have elected to opt-out, either fully or partially, from the Capital Return. It is likely that Phileo would then have significantly less than 300 Shareholders with holdings valued at a minimum of \$2,000 each, being the number required to maintain an ASX listing. Phileo may even have less than 150 Shareholders with holdings valued at a minimum of \$500 each, being the level at which ASX would (among consideration of other matters) typically consider granting approval for a delisting without shareholder approval.

Delisting

The second element of the Proposed Transaction involves the removal of Phileo from the official list of ASX (**Delisting**). The Delisting will only proceed if the Capital Return is approved by Shareholders and is implemented.

The Delisting needs to be separately approved by Shareholders and will be an item of special business to be considered and voted on at the Annual General Meeting, being the third of the three meetings to be held on Thursday, 20 December 2018.

The resolution for the Delisting will only be put to Shareholders if the Capital Return is approved by the requisite majority of Shareholders at the first two meetings.

Annual General Meeting

At the Annual General Meeting, Shareholders will also be given an opportunity to ask questions about or make comments on the financial statements for the financial year ended 30 June 2018 and the management of Phileo. Shareholders will also be asked to consider and vote on resolutions to approve the Remuneration Report for the financial year ended 30 June 2018 as well as the re-election of Andrew Hang and Michael Loke as directors of Phileo.

Why should you vote?

As a Shareholder, you have a say in whether or not the Capital Return and the Delisting proceed. The Capital Return and the Delisting will not proceed unless they are respectively approved by the requisite majority of Shareholders – this is your opportunity to play a role in deciding the future of Phileo and your investment in the Company.

What you should do next

STEP 1

Read this Explanatory Memorandum

This Explanatory Memorandum contains information that is material to your decision on how to vote at the Meetings. Accordingly, you should read and carefully consider the information in this Explanatory Memorandum to help you make an informed voting decision.

Shareholders should refer in particular to Section 2 of this Explanatory Memorandum for guidance on the advantages, disadvantages and other considerations relevant to the Proposed Transaction. Answers to some frequently asked questions are included in Section 3 of this Explanatory Memorandum.

This Explanatory Memorandum does not take into account the financial situation, investment objectives and particular needs of any Shareholder. If you have any queries in relation to how the Proposed Transaction may affect your specific financial situation, investment objectives or other particular needs, you should consult your legal, financial, taxation or other professional adviser before making any decision in relation to your Shares and how to vote at the Meetings.

STEP 2

Consider whether to participate in or opt-out of the Capital Return

As a Shareholder, you have a choice of whether to participate in or opt-out of the Capital Return.

If you wish to participate in the Capital Return and receive \$12.66 cash for each of your Cancelled Shares, and therefore completely exit your Phileo investment, you do not need to make any election. In that case, you should **IGNORE** the Opt-Out Election Form that accompanies this Explanatory Memorandum.

On the other hand, if you wish to opt-out of the Capital Return, and therefore retain all or some your Phileo Shares, you must complete and return your Opt-Out Election Form so that it is received by the Share Registry by no later than 7.00pm on Tuesday, 11 December 2018 (**Opt-Out Election Cut-Off Date**). Please refer to Step 3 for further details on how to lodge an Opt-Out Election Form.

You should consider seeking your own independent financial and taxation advice before making any decision in relation to whether to participate in or opt-out of the Capital Return.

Is the Proposed Transaction fair and reasonable to Shareholders as a whole?

- ✓ The Independent Expert has concluded that the Capital Return is **FAIR AND REASONABLE** to Shareholders as a whole.

The Independent Expert's Report is included in Appendix 1 to this Explanatory Memorandum.

STEP 3

Lodge an Opt-Out Election Form (**BUT ONLY** if you wish to **RETAIN** all or some of your Shares)

If you wish to opt-out of the Capital Return, and therefore retain all or some of your Phileo Shares, you must complete and return your Opt-Out Election Form so that it is received by the Share Registry by no later than 7.00pm on Tuesday, 11 December 2018 (**Opt-Out Election Cut-Off Date**).

If you wish to participate in the Capital Return for some but not all of your Shares and be a Partially Exiting Shareholder, you will only be able to do so if:

- you currently hold more than 10,000 Shares; and
- after making your partial Opt-Out Election, you will hold at least 10,000 Shares immediately following the implementation of the Capital Return.

Please refer to Section 4.3 of this Explanatory Memorandum for further details on how to lodge your Opt-Out Election Form.

Shareholders who do not validly complete and return an Opt-Out Election Form by the Opt-Out Election Cut-Off Date will be deemed to be an Exiting Shareholder and all their Shares will be cancelled for the Cancellation Price.

STEP 4

Vote on the Capital Return, Delisting and AGM resolutions at the Meetings

As a Shareholder, it is your right to vote on whether the Capital Return and the Delisting proceed. You are also entitled to vote on the other resolutions relating to general business at the Annual General Meeting. Your vote is important and you are strongly encouraged to vote on these matters.

You can vote on the Capital Return, Delisting and AGM resolutions:

- by personally attending the Meetings to be held on **Thursday, 20 December 2018**, commencing at 10:00am at MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria; or
- by appointing a proxy, attorney or, in the case of a corporate Shareholder or proxy, a corporate representative to attend the Meetings and vote on your behalf.

If you wish to appoint a proxy to vote on your behalf, you must complete and return the Proxy Forms which accompany this Explanatory Memorandum.

Your Proxy Forms must be received by the Share Registry (whether in person, by mail or by fax) by 7.00pm (Melbourne time) on **Tuesday, 18 December 2018**, for your vote to be counted.

Further information relating to voting is contained in Section 5 of this Explanatory Memorandum, in the Notices of Meeting for the proposed Capital Return, Delisting and the 2018 AGM (which are included in Appendix 2, Appendix 3 and Appendix 4 respectively to this Explanatory Memorandum) and in the relevant Proxy Forms for each Meeting which accompanies this Explanatory Memorandum.

What do the Independent Directors Recommend?

- ✓ The Independent Directors **UNANIMOUSLY RECOMMEND** that you vote **IN FAVOUR OF** the Proposed Transaction, in the absence of a Superior Proposal. Subject to that same qualification, the Independent Directors unanimously intend to vote all Shares they hold or control **IN FAVOUR OF** the Proposed Transaction.

Table of contents

Important Dates and Times	5
Important Notices	6
Letter from the Chairman of Phileo	8
Potential advantages of the Proposed Transaction	10
Potential disadvantages of the Proposed Transaction	11
1. Key Features of the Proposed Transaction	13
2. Relevant considerations for Shareholders	21
3. Frequently asked questions	31
4. Capital Return: how to participate or opt-out	39
5. How to vote	43
6. Profile of Phileo	49
7. Risks	57
8. Mr Koh's future intentions as the proponent of the Proposed Transaction	63
9. Taxation implications of the Capital Return and the Dividend Component	67
10. Implementation	73
11. Additional Information	75
12. Glossary	79
Appendix 1 – Independent Expert's Report	85
Appendix 2 – Notice of General Meeting of all Shareholders	183
Appendix 3 – Notice of Special Meeting of Exiting and Partially Exiting Shareholders	189
Appendix 4 – Notice of Annual General Meeting	195
Appendix 5 – Summary of proposed replacement constitution of Phileo	203
Corporate Directory	iii

Important Dates and Times

All references to time in this Explanatory Memorandum are references to the time in Melbourne, Australia unless otherwise stated.

Event	Date (and time)
Last date for Phileo to receive Opt-Out Election Forms from Shareholders who wish to retain all of their Shares (or in the case of eligible Shareholders, some of their Shares)	7.00pm on Tuesday, 11 December 2018
Phileo issues ASX announcement disclosing material details (on an aggregated basis) of Opt-Out Elections received	Wednesday, 12 December 2018
Last date for lodgement of Proxy Forms	7.00pm on Tuesday, 18 December 2018
Date and time for determining eligibility to vote at all Meetings	7.00pm on Tuesday, 18 December 2018
Dates and times of Meetings	
General Meeting of all Shareholders	10.00am on Thursday, 20 December 2018
Special Meeting of Exiting and Partially Exiting Shareholders	10.30am on Thursday, 20 December 2018 or as soon as reasonably practicable after the General Meeting of all Shareholders has concluded or been adjourned (whichever time is later)
Annual General Meeting	11.00am on Thursday, 20 December 2018 or as soon as reasonably practicable after the Special Meeting of Exiting and Partially Exiting Shareholders has concluded or been adjourned (whichever time is later)
If the Proposed Transaction is approved by Shareholders	
Last day of trading of Phileo Shares on ASX	Monday, 21 January 2019
Capital Return Record Date – being the date for determining entitlements to participate in Capital Return	Wednesday, 23 January 2019
Implementation of Capital Return – including despatch of payment to Exiting Shareholders and Partially Exiting Shareholders (in respect of the proportion of Shares cancelled)	Thursday, 31 January 2019
ASX delists Phileo	Friday, 1 February 2019

All dates and times following the date of the Meetings are indicative only and, among other things, are subject to all necessary approvals from ASX. Any changes to this timetable will be announced through ASX and notified on Phileo's website at www.palltd.com.au.

Important Notices

General

You should read the whole of this Explanatory Memorandum before making a decision on whether to participate and how to vote on the resolutions to be considered at the Meetings. The Notices of Meeting for the proposed Capital Return, Delisting and the 2018 AGM are included as Appendix 2, Appendix 3 and Appendix 4 respectively to this Explanatory Memorandum. The Proxy Form for each Meeting and an Opt-Out Election Form accompany this Explanatory Memorandum.

Defined terms

Capitalised terms in this Explanatory Memorandum are defined either in the Glossary in Section 12 of this Explanatory Memorandum or where the relevant term is first used.

Purpose of this Explanatory Memorandum

This Explanatory Memorandum has been prepared to convene the Meetings and to provide Shareholders with all material information relevant to their consideration of the resolutions being proposed at the Meetings. Without limiting the generality of foregoing, this Explanatory Memorandum:

- explains the purpose, terms and effect of the Capital Return and Delisting;
- explains the choices that Shareholders can make with respect to their level of participation in the Capital Return; and
- provides all information known to Phileo about the Capital Return and Delisting so that Shareholders can consider and vote on the Proposed Transaction on an informed basis to satisfy subsection 256B(1)(c) of the Corporations Act and the ASX Listing Rules.

No financial product advice

The information contained in this Explanatory Memorandum is not financial product or investment advice. This Explanatory Memorandum has been prepared without taking into account your investment objectives, financial situation, taxation position or other particular needs. Before deciding how to vote or act, Shareholders should consider the appropriateness of the information having regard to their own investment objectives, financial situation, taxation position and other particular needs and seek legal, taxation and financial advice appropriate to their jurisdiction and circumstances. Neither Phileo nor Mr Koh or the Koh Entities are licensed to provide financial product advice in respect of any Shares or any other financial products.

Responsibility for information

Information contained in Section 8 and Appendix 5 has been prepared by Mr Rudy Koh, as the proponent of the Proposed Transaction. The information concerning the Koh Entities and their intentions, views and opinions contained in Section 8, as well as the summary of the proposed new constitution of Phileo following implementation of the Proposed Transaction contained in Appendix 5, are the responsibility of Mr Koh **(Koh Information)**. Mr Koh and the Koh Entities do not assume responsibility for the accuracy or completeness of any information in this Explanatory Memorandum other than the Koh Information.

Deloitte Private Pty Ltd has prepared the general outline of taxation implications of the Capital Return in Section 9 of this

Explanatory Memorandum and takes responsibility for that Section.

Ernst & Young Transaction Advisory Services Limited has prepared the Independent Expert's Report in relation to the Capital Return and Delisting in Appendix 1 and takes responsibility for that report.

Other than in respect of the information identified above, the information contained in the remainder of this Explanatory Memorandum has been prepared by Phileo and its advisers and is the responsibility of Phileo. Mr Koh does not assume responsibility for the accuracy or completeness of any part of this Explanatory Memorandum other than the Koh Information.

Shareholders outside Australia

If you are a foreign shareholder, electing to opt-out of the Capital Return may have legal implications for you under Australian foreign investment laws. In particular, although Shareholders electing to opt-out of the Capital Return will not acquire any additional Shares, their proportionate percentage shareholdings will increase as a result of the total number of Shares on issue being reduced immediately following the Capital Return. This increase is considered an 'acquisition' under the FATA Act, triggering a potential requirement to obtain FIRB clearance. Please refer to Section 4.4 of this Explanatory Memorandum for further details.

This Explanatory Memorandum has been prepared having regard to Australian disclosure requirements. These requirements may be different from those in other jurisdictions. Accordingly, the release, publication or distribution of this Explanatory Memorandum in jurisdictions other than Australia may be restricted by law or regulation in those other jurisdictions, and persons outside Australia who come into possession of this Explanatory Memorandum should seek advice on, and observe, any applicable restrictions.

ASIC and ASX

A copy of this Explanatory Memorandum was lodged with ASIC under subsection 256C(5) of the Corporations Act and also provided to ASX. Neither ASIC, ASX nor any of their respective officers take any responsibility for the contents of this Explanatory Memorandum.

Forward looking statements

Certain statements in this Explanatory Memorandum are about future matters, including forward looking statements. These forward looking statements and information, including statements and information relating to Phileo and the Proposed Transaction are not based solely on historical facts, but rather reflect the current expectations of Phileo, or, in relation to the Koh Information, Mr Koh and the Koh Entities, concerning future results, events or other matters. These statements may sometimes be identified by the use of forward looking words or phrases such as: *if, when, believe, aim will, expect, anticipate, intend, foresee, likely, should, could, plan, may, estimate budget, forecast, envisage, target, potential* or other similar words or phrases. Similarly, statements that describe Phileo's or Mr Koh's and the Koh Entities' objectives, plan, goals or expectations, estimates of

future costs and expenditure are or may be forward looking statements.

The statements contained in this Explanatory Memorandum about the impact that the Proposed Transaction may have on the results of Phileo's operations and the advantages and disadvantages of the Proposed Transaction are also forward looking statements.

These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results of Phileo to be materially different from future results, performance and achievements expressed or implied by such statements. These statements and information are based on numerous assumptions regarding present and future business strategies and the environment in which Phileo will operate in the future, including anticipated costs and ability to achieve goals. Therefore forward looking statements and information should be construed in light of those limitations and undue reliance should not be placed on them.

None of Phileo, the Koh Entities, their respective directors, Mr Koh nor any other person gives any representation, assurance or guarantee that the occurrence of the results or events expressed or implied in any forward looking statements and information in this Explanatory Memorandum will actually occur.

The forward looking statements and information in this Explanatory Memorandum reflect views held only at the date of this Explanatory Memorandum.

Subject to any continuing obligations under law, and to the maximum extent permitted by law, Phileo, the Independent Directors, Mr Koh and the Koh Entities, disclaim any obligation or undertaking to disseminate after the date of this Explanatory Memorandum any updates or revisions to any forward looking statements and information to reflect any change in expectations in relation to them or any change in the events, conditions or circumstances on which they are based.

Rounding of numerical information

Any discrepancies between totals in tables and sums of components contained in this Explanatory Memorandum and between those figures and figures referred to in other parts of this Explanatory Memorandum are due to rounding. Except as otherwise stated, all rounded numbers have been rounded to either two decimal places or to the nearest whole number.

Privacy and personal information

Phileo will need to collect personal information to implement the Proposed Transaction. This information may include the name, contact details and security holding of Shareholders, and the name of persons appointed by Shareholders to act as proxy, attorney, or in the case of a corporate Shareholder or proxy, corporate representative at the Meetings. The primary purpose of the collection of the personal information is to assist Phileo in the conduct of the Meetings and to enable the Proposed Transaction to be implemented by Phileo in the manner described in this Explanatory Memorandum. Without this information, Phileo may be

hindered in its ability to carry out these purposes to full effect. The collection of certain personal information is authorised by the Corporations Act.

Personal information may be disclosed to the Share Registry, print and mail service providers, authorised securities brokers and to Related Entities of Phileo.

Shareholders have certain rights to access their personal information that has been collected. Shareholders should contact Phileo's Company Secretary in the first instance if they wish to request access to their personal information.

Shareholders who appoint a named person to act as their proxy, attorney, or in the case of a corporate Shareholder or proxy, corporate representative at the Meetings should ensure that they inform that person of the matters outlined above.

Charts and diagrams

Any diagrams, charts, graphs or tables appearing in this Explanatory Memorandum are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, graphs and tables is based on information available as at the date of this Explanatory Memorandum.

No internet site is part of this Explanatory Memorandum

Phileo maintains its internet site at www.palltd.com.au. Any references in this Explanatory Memorandum to that site or any other internet site are for information purposes only and do not form part of this Explanatory Memorandum.

Date of Explanatory Memorandum

This Explanatory Memorandum is dated 19 November 2018.

References to time

All reference to time are references to the legal time in Melbourne, Australia unless otherwise expressly stated.

Letter from the Chairman of Phileo

19 November 2018

Dear Shareholder,

On behalf of the Independent Directors of Phileo Australia Ltd (**Phileo**), I am pleased to invite you to attend three consecutive meetings of Shareholders to be held on Thursday, 20 December 2019.

These meetings have been convened to consider and vote on resolutions required to implement the proposed capital return and delisting of Phileo, as announced on 5 October 2018. The third meeting will also serve as our Annual General Meeting for the financial year ended 30 June 2018.

Overview

As announced on 5 October 2018, Phileo has entered into an Implementation Deed with Mr Rudy Koh, the major shareholder and Managing Director of Phileo, for a proposal that involves the following two transactions:

- Phileo undertaking a capital return under which a maximum of 10.50 million Shares will be cancelled in exchange for \$12.66 cash per Share (**Capital Return**); and
- the removal of Phileo from the official list of ASX (**Delisting**),

(together, the **Proposed Transaction**).

The Proposed Transaction requires the approval of Shareholders which will be sought at the three consecutive meetings to be held on Thursday, 20 December 2018. Notices of those meetings, an explanatory statement and other supporting materials in respect of the Proposed Transaction are included in or otherwise accompany this Explanatory Memorandum.

Mr Koh, as the proponent of the Proposed Transaction, will not participate in the Capital Return. He will therefore retain all the Shares he currently owns or controls, representing approximately 35.78% of Phileo's currently issued share capital. If the Proposed Transaction is approved and implemented and if the maximum of 10.50 million Shares potentially available for cancellation are cancelled, Mr Koh's proportionate percentage shareholding would increase to approximately 56.16% of Phileo's reduced share capital. In those circumstances, Mr Koh would become the controlling shareholder of Phileo, which would then be an unlisted, privately-owned company.

The balance of Shares on issue following the implementation of the Proposed Transaction will be held by other existing Shareholders who elect to opt-out of the Capital Return and who will continue to be Shareholders alongside Mr Koh. The ability to opt-out is open to all Shareholders, irrespective of the size of their current shareholding. At present, three Shareholders (excluding Mr Koh and his controlled entities) collectively holding approximately 29% of Phileo's currently issued share capital have expressed a current intention to opt-out of the Capital Return.

Independent Directors' perspectives

Your Independent Directors considered a range of other alternatives to return capital to Shareholders but ultimately concluded that these were either inferior to the Proposed Transaction or not viable.

On behalf of the Independent Directors, I am pleased to submit what we consider is an attractive liquidity opportunity for Shareholders, in the context of Phileo's 31-year history as an ASX-listed entity, its long-standing highly concentrated ownership structure, Phileo's current pipeline of projects and its future prospects. Phileo's future is bright, with a valuable and strong property portfolio, but also uncertain due to company specific and broader industry risks. The Proposed Transaction has been structured in a way that gives Shareholders the opportunity to exit their Phileo investment at an attractive price or to retain it, having regard to their own investment horizon, risk profile and tax circumstances. This flexibility and equality of opportunity are key features of the Proposed Transaction.

Your Independent Directors unanimously recommend that you vote in favour of all resolutions relating to the Proposed Transaction and the other items for consideration at the Annual General Meeting, to the extent you are entitled to vote on those resolutions. Each Independent Director intends to vote all Shares that they own or otherwise control in favour of these resolutions, to the extent they are entitled to vote on those resolutions.

This recommendation and voting intention are subject to no Superior Proposal emerging before the Meetings on 20 December 2018. Since the Proposed Transaction was announced on 5 October 2018 and as at the date of this Explanatory Memorandum, your Independent Directors are not aware of any third party who has indicated an intention to submit a Superior Proposal.

This Explanatory Memorandum

Full details of the Proposed Transaction are set out in this Explanatory Memorandum, including:

- the background to the Proposed Transaction and its evaluation by the Independent Directors;
- the potential advantages and disadvantages of the Proposed Transaction – both from the perspective of Shareholders who participate in the Capital Return and from the perspective of those who elect to opt out and thereby remain a Shareholder;
- your choices as a Shareholder; and
- a general outline of the Australian taxation implications for Shareholders who participate in the Capital Return.

This Explanatory Memorandum includes at Appendix 1 an Independent Expert's Report from Ernst & Young Transaction Advisory Services Limited in relation to the Proposed Transaction. The Independent Expert has concluded that the Capital Return is fair and reasonable to Shareholders as a whole.

I encourage you to read this Explanatory Memorandum carefully and in full, including the Independent Expert's Report, the three Notices of Meeting and other Appendices. Collectively, these materials contain important information to assist you in making an informed decision about the Proposed Transaction. You should also consider obtaining independent financial and taxation advice before making any decision in relation to the Proposed Transaction.

If you have any questions about voting (including completing your Proxy Forms) or participating in the Capital Return (including completing your Opt-Out Election Form), please email your query to Phileo's Company Secretary at phileo@palltd.com.au.

I look forward to seeing you at the forthcoming Meetings and on behalf of the Independent Directors, I thank you for your continued support.

Yours sincerely



Graham Homes
Chairman

POTENTIAL ADVANTAGES OF THE PROPOSED TRANSACTION

From the perspective of the Exiting Shareholders



The Proposed Transaction represents a liquidity opportunity at an attractive price, noting that Phileo Shares have been characterised by deep illiquidity and low daily trading volumes for many years



Australian resident Shareholders may be in a position to access a refundable tax offset from the franking credits attached to the Dividend Component depending on their individual tax profile



The Independent Expert has concluded that the Capital Return is fair and reasonable to Shareholders as a whole, including the Exiting Shareholders



Phileo's tightly held capital structure makes it unlikely that a superior proposal (or alternative proposal) will emerge



Alternative proposals to return capital to Shareholders, such as an equal return of capital or a declaration of a special dividend, have been assessed as either inferior or not feasible



Exiting Shareholders will avoid ongoing exposure to the risks associated with Phileo's business



Exiting Shareholders will be able to dispose of their Phileo Shares without incurring brokerage costs



Exiting Shareholders will avoid the current risk that Phileo could, in the future (and in the absence of the Proposed Transaction), be de-listed from ASX due to a lack of shareholder spread and liquidity

From the perspective of the Continuing Shareholders



Continuing Shareholders will retain the ability to participate in any potential upside associated with an investment in Phileo



Continuing Shareholders' proportionate percentage holdings will increase following the cancellation of Shares held by Exiting Shareholders



Phileo will no longer be subject to the regulatory obligations and costs associated with being listed on ASX



The Independent Expert has concluded that the Capital Return is fair and reasonable to Shareholders as a whole, including the Continuing Shareholders

From the perspective of all Shareholders



The Proposed Transaction is structurally fair, as it gives all Shareholders, irrespective of the size of their shareholding, an equal opportunity to retain their Phileo Shares if they wish to maintain an investment in the delisted Phileo, alongside Mr Koh as the proponent of the Proposed Transaction

THE INDEPENDENT DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU VOTE IN FAVOUR OF THE PROPOSED TRANSACTION, IN THE ABSENCE OF A SUPERIOR PROPOSAL

THE INDEPENDENT EXPERT HAS CONCLUDED THAT THE CAPITAL RETURN IS FAIR AND REASONABLE TO SHAREHOLDERS AS A WHOLE

POTENTIAL DISADVANTAGES OF THE PROPOSED TRANSACTION

From the point of view of the Exiting Shareholders



Exiting Shareholders will have their Shares cancelled and will cease to have any rights as a member of Phileo, including rights to participate in any potential valuation upside associated with a continued holding of their Shares, as well as any future dividends or capital returns

From the point of view of the Continuing Shareholders



Continuing Shareholders will have ongoing exposure to the risks associated with Phileo's business



Continuing Shareholders will experience a further reduction in the liquidity of their Shares



After delisting, Phileo's ability to fund future capital needs through equity will be more limited



Continuing Shareholders will not be able to access their proportionate share of Phileo's accumulated franking credits



Continuing Shareholders will remain shareholders in an unlisted and privatised entity that will be controlled by Mr Koh and will not have the benefit of the governance structure of an ASX-listed entity

You should read this Explanatory Memorandum in full before making any decision on the Proposed Transaction. In particular, you should refer to Section 2 of this Explanatory Memorandum for guidance on the potential advantages and disadvantages of the Proposed Transaction. This Explanatory Memorandum does not take into account the financial situation, investment objectives and particular needs of any Shareholder. You should consult your legal, financial, taxation or other professional adviser concerning the impact your decision may have on your own circumstances.

This page has been intentionally left blank.

Section 1

Key Features of the Proposed Transaction

1. Key Features of the Proposed Transaction

1.1 Background

Following the receipt of proceeds from the sale of various properties (most notably Wyndham Vale in 2017), Phileo's cash reserves have increased significantly since 31 December 2017. Shareholders have expressed an interest in these sale proceeds being distributed to them. In response to those developments, and as first announced to ASX on 23 November 2017, the Phileo Board commenced a process of exploring opportunities to return capital to Shareholders in the most effective manner.

In December 2017, the Board established an Independent Committee to oversee and evaluate capital return opportunities. The Independent Committee comprises three members:

- Mr Michael Schoenfeld (independent consultant to the Board and Chairman of the Independent Committee);
- Mr Graham Homes (Chairman of Phileo and independent non-executive director); and
- Mr Tejas Gandhi (Group Financial Controller of Phileo).

On 12 July 2018, Phileo received a confidential, non-binding and indicative proposal from Mr Koh (Phileo's major shareholder and Managing Director) for a proposed transaction which comprises the Capital Return and the Delisting. The Independent Committee evaluated that proposal with the benefit of external valuation, taxation and legal advice. Following negotiations between the Independent Committee and Mr Koh, a revised and improved proposal was received from Mr Koh on 11 September 2018. This revised and improved proposal, which included an increase in the consideration to be offered to shareholders under the Capital Return and certain structural changes, was subsequently recommended by the Independent Committee to the Phileo Board, excluding Mr Koh (**Independent Directors**).

On 5 October 2018, Phileo announced that it had entered into an Implementation Deed with Mr Koh to implement the Capital Return and Delisting.

The Implementation Deed sets out a framework for Phileo to propose the Capital Return and Delisting. A signed copy of the Implementation Deed was attached as Annexure B to Phileo's ASX announcement on 5 October 2018.

1.2 Capital Return

The Capital Return component of the Proposed Transaction involves Phileo conducting a selective capital reduction under section 256B of the Corporations Act. This section provides that a company may only reduce its capital if:

- it is fair and reasonable to the company's shareholders as a whole;
- it does not materially prejudice the company's ability to pay its creditors; and
- it is approved by shareholders in accordance with section 256C of the Corporations Act.¹

Under the Capital Return, a maximum of 10.50 million Shares will be cancelled in exchange for the Cancellation Price of \$12.66 per Cancelled Share.

Mr Koh as the proponent of the Proposed Transaction will not participate in the Capital Return. He will therefore retain all of the 10,348,814 Phileo Shares he currently owns or controls (representing approximately 35.78% of Phileo's currently issued share capital).

1.3 Choosing your level of participation in the Capital Return

All Phileo Shareholders (other than Mr Koh and the Koh Entities) have the choice of:

- participating in the Capital Return and exiting their entire investment in Phileo, for \$12.66 cash for each Share cancelled;
- electing to opt-out of the Capital Return entirely and remaining a Shareholder alongside Mr Koh in an unlisted, privatised Phileo that would be controlled by Mr Koh – this alternative is open to all Shareholders regardless of the size of their current shareholding; or
- depending on the number of Shares they currently hold, electing to opt-out of the Capital Return for a portion of their shareholding only and therefore continuing to remain a Shareholder alongside Mr Koh in an unlisted, privatised Phileo that would be controlled by Mr Koh, but holding fewer shares than they currently do.

Unless you positively elect to opt-out of the Capital Return, in full or in part, you will be treated as an Exiting Shareholder in respect of your entire shareholding.

A Shareholder may only elect to partially opt-out of the Capital Return if:

- they hold more than 10,000 Shares;² and
- after their partial Opt-Out Election, the number of Shares they would continue to hold following the Capital Return is at least 10,000 (see Example 1 below).

1. Please refer to section 11.7 of this Explanatory Memorandum for further information on the statutory framework governing the approval and implementation of the Capital Return.

2. At any time before the Opt-Out Election Cut-Off Date (including any additional Shares acquired before this date on-market or off-market).

If a Shareholder holds less than 10,000 Shares,³ they may only elect to opt-out for their entire shareholding (see Example 2 below). Similarly, if a Shareholder holds more than 10,000 Shares but would hold less than 10,000 Shares after making a partial Opt-Out Election, they too may only elect to opt-out for their entire shareholding. Alternatively, they may increase their Opt-Out Election to a level that would result in them continuing to hold at least 10,000 Shares following the Capital Return (see Example 3 below).

Examples – partial Opt-Out Elections

(a) Example 1:

Shareholder A holds 30,000 Shares. Shareholder A holds at least 10,000 Shares and therefore it can elect to partially opt-out of the Capital Return, provided that it would still hold at least 10,000 Shares after the Capital Return. To further illustrate, Shareholder A could for example deliver a valid Opt-Out Election for 10,000 Shares, 10,001 Shares, 11,000 Shares, 15,000 Shares, 20,000 Shares or even 29,999 Shares. In all of these examples, the partial Opt-Out Election is valid because Shareholder A is specifying a number of Shares they wish to retain that is 10,000 or more.

(b) Example 2:

Shareholder B holds 8,000 Shares. Shareholder B is not eligible to lodge a partial Opt-Out Election because it holds less than 10,000 Shares.⁴ If Shareholder B purports to lodge an Opt-Out Election for 6,000 or 7,800 Shares, that purported partial Opt-Out Election will be invalid and disregarded. Instead, Shareholder B will be treated as an Exiting Shareholder and will have all of their Shares cancelled under the Capital Return.

(c) Example 3:

Shareholder C holds 11,000 Shares. Shareholder C submits an Opt-Out Election Form indicating that the number of shares it wishes to retain is 7,000 Shares. This purported partial Opt-Out Election is invalid, as 7,000 Shares is below the minimum requirement of 10,000 Shares. Shareholder C must either increase its Opt-Out Election to at least 10,000 Shares or opt-out for all its 11,000 Shares.

As these examples illustrate, by lodging an Opt-Out Election Form, you are specifying the number of Shares you wish to **retain**. Therefore, if you wish to lodge an Opt-Out Election Form, the number of Shares specified in your form must either be your entire holding of Shares or, if less than your entire holding, a number equal to at least 10,000 Shares.

Any Opt-Out Election Form that is invalid will be disregarded. Instead, the Shareholder will be treated as an Exiting Shareholder and will have all of their Shares cancelled under the Capital Return.

For detailed information about how to participate or opt-out of the Capital Return please refer to Section 4 of this Explanatory Memorandum.

1.4 Dividend Component

As part of the development of the Proposed Transaction, Phileo has sought a Class Ruling from the Commissioner of Taxation (**Commissioner**). The Class Ruling was lodged on 5 October 2018. As at the date of this Explanatory Memorandum, the Commissioner has not made a determination on the Class Ruling. Subject to the Commissioner's decision, part of the Cancellation Price of \$12.66 per Share may be deemed to be delivered as a dividend.

Deloitte has advised that, subject to the Commissioner's ruling, of the \$12.66 Cancellation Price, it is expected that \$1.21 would form the capital payment and \$11.45 would form the Dividend Component.

The Dividend Component is expected to be partially franked. The amount of the dividend component and the extent to which it is franked cannot be determined at this stage as these amounts are subject to numerous variables that will not be known until at or around the implementation of the Capital Return. The franked and unfranked component of the Capital Return dividend will be set out in the Class Ruling.

To the extent that any portion of the Dividend Component is franked, Australian resident Shareholders may, subject to their tax profile including their marginal tax rate, be in a position to access a refundable tax offset from the franking credits.

Any refundable tax offset from the franking credits will be reduced if the Dividend Component is less than \$11.45 per Share. Whether you will be in a position to derive the full benefit of any refundable tax offset will depend on your individual taxation circumstances.

Please see Section 9 of this Explanatory Memorandum for further detail regarding the tax implications of the Dividend Component.

3. At any time before the Opt-Out Election Cut-Off Date (including any additional Shares acquired before this date on-market or off-market).

4. The only exception would be if this Shareholder increases their holding above 10,000 prior to the Opt-Out Election Cut-Off Date, in which case the partial Opt-Out Election must be for with a minimum of at least 10,000 Shares.

1. Key Features of the Proposed Transaction (continued)

1.5 Delisting

One of the benefits of being publicly listed is the ability to more easily raise equity and debt capital. However, following implementation of the Capital Return, it is not envisaged that Phileo would need to access public equity and debt capital markets. The basis for that expectation is that, in Phileo's 31-year history as a listed company, it has never sought to publicly raise equity or debt capital.

The Independent Directors consider that the continued listing of Phileo on ASX following implementation of the Capital Return would no longer be efficient or beneficial to Phileo, as the costs of remaining listed are significant and would materially outweigh any benefits of a continued listing (with any such benefits being difficult to identify). The continued listing of Phileo is estimated to cost Phileo not less than \$200,000 per annum, comprising annual listing fees, statutory compliance and other registry and trading costs. In addition to these direct costs, there are other significant costs associated with the listing including time devoted internally to managing Phileo's listing. This time could be utilised elsewhere if Phileo was delisted. As there is a limited secondary market for trading for Phileo Shares, which will only decrease following the implementation of the Capital Return, Phileo considers that these costs are not warranted and funds would be better directed elsewhere to benefit Phileo's shareholders.

Therefore, the Independent Directors have formed the view that, if the Capital Return is approved and implemented, a continued listing on ASX would no longer be efficient or beneficial to Phileo and the Continuing Shareholders, having regard to the significant ongoing costs and compliance burden associated with remaining as a listed entity and Phileo's future needs.

Accordingly, subject to the necessary shareholder approval being obtained, it is proposed that Phileo be delisted from ASX shortly following implementation of the Capital Return.

As announced on 5 October 2018, ASX has provided in-principle confirmation that it will support the Delisting, subject to Phileo shareholders approving the Delisting. That approval will be sought at the Annual General Meeting, being the third of the three consecutive Meetings to be held on Thursday, 20 December 2018.

1.6 What Shareholder approvals are required?

The Proposed Transaction will only proceed if:

- the resolution to approve the Capital Return to be considered at the General Meeting of all Shareholders is approved by the Continuing Shareholders (being the only Shareholders entitled to vote in favour of that resolution) as a special resolution (**First Capital Return Resolution**);
- the resolution to approve the Capital Return to be considered at the Special Meeting of Exiting and Partially Exiting Shareholders is approved by Exiting Shareholders and Partially Exiting Shareholders as a special resolution (**Second Capital Return Resolution**);
- the resolution to approve the removal of Phileo from the official list of the ASX to be considered at the Annual General Meeting is approved by Shareholders as an ordinary resolution (**Delisting Resolution**); and
- all Conditions for the Proposed Transaction are either satisfied or waived.

First Capital Return Resolution

The First Capital Return Resolution will be considered at the General Meeting of all Shareholders.

- The First Capital Return Resolution requires approval by at least 75% of votes cast by Shareholders who are present and entitled to vote at the General Meeting of all Shareholders.
- At the General Meeting of all Shareholders, only Continuing Shareholders will be entitled to vote *in favour of* the First Capital Return Resolution. Exiting Shareholders and Partially Exiting Shareholders and their Associates may not vote *in favour of* but can vote against the First Capital Return Resolution.

Second Capital Return Resolution

- The Second Capital Return Resolution will be considered at the Special Meeting of Exiting and Partially Exiting Shareholders.
- At the Special Meeting of Exiting and Partially Exiting Shareholders, only Exiting Shareholders and Partially Exiting Shareholders will be entitled to vote on the Second Capital Return Resolution.
- The Second Capital Return Resolution requires approval by at least 75% of votes cast by Shareholders who are present and entitled to vote at the Special Meeting of Exiting and Partially Exiting Shareholders.

Delisting Resolution

- The Delisting Resolution will be considered at the Annual General Meeting.
- The Delisting Resolution is an ordinary resolution that requires approval by a majority of votes cast by Shareholders who are present and entitled to vote at the Annual General Meeting.
- All Shareholders may vote on the Delisting Resolution.

If the requisite shareholder approvals are not obtained, the Proposed Transaction will not proceed. As the Capital Return Resolutions and Delisting Resolution are not interdependent, if the Capital Return Resolutions are approved but the Delisting Resolution is not approved, then the Capital Return will still proceed. However, in those circumstances Phileo would remain listed on ASX (subject to Phileo satisfying ASX's spread and liquidity requirements).

For a further explanation of the resolutions and the voting restrictions applying at each of the meetings, please refer to Section 5.6(b) of this Explanatory Memorandum, as well as the Notices of Meeting for the General Meeting of all Shareholders, Special Meeting of Exiting and Partially Exiting Shareholders and the Annual General Meeting which are included as Appendix 2, Appendix 3 and Appendix 4 to this Explanatory Memorandum.

1.7 Control effect of Capital Return

If the Capital Return is approved and implemented and if the maximum of 10.50 million Shares potentially available for cancellation are cancelled, the proportionate percentage shareholding of Mr Koh and the Koh Entities will increase from approximately 35.78% to 56.16% of Phileo's reduced share capital.

In those circumstances, Mr Koh will become the controlling shareholder of Phileo, which would then be an unlisted, privately-owned company, with the remainder of the Shareholders being those that have validly elected to opt-out, either fully or partially, from the Capital Return.

Mr Koh's shareholding following implementation of the Capital Return (if approved and implemented) will ultimately depend on how many Shares are cancelled and may be less than 56.16%.

1.8 How will the Capital Return be funded?

If the maximum of 10.50 million Shares available for cancellation are all cancelled, Phileo will be required to pay a total of \$132,930,000 to Exiting Shareholders and Partially Exiting Shareholders. The maximum aggregate payment of \$132,930,000 will be funded primarily by way of Phileo's existing cash reserves (representing the proceeds received to date from the sale of its Wyndham Vale site) and from its ability to borrow further funds if necessary. Phileo has recently negotiated a \$27.20 million increase in its existing debt facility with NAB to partly fund the payments to Exiting Shareholders and Partially Exiting Shareholders (to the extent required).

The Independent Directors have formed the view that the Capital Return will not materially prejudice Phileo's ability to continue to pay its creditors, even if the maximum of 10.50 million Shares are cancelled. This view has been formed having regard to the value of Phileo's assets, its expected cash flows and debt obligations following the Capital Return. For more information about Phileo's financial position please refer to Sections 2.5(b) and 6.4 of this Explanatory Memorandum.

1.9 Taxation implications

A general outline of the Australian taxation implications for Shareholders in relation to the potential cancellation of their Shares and the receipt of the Cancellation Price under the Capital Return, including the Dividend Component, is provided in Section 9 of this Explanatory Memorandum. The information in that Section is general in nature and should not be relied on by Shareholders as tax advice. Shareholders should obtain their own professional advice on the taxation implications relevant to them arising from the receipt of the Cancellation Price under the Capital Return, including the Dividend Component.

1.10 Conditions

The Proposed Transaction is subject to a number of conditions which are discussed in more detail in Section 2.5(a) of this Explanatory Memorandum. They are also set out in full in clause 5 of the Implementation Deed.

At the date of this Explanatory Memorandum, neither Phileo nor any of the Independent Directors are aware of any circumstances that would cause any of the Conditions not to be satisfied or which could result in termination of the Implementation Deed.

Phileo will make a statement regarding the status of all of the Conditions at the commencement of the Meetings.

1. Key Features of the Proposed Transaction (continued)

1.11 Independent Directors' recommendation and voting intentions

The Independent Directors of Phileo as at the date of this Explanatory Memorandum are:

Director's name	Position
Mr Graham Homes	Non-Executive Chairman
Mr Alfred Hing Pui Sung	Executive Director
Mr Michael Tan Chung Loke	Non-Executive Director
Mr Andrew Chooi Seng Hang	Non-Executive Director

Profiles of each member of the Phileo Board can be found in Phileo's 2018 Annual Report, which is available on ASX's website or on Phileo's website.

The interests of the Independent Directors are disclosed in Section 11 of this Explanatory Memorandum.

The Independent Directors unanimously recommend that Shareholders vote in favour of the Proposed Transaction, in the absence of a Superior Proposal that is received before the Meetings. Subject to that same qualification, each Independent Director intends to vote all Phileo Shares held or controlled by him in favour of the Proposed Transaction. As at the date of this Explanatory Memorandum, the Independent Directors hold or control in aggregate approximately 27.28% of all Phileo Shares on issue. No Superior Proposal from another party has been received as at the date of this Explanatory Memorandum.

In forming their unanimous recommendation the Independent Directors have carefully considered the conditions, advantages, disadvantages and risks of the Proposed Transaction. These matters are described in more detail in Section 2 of the Explanatory Memorandum and in the Independent Expert's Report in Appendix 1 to this Explanatory Memorandum. The Independent Directors consider that the advantages of the Proposed Transaction outweigh its disadvantages and risks.

1.12 Independent Directors' participation in Capital Return

Each Independent Director, except for Mr Michael Loke, intends to participate in the Capital Return in respect of their entire shareholding. Those Independent Directors will therefore cease to be a Shareholder if the Capital Return is approved and implemented.

Mr Michael Loke intends to deliver a partial Opt-Out Election for 2,750,000 Shares out of the total of 3,345,000 Shares in which he has a relevant interest, meaning that he will continue to hold 2,750,000 Shares if the Capital Return is approved and implemented.

The Independent Directors' strong level of intended participation in the Capital Return demonstrates that they have formed the view that the Proposed Transaction is compelling overall and, in particular, the opportunity to exit their Phileo investment at \$12.66 cash per Share is attractive to each of them in their capacity as a Shareholder.

1.13 Independent Expert's conclusion

Phileo engaged the Independent Expert, Ernst & Young Transaction Advisory Services, to prepare a report expressing an opinion on whether the Capital Return is fair and reasonable to Shareholders as a whole.

The Independent Expert has concluded that the Capital Return is fair and reasonable to Shareholders as a whole.

The Independent Expert's Report is included as Appendix 1 to this Explanatory Memorandum. You should read that report as part of your assessment of the Proposed Transaction. Section 2.2(c) of this Explanatory Memorandum contains a summary of the key conclusions of the Independent Expert in relation to the Capital Return.

1.14 Intentions of major Shareholders

Under the Capital Return, the maximum number of Shares available for cancellation is 10.50 million Shares. Accordingly, it was necessary for the Independent Directors to determine with sufficient certainty prior to entering into the Implementation Deed that there would be enough Shares available for cancellation to allow for full participation by all Phileo Shareholders (excluding Mr Koh and the Koh Entities).

In particular, with a maximum of 10.50 million Shares available for cancellation, and with Phileo having a total of 28,927,016 Shares on issue (of which Mr Koh owns or controls 10,348,814 Shares), Opt-Out Elections are required from Shareholders holding at least 8.08 million Shares (excluding those owned or controlled by Mr Koh). This is the number of opt-outs required to ensure all other Shareholders have the opportunity to participate in the Capital Return for their entire shareholding.

To that end, prior to entering into the Implementation Deed, a representative of the Independent Committee confidentially canvassed Shareholders with a holding above one million Shares to assess their reaction to the Proposed Transaction generally (which at that point was still a preliminary, non-binding indicative proposal), and to ascertain whether they would be minded to participate in the Capital Return or to opt out (in full or in part).

As a result of this confidential pre-announcement canvassing process, three Shareholders holding 8.25 million Shares in aggregate have expressed a current intention to opt-out of the Capital Return and to be a Continuing Shareholder or, in respect of Mr Michael Loke, a Partially Exiting Shareholder. Other Shareholders who were confidentially canvassed expressed a current intention to participate in full and to be an Exiting Shareholder.

Details of these current intentions from major Shareholders are set out in the below table:

Shareholder	Number of shares held	Percentage of Phileo shares held	Current Intention
Puico Enterprises Corporation* *an entity controlled by Mr Michael Loke, a non-executive director of Phileo	2,750,000	9.51%	To opt out and remain a Continuing Shareholder
Sovielle Holdings Limited	2,750,000	9.51%	To opt out and remain a Continuing Shareholder
Belandas Group Limited	2,750,000	9.51%	To opt out and remain a Continuing Shareholder
Beelye Pty Ltd (as trustee for B L Superannuation fund)	1,962,196	6.78%	To participate in full and have all Shares cancelled in exchange for the Cancellation Price as an Exiting Shareholder
ACEQ Pty Ltd (as trustee for Alfred Sung's superannuation fund)* Mr Alfred Sung is an executive director of Phileo	1,896,849	6.56%	To participate in full and have all Shares cancelled in exchange for the Cancellation Price as an Exiting Shareholder
Radiance Group Trading Ltd	1,470,824	5.09%	To participate in full and have all Shares cancelled in exchange for the Cancellation Price as an Exiting Shareholder

All of the Shareholders named above have provided their written consent to being named in this Explanatory Memorandum.

Further, each Shareholder named above has stated that their current intention is to vote in favour of all resolutions required to give effect to the Proposed Transaction that they are eligible to vote on.

Finally, each Shareholder named above has also reserved the right to change their stated current intention in either of the following circumstances:

- by written notice to the Independent Directors within 10 business days after dispatch of this Explanatory Memorandum; or
- if a Superior Proposal is publicly announced before the Meetings to vote on the Proposed Transaction.

1.15 Implementation timetable

If all necessary approvals and Conditions for the Proposed Transaction are satisfied or waived (as applicable), the Capital Return will be implemented on the Implementation Date (currently scheduled to be Thursday, 31 January 2019) and the Delisting will take place shortly thereafter.

The key dates and times in relation to the Proposed Transaction are set out in the 'Important Dates and Times' section at the beginning of this Explanatory Memorandum. Section 10 describes in further detail the procedural aspects of the Proposed Transaction and how it will be implemented.

This page has been intentionally left blank.

Section 2

Relevant considerations for Shareholders

2. Relevant considerations for Shareholders

2.1 Introduction

This Section sets out relevant considerations for Shareholders in their evaluation of the Proposed Transaction and determining how to vote.

Before deciding how to vote at the Meetings, Shareholders should carefully consider the matters discussed below as well as the other information contained in this Explanatory Memorandum.

The Independent Directors recommend that you consult your legal, financial, taxation or other professional adviser concerning the impact your decision may have on your individual circumstances.

2.2 Key reasons for Independent Directors' recommendation

In unanimously recommending the Proposed Transaction to Shareholders, the Independent Directors have carefully considered the potential advantages and disadvantages for Exiting Shareholders, Continuing Shareholders and Shareholders generally. Those advantages and disadvantages are addressed below in that order. To the extent that you are a Partially Exiting Shareholder, all of these considerations will be relevant to you in relative proportion to the number of your Shares that will be cancelled, and the number of Shares that you will retain following implementation of the Capital Return, if it is approved.

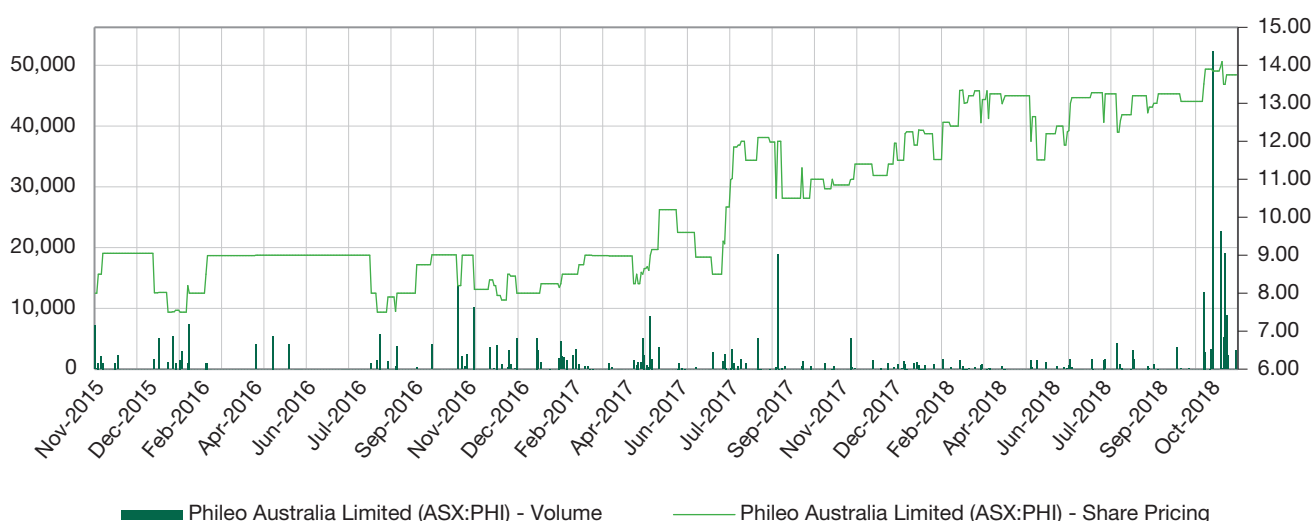
Potential advantages for Exiting Shareholders

(a) The Proposed Transaction represents a liquidity opportunity at an attractive price, noting that Phileo Shares have been characterised by deep illiquidity and low daily trading volumes for many years

Phileo's existing capital structure is highly concentrated with large shareholding blocs. The top 10 largest Shareholders own over 90% of the Shares on issue. Further, Mr Koh (through the Koh Entities) owns 35.78% of Phileo's issued Shares. Therefore, the free float of Shares is thinly traded on ASX. Consequently, Shareholders have very limited opportunities to achieve full liquidity for their Phileo investment by selling their Shares on-market, noting that any sale of a sizeable portion of Shares on ASX would likely result in a substantial reduction in Phileo's share price.

Phileo Shares have been characterised by deep illiquidity and low daily trading volumes for many years.

The diagram below illustrates the liquidity of Phileo Shares relative to share price over the past three years.



In the three years between 13 November 2015 and 13 November 2018:

- Phileo Shares did not trade at all (zero volume) for 581 out of 759 trading days (or 76.54% of the trading days in this specific period);
- averaged out across the full 759 trading days in this period, the average daily volume of Phileo Shares traded was only 520;
- on the 178 days where Phileo Shares actually traded, the average daily volume of shares traded was 2217;
- on the 178 days where Phileo Shares actually traded, the median daily volume of shares traded was 999; and
- Phileo Shares traded below a daily volume of 10,000 for 752 of 759 trading days (or 99.07% of the trading days).

Given the history of illiquidity of Phileo Shares, the Independent Directors consider that:

- in the absence of the Proposed Transaction, it is unlikely that all Shareholders (excluding Mr Koh) would be able to exit their entire shareholding in the short to medium term through an on-market sale, without placing significant downward pressure on the market price of Phileo Shares; and
- the Proposed Transaction represents an opportunity for all Shareholders (excluding Mr Koh) to realise the value of all of their Phileo Shares at an attractive and certain price, in circumstances where that opportunity currently does not exist (and is not likely to exist in the foreseeable future) through an on-market sale.

(b) Australian resident Shareholders may receive an additional benefit from franking credits attached to the Dividend Component

To the extent that part of the Cancellation Price is delivered as a Dividend Component, Exiting Shareholders may be able to receive the benefit of franking credits, depending on their individual circumstances.

Deloitte has indicated that Exiting Shareholders could have \$11.45 of the Cancellation Price for each Share delivered as a Dividend Component, subject to the outcome of the ATO class ruling application.

The Dividend Component is expected to be partially franked. The amount of the dividend component and the extent to which it is franked cannot be determined at this stage as these amounts are subject to numerous variables that will not be known until at or around the implementation of the Capital Return. The franked and unfranked component of the Capital Return dividend will be set out in the class ruling from the ATO.

To the extent that any portion of the Dividend Component is franked, Australian resident Shareholders may, subject to their tax profile including their marginal tax rate, be in a position to access a refundable tax offset from the franking credits.

Any refundable tax offset from the franking credits will be reduced if the Dividend Component is less than \$11.45 per Share. Whether you will be in a position to derive the full benefit of any refundable tax offset will depend on your individual taxation circumstances.

Please see Section 9 of this Explanatory Memorandum for further detail regarding the tax implications of receiving the Cancellation Price, including the Dividend Component.

(c) The Independent Expert has concluded that the Capital Return is fair and reasonable to Shareholders as a whole including Exiting Shareholders and Partially Exiting Shareholders

The Independent Directors engaged Ernst & Young Transaction Advisory Services Limited as the Independent Expert to prepare a report expressing an opinion as to whether or not the Capital Return is fair and reasonable to Shareholders as a whole. The Independent Expert has concluded that the Capital Return is fair and reasonable to Shareholders as a whole including Exiting Shareholders and Partially Exiting Shareholders.

So far as Exiting Shareholders and (Partially Exiting Shareholders, to the extent that they will have shares cancelled) are concerned, the Independent Expert has stated:

The assessed fair value of a Phileo Share on a controlling interest basis is between \$12.32 and \$13.08 per Phileo Share. The Cancellation Price is \$12.66 per Phileo Share...

We conclude that, as the Cancellation Price falls within our assessed fair value range of a Phileo Share, the selective capital reduction is fair to Exiting Shareholders.⁵

The Independent Expert's report is included in full in Appendix 1 to this Explanatory Memorandum. That report should be read in its entirety, including the assumptions on which the conclusions are based, as part of your assessment of the Proposed Transaction and before voting on the Proposed Transaction.

(d) It is unlikely that a Superior Proposal (or alternative proposal) will emerge.

Mr Koh (through the Koh Entities) owns or controls 35.78% of Phileo's issued Shares, which is a substantial stake capable of potentially blocking any alternative change of control proposal. In these circumstances, the Independent Directors consider it unlikely that a third party will put forward a takeover or other change of control proposal for Phileo in the short to medium term, without the support of Mr Koh. If such a proposal were to emerge before the Meetings, Mr Koh would (under the matching right provisions of the Implementation Deed) have the opportunity to revise the terms of the Proposed Transaction.

Accordingly, the Independent Directors consider that the likelihood of a Superior Proposal (or even an alternative proposal) emerging before the Meetings is very low.

(e) Alternative proposals are either inferior or not feasible.

The Independent Directors have considered a number of alternative methods to return capital to Shareholders, including the declaration of a stand-alone special dividend or an equal capital reduction; however, these have all been assessed as inferior or not feasible. For a detailed analysis of the potential alternative methods to return capital to shareholders, please refer to Section 2.4 of this Explanatory Memorandum.

5. See page V of the Independent Expert's Report contained at Appendix 1 to this Explanatory Memorandum.

2. Relevant considerations for Shareholders (continued)

(f) Exiting Shareholders will avoid ongoing exposure to the risks associated with Phileo's business

There are a number of risks associated with Phileo's business, including general risks and risks specific to Phileo's business. These risks are set out in detail at Sections 7.2 and 7.3 of this Explanatory Memorandum. These risks, if they eventuate, could negatively affect the value of a continuing investment in Phileo and/or reduce Phileo's ability to pay dividends.

The Capital Return gives Exiting Shareholders the opportunity to realise the value of all their Phileo Shares and, following implementation, avoid ongoing exposure to the risks associated with Phileo's business.

(g) Exiting Shareholders will be able to dispose of their Phileo shares without incurring brokerage costs

As Exiting Shareholders' Shares will be cancelled on implementation of the Capital Return, Exiting Shareholders will have the opportunity to dispose of all of their Shares without incurring any brokerage or other transaction costs, being costs which are likely to apply to any disposal of Shares through an on-market sale.

(h) Exiting Shareholders will avoid the current risk that Phileo could, in the future (and in the absence of the Proposed Transaction), be de-listed from ASX due to a lack of shareholder spread and liquidity

As set out in Section 2.2(a) above, Phileo has a tightly held capital structure, and its Shares have experienced a recent history of illiquidity. These factors create the risk that Phileo could be de-listed from ASX in the future due to a lack of shareholder spread and liquidity.

The Capital Return gives Exiting Shareholders the opportunity to realise the value of their Phileo Shares, and, following implementation, avoid ongoing exposure to the risk that Phileo might be de-listed from ASX in future.

From the perspective of Continuing Shareholders

(i) Continuing Shareholders will retain the ability to participate in any potential upside associated with an investment in Phileo

For those Shareholders who wish to maintain their investment in Phileo, they may submit an Opt-Out Election Form and remain a Continuing Shareholder. Continuing Shareholders will retain the ability to participate in any potential valuation upside associated with a continued holding of Shares, as well as the benefit of any future dividends or capital returns (recognising that Continuing Shareholders will retain their investment in what would then be an unlisted entity, which will reduce Continuing Shareholders' ability to realise their investment).

(j) Continuing Shareholders' interests in Phileo will increase

Although Continuing Shareholders will not acquire any additional Shares, their proportionate percentage shareholding in Phileo will increase as a result of the cancellation of up to 10.50 million Shares held by Exiting Shareholders and Partially Exiting Shareholders. This in turn will result in a relative increase in each of the Continuing Shareholders' voting interests and economic interests in Phileo.

(k) Phileo will no longer be subject to the regulatory obligations and costs associated with being listed on ASX

If the Proposed Transaction is approved and implemented, Phileo will be Delisted. Continuing Shareholders will be able to maintain their investment in what would then be an unlisted entity that is no longer subject to the regulatory obligations and costs associated with being an ASX listed entity. This will free up the time and resources of Phileo's Board and management to focus on the underlying business and deliver annual cost savings. To the extent that this contributes to increased profitability, this is a benefit that will flow exclusively to the Continuing Shareholders.

(l) The Independent Expert has concluded that the Capital Return is fair and reasonable to Shareholders as a whole, including the Continuing Shareholders

The Independent Expert has concluded that the Capital Return is fair and reasonable to Shareholders as a whole including the Continuing Shareholders.

So far as the Continuing Shareholders are concerned, the Independent Expert has stated:⁶

The assessed fair value of a Phileo Share on a controlling interest basis is between \$12.32 and \$13.08 per Phileo Share. The Cancellation Price is \$12.66 per Phileo Share.

Given the Cancellation Price sits within our assessed fair value range we consider the selective capital reduction is also fair to Continuing Shareholders. However, we also consider that, in the absence of a future control transaction, the future price that may be realised by a Continuing Shareholder in the event that Phileo Shareholders also approve the delisting may be lower than our assessed fair value range.

The Independent Expert's report is included in full in Appendix 1 to this Explanatory Memorandum. That report should be read in its entirety, including the assumptions on which the conclusions are based, as part of your assessment of the Proposed Transaction and before voting on the Proposed Transaction.

6. See page V of the Independent Expert's Report contained at Appendix 1 to this Explanatory Memorandum.

From the perspective of all Shareholders

(m) The Proposed Transaction is structurally fair

The Independent Directors consider that the Proposed Transaction is structurally fair, as it gives all Shareholders, irrespective of the size of their shareholding, an equal opportunity to retain their Phileo Shares if they wish to maintain an investment in the delisted Phileo, alongside Mr Koh through the Koh Entities as the proponent of the Proposed Transaction.

2.3 Potential disadvantages of the Proposed Transaction

You are not obliged to accept the Independent Directors' recommendation. The Proposed Transaction has some potential disadvantages and risks that Shareholders should consider in deciding how to vote at the Meetings.

Although the Independent Directors consider that these potential disadvantages and risks are outweighed by the advantages of the Proposed Transaction and that the Proposed Transaction is in the best interests of Shareholders as a whole, in the absence of a Superior Proposal, Shareholders should consider their individual circumstances in determining how to vote in relation to the Proposed Transaction.

The potential disadvantages are set out below from the perspective of Exiting Shareholders and Continuing Shareholders. To the extent that you are a Partially Exiting Shareholder, all of these considerations will be relevant to you in relative proportion to the number of your Shares that will be cancelled, and the number of Shares that you will retain.

From the perspective of Exiting Shareholders

(a) Exiting Shareholders will have their Shares cancelled and will cease to have any rights as a member of Phileo

Exiting Shareholders will have their Shares cancelled in exchange for receiving the Cancellation Price. They will then cease to have any rights as a member of Phileo, which includes losing the rights to participate in any potential valuation upside associated with a continued holding of their Shares, as well as any future dividends or capital returns.

From the perspective of Continuing Shareholders

(b) Continuing Shareholders will have ongoing exposure to the risks associated with Phileo's business

There are a number of risks associated with Phileo's business, including general risks, Phileo specific risks and risks resulting from the implementation of the Proposed Transaction. These risks are set out in detail at Section 7 of this Explanatory Memorandum. If these risks eventuate, they could negatively affect the value of a continuing investment in Phileo and/or reduce Phileo's ability to pay dividends.

(c) Continuing Shareholders will experience a further reduction in the liquidity of their Shares

After Phileo is delisted, its Shares will no longer be publicly traded on ASX. Instead, Phileo Shares will only be able to be bought and sold by private transaction. Consequently, the liquidity of Shares will be directly affected and is likely to be further diminished. However, as noted above, the ASX public market for Phileo shares has generally been illiquid over several years, meaning that this potential disadvantage is not as pronounced as would be the case if Phileo Shares were currently highly liquid.

(d) After Delisting, Phileo's ability to fund future capital needs through equity will be more limited

After Phileo is delisted, there will be inherent limitations on Phileo's ability to raise capital quickly and simply. Fundraising alternatives without the issue of a prospectus such as a rights issue or share purchase plan, and 'limited disclosure' fundraising methods such as through a section 713 prospectus are not available to unlisted companies. Therefore, the main means for Phileo as an unlisted company to raise funds would be by way of a full prospectus (which is expensive) or by way of placement. It is likely that any placement made by Phileo as an unlisted company will subject the recipient of the placement to a twelve month escrow period on trading of their shares which may be unattractive to some investors and deter them from investing in Phileo.

However, the Independent Directors consider that, as an entity engaged in property development, with significant wholly owned assets and cash reserves, Phileo (as an unlisted company) would have a limited need to raise equity capital in a public market setting.

(e) Continuing Shareholders will not be able to access their proportionate share of Phileo's accumulated franking credits

To the extent that part of the Cancellation Price is delivered as a Dividend Component and is franked, Exiting Shareholders will collectively gain access to all of Phileo's accumulated franking credits. As Continuing Shareholders will not receive the Cancellation Price, they will not gain any access to Phileo's accumulated franking credits, which would be reduced to zero on implementation of the Capital Return.

Accordingly, Continuing Shareholders will not be able to access their proportionate share of the franking credits that Phileo has accumulated. Instead, all of the franking credits would be applied for the benefit of Exiting Shareholders.

2. Relevant considerations for Shareholders (continued)

(f) Continuing Shareholders will remain shareholders in an unlisted and privatised entity that will be controlled by Mr Koh

Mr Koh, as the proponent of the Proposed Transaction, will not participate in the Capital Return. He will therefore retain all of the 10,348,814 Shares he currently owns or controls (representing approximately 35.78% of Phileo's currently issued share capital).

If the Proposed Transaction is approved and implemented and if the maximum of 10.50 million Shares potentially available for cancellation are cancelled, Mr Koh's proportionate percentage shareholding would increase to 56.16% of Phileo's reduced issued share capital.

Further, Mr Koh has indicated that his intention, if the Proposed Transaction is implemented, is to propose that Phileo convert to a proprietary limited (i.e. private) company and adopt a new constitution that is appropriate for such an entity. Giving effect to these current intentions is however subject to satisfying the applicable requirements under the Corporations Act.⁷ For more information about Mr Koh's future intentions as at the date of the Explanatory Memorandum please see Section 8 of this Explanatory Memorandum.

As a result of Mr Koh's intention to propose that Phileo converts to a proprietary limited company, Continuing Shareholders will maintain their current investment in what would be an unlisted, privatised Phileo controlled by Mr Koh, and with a materially different governance structure to that which applies to their current investment in Phileo. There are risks associated with an investment in the unlisted Phileo, including that:

- Continuing Shareholders will be subject to a different regulatory regime when compared to their current investment in Phileo, including that they will no longer have the protections of the ASX Listing Rules, continuous disclosure regime and ASX corporate governance requirements;
- Continuing Shareholders will receive less information about Phileo than they currently receive;
- Continuing Shareholders will face a lack of liquidity in respect of their Shares given there will be no public market for the sale of the Shares although, as noted above, due to the historical illiquidity of Shares, this risk is less pronounced than if Shares were highly liquid;
- Mr Koh will hold a controlling stake in Phileo and will have the ability to influence decisions and the composition of the Board; and
- there are other potential disadvantages to Phileo of not being listed, including the fact that some investors apply a higher valuation to securities of a company that is listed on a recognised exchange. Also, the sale of unmarketable parcel procedures, on-market buy-back procedures and the minimum holding buy-back procedures will not be available if Phileo is delisted.

2.4 Potential alternative proposals inferior or not viable

The Independent Directors have considered a number of alternative methods to return capital to Shareholders. However, these were all assessed as inferior or not feasible. These alternative methods included:

Equal capital reduction

Under an equal capital reduction, all Shareholders (including Mr Koh through the Koh Entities) would have a proportion of their Shares cancelled equally in exchange for consideration. If an equal capital reduction was proposed to reduce each Shareholder's holdings by a meaningful amount, there would be substantially less consideration available for distribution to all Shareholders. Mr Koh could also receive a proportionate share of the franking credits attached to his portion of the special dividend component of the equal return of capital.

Alternatively, an equal capital reduction at a price equivalent to the Cancellation Price of \$12.66 would mean that only a very small proportion of each Shareholder's holdings would be cancelled (if any). Such a reduction would have the result that Phileo retains its tightly held ownership structure. This would also result in Shareholders retaining smaller (and possibly even unmarketable) parcels of shares in a thinly traded company. Accordingly, this type of equal capital reduction is only likely to exacerbate the issues already associated with the illiquidity in Phileo Shares.

Special dividend

The current liquidity and borrowing ability of Phileo would limit any dividend to \$4.00 to \$4.50 per Share, as funds would be spread equally across all Shareholders including Mr the Koh Entities, not just those that wish to dispose of their Phileo Shares.

7. See further Section 8.3(b) of this Explanatory Memorandum.

Disposal of Shares on-market

The market price of Phileo Shares immediately prior to announcement of the Proposed Transaction was higher than the Cancellation Price of \$12.66 per Share offered under the Capital Return. The market price of Phileo Shares in the period following announcement of the Proposed Transaction increased, potentially reflecting a positive overall market reaction to the terms of the Proposed Transaction. In any event, the market price of Phileo Shares is not an accurate or reliable indicator of underlying value because Phileo shares are thinly traded and have limited liquidity. The key point is that this long-standing illiquidity means that it is not feasible for most Shareholders to sell all their Shares on-market as there is simply insufficient volume to facilitate an on-market exit for most Shareholders, noting that if there are significant sell orders placed on-market, this would most likely lead to a significant fall in the market price of the Shares.

2.5 Other relevant considerations

(a) The Proposed Transaction has a number of conditions

The Proposed Transaction is conditional on Shareholders approving the resolutions for the Proposed Transaction at the Meetings by the requisite majorities. In addition, the Proposed Transaction is subject to a number of other Conditions as follows:

- the Independent Expert concluding that the Proposed Transaction is fair and reasonable to Shareholders as a whole (or at least reasonable) and maintaining that conclusion prior to the Meetings;
- the Independent Directors continuing to unanimously recommend that Shareholders vote in favour of the Capital Return Resolutions on which they are entitled to vote at the Meetings;
- a maximum of 10.50 million Shares (representing approximately 36.29% of Phileo's current issued share capital) being cancelled and Opt-Out Election Forms being received from Shareholders holding at least 8.08 million Phileo Shares, and those elections remaining in place on the Capital Return Record Date - assuming the three Shareholders identified in the table in Section 4.4(b) of this Explanatory Memorandum act consistently with their publicly stated intention to opt-out of the Capital Return, this Condition will be satisfied;
- Shareholders entitled to vote on the Capital Return Resolutions and the Delisting Resolution approving those resolutions by the requisite majorities at the relevant meetings; and
- FIRB approval being received by the three Shareholders identified in the table in Section 4.4(b) of this Explanatory Memorandum – this Condition has been satisfied (see Section 4.4(b) of this Explanatory Memorandum for further details).

These conditions are set out in full in clause 3 of the Implementation Deed, which is available through www.asx.com.au as an annexure to Phileo's announcement of 5 October 2018.

As at the date of this Explanatory Memorandum, neither Phileo nor any of the Independent Directors are aware of any circumstances that would cause the Conditions not to be satisfied, or which could result in termination of the Implementation Deed.

Phileo will make a statement regarding the status of all of the Conditions at the commencement of the Meetings.

(b) What is the relationship between the Capital Return Resolutions and the Delisting Resolution?

The Capital Return is not conditional on the Delisting Resolution being approved by Shareholders at the Annual General Meeting. However, the Delisting Resolution will not be put to Shareholders if the Capital Return Resolutions are not approved by Shareholders by the requisite majorities at the General Meeting of all Shareholders and the Special Meeting of Exiting and Partially Exiting Shareholders.

This also means that if the Capital Return is approved by the requisite majorities but the Delisting Resolution is not approved by Shareholders the Capital Return will proceed but Phileo will remain an ASX-listed company (subject to Phileo satisfying ASX's minimum spread and liquidity requirements) following implementation of the Capital Return.

(c) What is the impact of the Capital Return on Phileo's financial position?

If the maximum of 10.50 million Shares available for cancellation are cancelled, Phileo will be required to pay a total of \$132,930,000 by way of payments of the Cancellation Price to Exiting Shareholders and Partially Exiting Shareholders. Immediately following implementation of the Capital Return, Phileo will have a cash balance of approximately \$9.70 million.⁸

Having regard to that expected cash balance, as well as to the value of Phileo's other assets, its expected cash flows and debt obligations, the Independent Directors consider that the Capital Return will not materially prejudice Phileo's ability to pay its creditors.

8. This assumes the cash inflow from the increase of Phileo's existing debt facility with NAB of \$27.20 million.

2. Relevant considerations for Shareholders (continued)

(d) What is the impact of the Capital Return on Phileo's capital structure?

Phileo currently has 28,927,016 Shares on issue. If the Capital Return is approved by Shareholders and if the maximum of 10.50 million Shares available for cancellation are all cancelled, the total number of Shares on issue will be reduced to 18,427,016. These Shares would be held by the following parties:

- Mr Koh (through the Koh Entities) in respect of 10,348,814 Shares (representing approximately 56.16% of the then reduced total number of Shares on issue); and
- Continuing Shareholders and Partially Exiting Shareholders (in respect of the number of Shares they elect to retain) as to the balance of 8,078,202 Shares (representing approximately 43.80% of the then reduced total number of Shares on issue).⁹

The number of Continuing Shareholders and Partially Exiting Shareholders will depend on the number of valid Opt-Out Election Forms received before the Opt-Out Election Cut-Off Date and remaining effective as at the Capital Return Record Date. As at the date of this Explanatory Memorandum, three Shareholders have expressed a current intention to lodge an Opt-Out Election Form: see Section 1.14 of this Explanatory Memorandum for further details.

The numbers and shareholdings above are based on the assumption that all 10.50 million Shares are cancelled. If less than 10.50 million Shares are cancelled, the Koh Entities' actual shareholding following the implementation of the Capital Return would represent less than 56.16% of the Shares then on issue.

(e) Transaction costs

Shareholders

If the Capital Return is approved and implemented, Shareholders will not be required to pay any brokerage or other costs on the disposal of their Shares.

Phileo

As at the date of this Explanatory Memorandum, Phileo has incurred (or expects to incur) costs of approximately \$0.95 million to \$1.0 million in developing the Proposed Transaction to the point that it is capable of being put to Shareholders for their consideration at the Meetings. These costs include negotiations with Mr Koh, the retention of advisers, engagement of the Independent Expert and preparation of this Explanatory Memorandum. Mr Koh's costs in relation to the development and negotiation of the Proposed Transaction are being borne personally by him, not Phileo.

If the Proposed Transaction does not proceed and no Superior Proposal is implemented, Phileo's results for the financial year ending 30 June 2019 will be negatively impacted by the transaction costs incurred in facilitating the Proposed Transaction.

(f) Exclusivity arrangements

Set out below is a summary only of the exclusivity arrangements agreed to in the Implementation Deed. The full terms of these exclusivity arrangements are set out in clause 5 of the Implementation Deed, a copy of which is available as an annexure to Phileo's announcement of 5 October 2018.

No shop

Phileo has agreed that during the Exclusivity Period, it must not and must ensure that it and its Representatives do not, directly or indirectly solicit, invite or initiate any Competing Proposal or any enquiries, negotiations or discussions with any third party in relation to, or that may reasonably be expected to lead to, a Competing Proposal or communicate any intention to do any of those things.

No talk

Phileo has agreed that during the Exclusivity Period, it must not and must ensure that none of its Representatives: negotiate or enter into or participate in negotiations or discussions with any person; or communicate any intention to do any of these things, in relation to, or that may reasonably be expected to lead to, a Competing Proposal.

No due diligence

Phileo must not, and must ensure that its Representatives do not, directly or indirectly make available to any person (other than Mr Koh) or permit any such person to receive any non-public information relating to Phileo any of its businesses and operations, in connection with such person formulating, developing or finalising a Competing Proposal.

Notice of approach

During the Exclusivity Period, Phileo must promptly (but in any event within two business days) notify Mr Koh if it, or any of its Representatives receives or becomes aware of any direct or indirect approach or attempt by any third party to take any action of a kind that would breach Phileo's obligations under the other exclusivity provisions.

9. This assumes that the maximum of 10.50 million Shares available for cancellation are cancelled under the Capital Return. The number of Shares on issue following implementation and the percentage shareholdings of each of the Continuing Shareholders, Partially Exiting Shareholders and Mr Koh will be different if less than 10.50 million Shares are cancelled..

Further, if Phileo receives a Competing Proposal, and as a result it or any Independent Director proposes to publicly change or withdraw their recommendation of the Proposed Transaction, or depart from a voting intention statement, then Phileo must give Mr Koh five business days prior written notice of the proposed change.

Exceptions to exclusivity provisions

The no talk, no due diligence provision and notification of initial approach provisions outlined above do not apply if the Independent Directors determine:

- that, where there is a Competing Proposal, and after seeking advice from Phileo's advisers, that Competing Proposal is or is reasonably likely to be, or lead to, a Superior Proposal; and
- after receiving legal advice, that failing to respond to that Competing Proposal would be reasonably likely to constitute a breach of the Independent Directors' fiduciary or statutory duties,

provided that the Competing Proposal was not directly or indirectly solicited, invited or initiated by Phileo or its Representatives in a manner that would breach its obligations under the exclusivity arrangements in the Implementation Deed.

Matching right

During the five business day period following a notice of approach set out above, Mr Koh has the right to make a new proposal or propose a revision to the Proposed Transaction so that the terms of the Proposed Transaction (as amended) would provide an equivalent or superior outcome to the Competing Proposal for Shareholders as a whole.

2.6 What are your choices?

The following principal choices are available to Shareholders. Phileo encourages you to consider your personal risk profile, portfolio strategy, tax position and financial circumstances and seek professional advice before making any decision in relation to your Shares.

Vote in favour of the Proposed Transaction	This is the course of action unanimously recommended by the Independent Directors, in the absence of a Superior Proposal, and supported by the conclusion of the Independent Expert. To follow your Independent Directors' unanimous recommendation, you should vote in favour of the Proposed Transaction at the Meetings on all resolutions that you are eligible to vote on. For a summary of how to vote at the Meetings, please refer to Section 5 of this Explanatory Memorandum.
Vote against the Proposed Transaction	If, despite the Independent Directors' unanimous recommendation and the conclusion of the Independent Expert, you do not support the Proposed Transaction, you may vote against the Proposed Transaction at the Meetings. You may also choose to opt-out of the Capital Return by returning an Opt-Out Election Form. However, if all of the Conditions of the Proposed Transaction are satisfied or waived (as applicable), including the resolutions required for the Proposed Transaction being approved by the requisite majority of Shareholders, then the Proposed Transaction will proceed, irrespective of whether you voted against the Proposed Transaction. This means that unless you lodge an Opt-Out Election Form, and the Proposed Transaction is implemented, you will have your Shares cancelled in exchange for the Cancellation Price.
Return an Opt-Out Election Form	Regardless of whether you vote in favour of or against the Proposed Transaction, you are only required to lodge an Opt-Out Election Form if you wish to opt-out of the Proposed Transaction and retain some or all of your Shares. If you do not lodge an Opt-Out Election Form, then you will be deemed to be an Exiting Shareholder and if the Capital Return is approved and implemented, you will have your Shares cancelled in exchange for the Cancellation Price.

2. Relevant considerations for Shareholders (continued)

Sell your Shares	The existence of the Proposed Transaction does not preclude you from selling some or all of your Shares on-market for cash, if you wish, provided you do so before the voluntary suspension of Shares from trading on ASX which is scheduled to occur on 21 January 2019. If you are considering selling your Shares, you should have regard to the prevailing trading prices of those Shares and compare those to the Cancellation Price. You should also have regard to the limited liquidity in Phileo Shares, as this may impact the number of Shares you can sell and/or the price at which you can sell your Shares. You may ascertain current trading prices of Phileo Shares through ASX's website (www.asx.com.au) or by contacting your stockbroker. Shareholders who sell some or all of their Shares on ASX: • will receive payment for the sale of their Shares sooner than they would receive payment under the Capital Return (noting that the proceeds of sale may vary from the Cancellation Price amount of \$12.66 per Share); • may incur a brokerage charge; • will not be able to receive the Cancellation Price (including the Dividend Component) in respect of any Shares sold on ASX;
Sell your Shares	• will not have the opportunity to benefit from any of Phileo's accumulated franking credits (subject to each Shareholder's tax circumstances) in respect of any Shares sold on ASX; and • may be liable for income tax on the disposal of their Shares (as may also be the case for Exiting Shareholders and Partially Exiting Shareholders participating in the Capital Return, further details of which are provided in Section 9 of this Explanatory Booklet).
Do nothing	Shareholders who do not vote at the Meetings or do not lodge an Opt-Out Election Form by the Opt-Out Election Cut-Off Date will, if the Capital Return is approved and implemented, be deemed to be Exiting Shareholders and will have all of their Shares cancelled in consideration for receiving the Cancellation Price for each Cancelled Shares.

Section 3

Frequently asked questions

3. Frequently asked questions

Set out below are summary answers to some frequently asked questions that Shareholders may have about the Proposed Transaction. This information is a summary only and is not intended to address all relevant issues for Shareholders. This Section 3 should be read subject to, and in conjunction with, the remainder of this Explanatory Memorandum.

A. Questions about the Capital Return

Question	Answer	Further information
What is the Capital Return?	The Capital Return involves Phileo returning a maximum of approximately \$132.90 million to Shareholders by cancelling up to 10.50 million Shares for \$12.66 cash per cancelled Share.	Section 1.2
What is Mr Koh's involvement?	Mr Koh is the proponent of the Proposed Transaction. Mr Koh, through the Koh Entities, will not be participating in the Capital Return in respect of the Shares he owns or controls. Instead, he will retain all of his Shares as part of a broader objective to privatise, control and delist Phileo.	Sections 1.2, 1.7 and 8
How is the Capital Return being funded?	From Phileo's available cash reserves and, to the extent required or otherwise considered appropriate, from Phileo's existing debt facility.	Section 1.8
What is the timing?	The Capital Return will be considered and voted on at two Meetings being held on Thursday, 20 December 2018. If the Capital Return is approved at those Meetings, it is expected to be implemented on Thursday, 31 January 2019, with dispatch of payment to Exiting Shareholders and Partially Exiting Shareholders in respect of their Cancelled Shares occurring on the same day.	Sections 1.15 and 10
Apart from Shareholder approval, are there any other conditions?	Yes. However, as at the date of this Explanatory Memorandum, neither Mr Koh nor the Independent Directors are aware of any circumstances that would cause any of the Conditions not to be satisfied.	Section 2.5(a)
Were other alternatives considered?	Yes. However, the Independent Directors considered all other alternatives to be inferior or not viable to the Proposed Transaction.	Section 2.4
Is this just a takeover by another name?	No. Although the Proposed Transaction, if it proceeds, will deliver control of Phileo to Mr Koh, the Proposed Transaction is structurally and fundamentally different from a conventional takeover. In particular, unlike a takeover, you may elect to retain your Shares and remain a Shareholder alongside Mr Koh, without any immediate risk of your Shares being compulsorily acquired.	N/A

B. Questions about the Dividend Component

Question	Answer	Further information
What is the Dividend Component?	Of the Cancellation Price of \$12.66 per Share, it is expected that \$1.21 will be characterised as a return of capital and \$11.45 will be characterised as a Dividend Component. The Dividend Component is expected to be partially franked utilising Phileo's accumulated franking credits.	Section 1.4
What are the tax implications?	For Shareholders participating in the Capital Return in full or in part, there are tax implications in relation to the cancellation of their Shares and the receipt of the Dividend Component. Phileo has sought the Class Ruling from the ATO to confirm the tax treatment of the Capital Return and Dividend Component of the Cancellation Price. For Shareholders who elect to opt-out of the Capital Return in full (and thereby retain all of their Shares), there are no taxation implications.	Section 9

Question	Answer	Further information
When will the outcome of the Class Ruling be known?	It is anticipated that the outcome of the Class Ruling will be received prior to the Implementation Date (but possibly not prior to the Meetings).	Section 9

C. Questions about the Delisting

Question	Answer	Further information
Why is Phileo being delisted?	If the Capital Return is approved and implemented, it is likely that Phileo would then have: - significantly less than 300 Shareholders with holdings valued at a minimum of \$2,000 each, being the minimum number required to support an ongoing ASX listing; and - potentially even less than 150 Shareholders with holdings valued at a minimum of \$500 each, being the level at which ASX would (among consideration of other matters) typically consider granting approval for a delisting without shareholder approval. In those circumstances, a continued ASX listing would have limited benefits, particularly in light of the costs associated with being listed.	Section 1.5
What is the timing?	The Delisting requires Shareholder approval. This will be sought at the Annual General Meeting, being the third Meeting to be held on Thursday, 20 December 2018. If the Delisting is approved at that Meeting, Phileo intends to request a voluntary suspension from trading with effect from 21 January 2019 being at least one month from the date of the Annual General Meeting. If this is granted, 21 January 2019 will be the last day on which you can trade your Shares before Delisting. Under these circumstances, it is expected that the Delisting will take place on Friday, 1 February 2019.	Section 10.1

D. Questions about the Independent Directors' Recommendations and Intentions

Question	Answer	Further information
What do the Independent Directors recommend I should do?	The Independent Directors have carefully considered the potential advantages and disadvantages of the Proposed Transaction and other relevant considerations. Having due regard to all of those matters, the Independent Directors unanimously recommend that you vote in favour of all resolutions required to approve the Proposed Transaction, to the extent you are entitled to vote on those resolutions.	Section 1.11
How do the Independent Directors intend to vote for their own Shares?	Each Independent Director intends to vote all Shares that they own or otherwise control in favour of the Proposed Transaction, to the extent they are entitled to vote on those resolutions.	Section 1.11
Is there an Independent Expert's Report?	Yes. The Independent Directors engaged Ernst & Young to express an opinion on whether the Proposed Transaction is fair and reasonable to Shareholders as a whole. The Independent Expert has concluded that the Capital Return is fair and reasonable to Shareholders as a whole, including for both Exiting Shareholders and Continuing Shareholders.	Section 1.13

3. Frequently asked questions (continued)

Question	Answer	Further information
Could a Superior Proposal emerge before the Meetings?	Theoretically, yes. However, in the period of approximately one and a half months since the Proposed Transaction was first publicly announced on 5 October 2018, your Independent Directors have not received any approach or notification from a third party about any intention to submit a Competing Proposal. For that and other reasons, the Independent Directors consider that the likelihood of a Superior Proposal emerging before the Meetings is low. If a Competing Proposal does emerge before then that may qualify as a Superior Proposal, your Independent Directors will carefully evaluate it and determine whether or not to change their recommendation and voting intention. In his regard, it is also relevant to note that Mr Koh has the right to be notified of and to match any Superior Proposal that may emerge before the Meetings.	Sections 2.2(d) and 2.5(f)

E. Questions about Participation or Opting Out

Question	Answer	Further information
Do I have to participate in the Capital Return?	As a Shareholder, you have a choice about whether to participate in or opt-out of the Capital Return. If you wish to participate in the Capital Return and receive \$12.66 cash for each of your Cancelled Shares, and therefore completely exit your Phileo investment, you should: • IGNORE the Opt-Out Election Form that accompanies this Explanatory Memorandum; and • vote in favour of the Second Capital Return Resolution and the Delisting Resolution. On the other hand, if you wish to opt-out of the Capital Return, and therefore retain all or some your Phileo Shares, you must COMPLETE AND RETURN your Opt-Out Election Form. In addition, if you do not support the Proposed Transaction, you may vote against the Proposed Transaction at the Meetings in respect of the resolutions on which you are entitled to vote. Shareholders who do not vote at the Meetings or do not lodge an Opt-Out Election Form will, if the Capital Return is implemented - have all their Shares cancelled and receive the Cancellation Price.	Sections 2.6 and 4
Should I participate in or opt-out of the Capital Return?	This is an individual matter for Shareholders to consider, having regard to their individual circumstances, investment and risk profile.	
Are the Independent Directors participating in or opting out of the Capital Return?	Each Independent Director, except for Mr Michael Loke, intends to participate in the Capital Return in respect of their entire shareholding. Those Independent Directors will therefore cease to be a Shareholder if the Capital Return is approved and implemented. Mr Michael Loke intends to deliver a partial Opt-Out Election for 2,750,000 Shares out of the total of 3,345,000 Shares in which he has a relevant interest, meaning that he will continue to hold 2,750,000 Shares if the Capital Return is approved and implemented.	Section 1.12

Question	Answer	Further information
What is the relationship between Mr Koh and the three Shareholders who have currently expressed an intention to opt-out?	The three shareholders who currently intend to opt-out are Puico Enterprises Limited, Belandas Group and Sovielle Holdings. Mr Koh and the beneficial owner of Puico Enterprises, Mr Michael Loke, are both members of the Phileo Board. There is no relationship between Mr Koh and either of Belandas Group and Sovielle Holdings apart from the fact that they are all Shareholders.	
I'm a foreign resident Shareholder – does that have any implications for whether I participate or opt-out of the Capital Return?	All foreign Shareholders are free to participate in or opt-out of the Capital Return as they wish and on the same basis as an Australian resident Shareholder. If you wish to opt-out, please note the potential FIRB implications depending on your shareholding.	Section 4.4
I'd like to receive \$12.66 for each of my Shares – so what should I do with the Opt-Out Election Form	Simply disregard the Opt-Out Election Form.	N/A
I've submitted an Opt-Out Election Form. Can I still sell my Shares?	Yes. Shareholders who submit an Opt-Out Election Form electing to opt-out, either fully or partially, will be treated as a Continuing Shareholder or a Partially Exiting Shareholder respectively and, on implementation of the Capital Return, will retain the Shares that are the subject of the Opt-Out Election Form. However, if prior to the Capital Return Record Date, Continuing Shareholders and Partially Exiting Shareholders wish to dispose of their Shares either on-market or off-market by private treaty arrangement, they are free to do so. It should be noted that the illiquid nature of Shares will continue to operate as a practical constraint on the ability to trade a material volume of Shares. Any persons who acquire these Shares will not be subject to the Opt-Out Election previously made by that Continuing Shareholder or Partially Exiting Shareholder and, on implementation of the Capital Return, those Shares will be cancelled under the Capital Return in consideration for the Cancellation Price of \$12.66 for each of Cancelled Shares.	Section 4.3(c)
I need help with completing my Opt-Out Election Form – is there someone I can contact?	Yes. Please email your query to Phileo's Company Secretary at phileo@palltd.com.au .	N/A

F. Questions about Voting

Question	Answer	Further information
What Meetings are being held and when?	There will be three meetings that will be held at MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria on Thursday, 20 December 2018, commencing at 10.00am being: - the General Meeting of all Shareholders; - the Special Meeting of Exiting and Partially Exiting Shareholders; and - the Annual General Meeting	Section 5

3. Frequently asked questions (continued)

Question	Answer	Further information
Can Mr Koh and the other Directors determine, through their combined shareholding, whether or not the Proposed Transaction proceeds?	No. This is because the Capital Return will only proceed if two Capital Return Resolutions are passed by the requisite majorities. In order for the first of the two Capital Return Resolutions, being the First Capital Return Resolution, to be passed, that resolution will need to be approved by at least 75% of all Shareholders, with no votes being cast in favour by any Exiting Shareholders, Partially Exiting Shareholders or any of their Associates, present and voting (by person or by proxy) at the General Meeting of all Shareholders – this is the first meeting to be held on Thursday, 20 December 2018. Although the Independent Directors will be attending the General Meeting of all Shareholders, as they currently intend to participate in the Capital Return, and will thereby be Exiting Shareholders (or in the case of Mr Michael Loke, a Partially Exiting Shareholder), the Independent Directors will not vote in favour of the First Capital Return Resolution. In order for the second of the two Capital Return Resolutions, being the Second Capital Return Resolution, to be passed, that resolution will need to be approved by at least 75% of the Exiting Shareholders and the Partially Exiting Shareholders (in respect of their Shares not subject to an Opt-Out Election) present and voting (by person or by proxy) at the Special Meeting of Exiting and Partially Exiting Shareholders – this is the second meeting to be held on Thursday, 20 December 2018. Only Exiting Shareholders and Partially Exiting Shareholders can vote on the Second Capital Return Resolution (in respect of their Shares not subject to an Opt-Out Election). Mr Koh (as a Continuing Shareholder) cannot vote his 35.78% interest on the Second Capital Return Resolution. Mr Loke (through Puico Enterprises Corporation, his controlled entity), also cannot vote his 2,750,000 Shares (9.49%) on the Second Capital Return Resolution. However, Mr Loke is eligible to vote his 595,000 Shares that are not the subject of his Opt-Out Election Form on the Second Capital Return Resolution. In addition, the Independent Directors collectively have an interest of 17.79%¹⁰ that can be voted on the Second Capital Return Resolution.	N/A
Can Mr Koh and the other Directors determine, through their combined shareholding, whether or not the Proposed Transaction proceeds?	This collective interest will be enlarged to 49.78% after taking into account the fact that Mr Koh and the three shareholders who currently intend to opt-out (being Puico Enterprises Limited, Belandas Group and Sovielle Holdings) are unable to vote on the Second Capital Return Resolution. Accordingly, the Independent Directors, by themselves, cannot secure the passing of the Second Capital Return Resolution, which requires a vote of at least 75% or greater.	N/A
I am not sure how to complete my Proxy Form. Is there someone I can contact?	Yes. please email your query to Phileo's Company Secretary at phileo@palltd.com.au	

10. Excluding Mr Loke's interest of 9.49% held through Puico Enterprises Corporation. Puico Enterprises Corporation will be a Continuing Shareholder and therefore cannot vote its 2,750,000 shares on the Second Capital Return Resolution.

G. General Questions

Question	Answer	Further information
What are my choices?	As a Shareholder, you have various choices in relation to how to vote and whether to participate in or opt-out of the Capital Return. These choices should be considered having regard to your individual circumstances, investment and risk profile. You are encouraged to obtain independent financial and taxation advice before deciding how to vote on the Proposed Transaction, and whether to participate in the Proposed Transaction.	Sections 2.6 and 4
What happens if I just do nothing?	Shareholders who do not vote at the Meetings or do not lodge an Opt-Out Election Form by the Opt-Out Election Cut-Off Date will, if the Capital Return is approved and implemented, be deemed to be an Exiting Shareholder and will have all of their Shares cancelled in consideration for receiving the Cancellation Price for each Cancelled Share.	Section 2.6
I don't like the Proposed Transaction – what should I do?	If you do not support the Proposed Transaction, you may vote against the Proposed Transaction at the Meetings. You should also lodge an Opt-Out Election Form. However, if the Capital Return Resolutions and the Delisting Resolutions are approved by the requisite majorities at the Meetings and the Capital Return proceeds, you will retain your Shares but Phileo will then be an unlisted, privatised Phileo controlled by Mr Koh, and with a materially different governance structure to that which applies to your current investment in Phileo.	

This page has been intentionally left blank.

Section 4

Capital Return: how to participate or opt-out

4. Capital Return: how to participate or opt-out

4.1 General

As a Shareholder, you have the choice of whether to participate in the Capital Return or to opt-out of the Capital Return. You should consider seeking your own independent financial and taxation advice before making any decision in relation to whether to participate in the Capital Return.

4.2 How to participate in the Capital Return

All Shareholders will be deemed to be Exiting Shareholders and will receive the Cancellation Price of \$12.66 per Share unless by 7.00pm on Tuesday, 11 December 2018 (being the Opt-Out Election Cut-Off Date), they chose to either:

- sell all of their Shares on ASX or off-market by private arrangement; or
- elect to remain as a Continuing Shareholder by completing and returning their Opt-Out Election Form so that it is received by the Share Registry by no later than the Opt-Out Election Cut-Off Date.

Accordingly, if you wish to participate in the Capital Return and receive the Cancellation Price of \$12.66 for each of your Cancelled Shares, the only action you should take is to vote in favour of the Second Capital Return Resolution and the Delisting Resolution. Accordingly, you should **IGNORE** the Opt-Out Election Form that accompanies this Explanatory Memorandum.

4.3 How to opt-out

(a) How to fully opt-out

If you do not wish to participate in the Capital Return at all and wish to remain as a Continuing Shareholder **for all of your Shares**, you will need to complete **Part A only** of the Opt-Out Election Form and return it by either of the following methods:

By post to the Share Registry at:

Boardroom Pty Limited
GPO Box 3993
Sydney, NSW, Australia 2000

By hand delivery¹¹ to the Share Registry at:

Boardroom Pty Limited
Level 12, 225 George Street
Sydney, NSW, Australia 2000

By email to: phileo@palltd.com.au

Your Opt-Out Election Form must be returned so that it is received by the Share Registry by no later than **7.00pm on Tuesday, 11 December 2018** (being the Opt-Out Election Cut-Off Date).

(b) How to partially opt-out

If you wish to opt-out of the Capital Return for **some but not all of your Shares** and be a Partially Exiting Shareholder, you will need to complete **Part B only** of the Opt-Out Election Form. Your partial Opt-Out Election will only be valid if the number of Shares that you will hold following the implementation of the Capital Return is at least 10,000 Shares.

Shareholders with less than 10,000 Shares

Accordingly, if you currently do not hold at least 10,000 Shares, you will not be able to partially participate in the Capital Return unless you increase your shareholding to at least 10,000 Shares by acquiring additional Shares on ASX or off-market by private treaty arrangement prior to the Opt-Out Election Cut-Off Date. Any acquisition by you of additional Shares to increase your shareholding to at least 10,000 Shares must be completed and your shareholding recorded with the Share Registry by no later than Opt-Out Election Cut-Off Date in order for your Opt-Out Election to be valid.

Shareholders with at least 10,000 Shares

If you currently hold at least 10,000 Shares, you can partially participate in the Capital Return by completing **Part B** of the Opt-Out Election Form and indicating the number of Shares for which you will be opting-out of the Capital Return and will continue to hold following implementation of the Capital Return (if approved). That number must be at least 10,000 Shares.

For example, if you hold 25,000 Shares and you wish to participate in the Capital Return for only 5,000 Shares but retain 20,000 Shares, your Opt-Out Election Form needs to specify that you are opting-out of the Capital Return in respect of 20,000 of your Shares.

11. Please note that hand deliveries may only be made Monday to Friday between the hours of 9.00am to 5.00pm (Melbourne time).

As stated above, in order to partially opt-out, you must continue to hold at least 10,000 Shares following the implementation of the Capital Return. In the above example, if you hold 25,000 Shares and you wish to partially opt-out of the Capital Return, you must opt-out for a minimum of 10,000 Shares.

Please refer to the earlier examples of partial Opt-Out Elections in Section 1.3.

Invalid Opt-Out Election Forms (partial opt-out)

Shareholders who elect to partially opt-out but who return an Opt-Out Election Form which states or otherwise leads Phileo to conclude that the Shareholder will hold less than 10,000 Shares following the Capital Return will be treated as Exiting Shareholders.

Any Opt-Out Election Form that ticks the partial election option (Part B) and specifies a number of Shares less than 10,000 Shares will be invalid and the purported partial election will be disregarded. Instead, the Shareholder will be treated as an Exiting Shareholder and will have all of their Shares cancelled under the Capital Return.

(c) Effect of submitting an Opt-Out Election Form

Shareholders who submit an Opt-Out Election Form electing to opt-out, either fully or partially, will be treated as a Continuing Shareholder or a Partially Exiting Shareholder respectively and, on implementation of the Capital Return, will retain the Shares that are the subject of the Opt-Out Election Form.

Prior to the Capital Return Record Date, Continuing Shareholders and Partially Exiting Shareholders are free to dispose of their Shares either on-market or off-market by private treaty arrangement. It should be noted that the illiquid nature of Shares will continue to operate as a practical constraint on the ability to trade a material volume of Shares.

Any persons who acquire these Shares will not be subject to the Opt-Out Election previously made by that Continuing Shareholder or Partially Exiting Shareholder and, on implementation of the Capital Return, those Shares will be cancelled under the Capital Return in consideration for the Cancellation Price of \$12.66 for each of the Cancelled Shares.

(d) Shares held by trustees and nominees

Trustees and nominees who hold Shares should inform the beneficial owner(s) about the Capital Return and seek their instructions. If a trustee or nominee receives instructions from the beneficial owner(s) that they wish to retain all or some of their Shares, such trustee or nominee should complete an Opt-Out Election Form specifying the details of the beneficial owner(s) and elect either Part A (full Opt-Out Election for all Shares) or Part B (partial Opt-Out Election, including specifying the aggregate number of Shares they want to retain, which must be at least 10,000 Shares).

(e) Questions

If you have any questions about participating in the Capital Return (including completing your Opt-Out Election Form), please email your query to Phileo's Company Secretary at phileo@palltd.com.au.

4.4 Potential legal implications for those wishing to opt-out who are 'foreign persons'

(a) Introduction

Australia's foreign investment regime consists of the FATA, the FATR, associated legislation and FIRB's guidance notes and policy. The purpose of this legislation and associated regulation is to ensure that foreign direct investment is not '*contrary to Australia's national interest*'. As the regime is broad, complex and not necessarily intuitive, Shareholders should seek independent legal advice. However, a high level summary of the regime and the broader implications in relation to the Proposed Transaction is set out below.

The FIRB regime requires Foreign Persons to notify FIRB of certain transactions and obtain clearance before proceeding with the transaction. If a transaction requiring FIRB clearance proceeds without clearance, the Treasurer has powers to make adverse orders, including divestment. There are also criminal and civil penalties for non-compliance.

Although Shareholders electing to opt-out of the Proposed Transaction will not acquire any additional Shares, their proportionate holdings will increase as a result of the overall reduction in Shares. This increase is considered an 'acquisition' under the FATA Act, triggering the potential requirement for FIRB clearance.

Phileo is considered to be an 'agricultural land corporation' – and therefore an Australian land entity – under the FATR as more than 50% of its total assets is attributable to its interests in Australian agricultural land. This is due to Phileo's interest in the land at Wyndham Vale. While Phileo has agreed to sell this land in stages to Country Garden, FIRB still considers that the land is held by Phileo until settlement occurs and legal title is transferred. Due to the high market value and characterisation of the Wyndham Vale site as 'agricultural land', the 50% threshold is met.

4. Capital Return: how to participate or opt-out (continued)

Phileo's agricultural land assets are such that the \$15 million cumulative threshold for 'private foreign persons' and the \$0 threshold for 'foreign government investors' are exceeded. As a result, Shareholders who are Foreign Persons may be required to obtain FIRB approval if they opt-out of the Proposed Transaction.

However, an exemption exists for passive investors who acquire an interest of less than 10% in a listed entity that is an 'Australian land entity'. Accordingly, Shareholders who are Foreign Persons may require FIRB clearance if they elect to opt-out and:

- their proportionate percentage shareholding in Phileo will increase from below 10% to more than 10% following the Proposed Transaction;
- their proportionate percentage shareholding in Phileo will increase by at least 1% or more following the Proposed Transaction where that Shareholder already holds 10% or more; and
- regardless of the percentage shareholding increase, they, as a result of the Proposed Transaction, become in a position to:
 - influence or participate in the central management and control of Phileo; or
 - influence, participate in or determine the policy of Phileo.

Assuming the three Shareholders identified in the table in Section 4.4(b) of this Explanatory Memorandum act consistently with their publicly stated intention by lodging an Opt-Out Election Form in respect of their entire shareholdings, no other Shareholder who lodges an Opt-Out Election Form would increase their proportionate shareholding in Phileo to above 10% following the implementation of the Capital Return.

(b) Identified shareholders who have already applied for FIRB approval

The three Shareholders identified in the table below have already sought FIRB clearance for the Proposed Transaction on the basis that:

- the individual Shareholder is a Foreign Person;
- as a result of opting-out of the Proposed Transaction, the Shareholder will acquire an interest of more than 10% in an 'agricultural land entity';
- the 'passive investor' exemption at section 37 (2) of the FATR does not apply; and
- the Shareholder's cumulative interest in Australian agricultural land exceeds \$15 million (due to Phileo's existing agricultural land assets).

Shareholder	Foreign status	Current actual holding in Phileo	Current proportionate holding in Phileo	Holding in Phileo following the Proposed Transaction
Sovielle Holdings Limited	Private foreign person	2,750,000 Shares	9.507%	14.924%
Puico Enterprises Corporation	Private foreign person	2,750,000 Shares	9.507%	14.924%
Belandas Group Limited	Private foreign person	2,750,000 Shares	9.507%	14.924%

Each of the above three Shareholders has received a separate notification from FIRB confirming that no further action is required from a FIRB perspective for them to opt-out of the Capital Return.

Accordingly, the condition of the Proposed Transaction that FIRB clearance is received by each of these Shareholders before the Implementation Date has been satisfied.

Section 5

How to vote

5. How to vote

5.1 Meetings

There will be three meetings that will be held at MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria on Thursday, 20 December 2018, commencing at 10.00am being:

- the General Meeting of all Shareholders;
- the Special Meeting of Exiting and Partially Exiting Shareholders; and
- the Annual General Meeting.

The notices convening the General Meeting of all Shareholders, the Special Meeting of Exiting and Partially Exiting Shareholders and the Annual General Meeting are respectively contained in Appendix 2, Appendix 3 and Appendix 4 to this Explanatory Memorandum. Personalised Proxy Forms for each of the Meetings accompany this Explanatory Memorandum.

5.2 Capital Return

Section 256B(1) of the Corporations Act requires that a share capital reduction be approved by Shareholders under section 256C of the Corporations Act.

Section 256C(2)(a) of the Corporations Act in turn requires that, if a capital reduction is a selective capital reduction, it must be approved by a *special resolution* passed at two meetings, being:

- a general meeting of the company, with no votes cast in favour of proposed resolution from any person who is to receive consideration as part of the proposed capital reduction or any Associate of such person – this is the General Meeting of all Shareholders; and
- a special meeting of those shareholders whose shares are to be cancelled – this is the Special Meeting of Exiting and Partially Exiting Shareholders.

A special resolution requires approval by at least 75% of votes cast by Shareholders who are present and entitled to vote at the relevant Meetings.

5.3 Delisting

The vote on the Delisting is an item of special business at the Annual General Meeting.

The Delisting Resolution will only be put to Shareholders if Shareholders approve the two resolutions required for Phileo to undertake the Capital Return.¹²

If either of the two resolutions required for Phileo to undertake the Capital Return is not passed by the requisite majority of shareholders, the Delisting Resolution will not be put to Shareholders for a vote.

Phileo has submitted an application for in-principle confirmation from ASX in relation to its proposed Delisting.

In response, ASX advised that based solely on the information provided, on receipt of an application to remove Phileo from the official list of ASX under Listing Rule 17.11, ASX would be likely to remove Phileo from the official list, on a date to be decided by ASX, subject to compliance with the following conditions:

- the request for removal of Phileo from the official list of ASX be approved by an ordinary resolution of Shareholders;
- the notice of meeting seeking shareholder approval to request removal from the official list of ASX must include a statement to the effect that the removal will take place no earlier than one month after the approval is granted; and
- Phileo releases the full terms of the in-principle confirmation from ASX to the market immediately on Phileo's formal request for removal of Phileo from the official list of ASX.

In accordance with the conditions as stated above, Shareholder approval will be sought for the Delisting as an ordinary resolution at the Annual General Meeting. An ordinary resolution is a resolution which requires approval by the majority of votes cast by Shareholders who are present and entitled to vote at the Annual General Meeting. All Shareholders may vote on this resolution.

5.4 Annual General Meeting

In addition to the Delisting Resolution, there will also be items of ordinary business to be considered by Shareholders at the Annual General Meeting. In particular, at the Annual General Meeting, Shareholders will also be given an opportunity to ask questions about or make comments on the financial statements for the financial year ended 30 June 2018 and the management of Phileo. Shareholders will also be asked to consider and vote on resolutions to approve the Remuneration Report for the financial year ended 30 June 2018 as well as the re-election of Andrew Hang and Michael Loke as directors of Phileo.

12. Those two resolution are the subject of the Notice of General Meeting of all Shareholders (see Appendix 2) and the Notice of Special Meeting of Exiting and Partially Exiting Shareholders (see Appendix 3) respectively.

5.5 Your vote is important

The Independent Directors urge all Shareholders to vote at the Meetings. The Proposed Transaction affects your shareholding and your vote at the Meetings is important in determining whether the Proposed Transaction proceeds.

The Independent Directors encourage all Shareholders to vote in favour of the Proposed Transaction either by personally attending the Meetings to be held at MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria on Thursday, 20 December 2018, commencing at 10.00am or by appointing a proxy, an attorney or, in the case of a corporate Shareholder or proxy, a corporate representative to attend the Meetings and vote on your behalf.

You may appoint a proxy to vote on your behalf by completing and returning the relevant Proxy Form which accompanies this Explanatory Memorandum.

5.6 How to vote

(a) Voting entitlements

General Meeting of all Shareholders

For the purposes of the General Meeting of all Shareholders, only those persons registered in the Share Register as a holder of Shares at 7:00pm (Melbourne time) on Tuesday, 18 December 2018 are entitled to attend and vote at the General Meeting of all Shareholders in respect of each Share held by them at that time, either in person, by proxy or attorney or, in the case of a corporate Shareholder or proxy, by corporate representative. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

Voting restrictions and exclusions in respect of the resolution at this meeting are set out below in Section 5.6(b).

Phileo intends to make an announcement to ASX as soon as practicable after Tuesday, 11 December 2018 (being the Opt-Out Election Cut-Off Date) containing material details (on an aggregated basis) of the Opt-Out Elections received.

Special Meeting of Exiting and Partially Exiting Shareholders

For the purposes of the Special Meeting of Exiting and Partially Exiting Shareholders, only those persons registered in the Share Register as at 7:00pm (Melbourne time) on Tuesday, 18 December 2018 who are Exiting Shareholders or Partially Exiting Shareholders are entitled to vote at the Special Meeting of Exiting and Partially Exiting Shareholders in respect of each Share held by them at that time, either in person, by proxy or attorney or, in the case of a corporate Shareholder or proxy, by corporate representative. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to vote at the meeting.

The Company intends to make an announcement to the ASX as soon as practicable after Tuesday, 11 December 2018 (being the Opt-Out Election Cut-Off Date) containing material details (on an aggregated basis) of the Opt-Out Elections received.

Partially Exiting Shareholders may only vote the number of their Shares that are not subject to an Opt-Out Election Form at this meeting and cannot vote on the Second Capital Return Resolution in respect of all of their Shares.

Continuing Shareholders and their representatives may, for convenience, be permitted to attend the Special Meeting of Exiting and Partially Exiting Shareholders but they will not be counted as present at the meeting and must not vote on the Second Capital Return Resolution or ask questions or otherwise participate in the meeting.

Annual General Meeting

For the purposes of the Annual General Meeting, only those persons registered in the Share Register as a Shareholder at 7:00pm (Melbourne time) on Tuesday, 18 December 2018 are entitled to attend and vote at the Annual General Meeting in respect of each Share held by them at that time, either in person, by proxy or attorney or, in the case of a corporate Shareholder or proxy, by corporate representative. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting. All Shareholders are entitled to attend and vote on the resolutions considered at this Meeting.

(b) Voting restrictions

General Meeting of all Shareholders

At the General Meeting of all Shareholders, no *votes in favour* of the First Capital Return Resolution may be cast by:

- (a) any Exiting Shareholder or Partially Exiting Shareholder (being a person who is to receive consideration as part of the proposed Capital Return); or
- (b) an Associate of any Shareholder referred to in paragraph (a) above.

5. How to vote (continued)

Accordingly, Phileo will disregard a vote cast *in favour* of the First Capital Return Resolution by any Shareholder referred to in paragraphs (a) and (b) above.

Further, Phileo need not disregard a vote cast *against* the First Capital Return Resolution by any Shareholder referred to in paragraphs (a) and (b) above.

Phileo intends to make an announcement to ASX as soon as practicable after the Opt-Out Election Cut-Off Date containing material details (on an aggregated basis) of the Opt-Out Elections received.

Special Meeting of Exiting and Partially Exiting Shareholders

At the Special Meeting of Exiting and Partially Exiting Shareholders, only the Exiting Shareholders and the Partially Exiting Shareholders may be present and vote on (either in favour of or against) the Second Capital Return Resolution.

All votes purportedly cast for or on behalf of any other Shareholders on the Second Capital Return Resolution will be disregarded.

Annual General Meeting

Phileo will disregard any votes cast on Resolution 2 (Remuneration Report) by or on behalf of the key management personnel of the company (**KMP**) disclosed in the Remuneration Report, or by or on behalf of a closely related party of the KMP or the KMP's proxy.

However, Phileo will not disregard a vote cast by the Chairman or a KMP or a related party of a KMP if:

- (a) it is cast as a proxy;
- (b) the proxy appointment is the Chairman and it expressly authorises the Chairman to exercise the proxy and how the proxy is to vote on the resolution even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP; and
- (c) it is not cast on behalf of a KMP or a closely related party of a KMP.

Phileo's KMP are those people with authority and responsibility for planning, directing and controlling the company's activities or its controlled entities directly or indirectly. For Phileo, the KMP comprises members of the Board. Their closely related parties are defined in the Corporations Act and include certain of their family members, dependants and companies they control.

(c) Voting in person

Eligible Shareholders wishing to vote in person or their attorneys or, in the case of a corporate Shareholder or proxy, corporate representatives, should attend the Meetings and bring a form of personal identification (such as their passport or driver's licence).

The relevant parties who plan to attend the Meetings in person are asked to arrive at the venue 30 minutes prior to the time designated for the commencement of the General Meeting of all Shareholders, if possible, so that their shareholding may be checked against the Share Register and attendances noted.

(d) Voting by attorney

In order for Shareholders to vote by attorney at the Meeting, the original or a certified copy of the power of attorney or other authority (if any) under which the instrument is signed must be received by the Share Registry before 7.00pm (Melbourne time) on Tuesday, 18 December 2018 in any of the following ways:

By post to the Share Registry at:

Boardroom Pty Limited
GPO Box 3993
Sydney, NSW, Australia 2000

By hand delivery¹³ to the Share Registry at:

Boardroom Pty Limited
Level 12, 225 George Street
Sydney, NSW, Australia 2000

The power of attorney appointing your attorney to attend and vote at the Meetings must be duly executed by you and specify your name, the company (that is, Phileo Australia Limited), and the attorney, and also specify the meeting at which the appointment may be used. The appointment may be a standing one.

13. Please note that hand deliveries may only be made Monday to Friday between the hours of 9.00am to 5.00pm (Melbourne time).

(e) Voting by corporate representative

To vote in person at the Meetings, a corporate Shareholder or proxy may appoint an individual to act as its representative.

To vote by corporate representative at the Meetings, a corporate Shareholder or proxy should obtain an *Appointment of Corporate Representative Form* from the Share Registry, complete and sign the form in accordance with the instructions on it. The completed appointment form should be lodged at the registration desk on the day of the Meetings.

(f) Voting by proxy

Shareholders wishing to appoint a proxy to vote on their behalf at the Meetings must either complete and sign or validly authenticate the relevant personalised Proxy Form which accompanies this Explanatory Memorandum. A person appointed as a proxy may be an individual or a body corporate.

Proxies attending the Meetings should bring a form of personal identification (such as their passport or driver's licence) and are asked to arrive at the venue 30 minutes prior to the time designated for the commencement of the Meetings, if possible, so that their shareholding may be checked against the Share Register and attendances noted.

Completed Proxy Forms must be delivered to Share Registry by 7.00pm (Melbourne time) on Tuesday, 18 December 2018 in either any of the following ways:

- in person or by post to the Share Registry at the addresses referred to in Section 5.6(d) above; or
- by fax to + 61 2 9290 9655.

(g) Undirected proxies

General Meeting of all Shareholders

If the Chairman of the General Meeting of all Shareholders receives an undirected proxy from a Shareholder and that Shareholder is:

- a Continuing Shareholder, the Chairman intends to vote all undirected proxies of which he is appointed as proxy in *favour of* the First Capital Return Resolution (in the absence of a Superior Proposal from another party prior to the date of the General Meeting of all Shareholders); or
- an Exiting Shareholder or a Partially Exiting Shareholder, the Chairman intends to abstain from voting on the First Capital Return Resolution.

Special Meeting of Exiting and Partially Exiting Shareholders

If the Chairman of the Special Meeting of Exiting and Partially Exiting Shareholders receives an undirected proxy from a Shareholder, the Chairman intends to vote all undirected proxies of which he is appointed as proxy in *favour of* the Second Capital Return Resolution (in the absence of a Superior Proposal from another party prior to the date of the Special Meeting of Exiting and Partially Exiting Shareholders).

Annual General Meeting

If the Chairman of the Annual General Meeting receives an undirected proxy, the Chairman intends to vote all undirected proxies of which he is appointed as proxy in *favour of* Resolution 1 (Delisting), Resolution 2 (Remuneration Report), Resolution 3 (Re-election of Mr Andrew Hang) and Resolution 4 (Re-election of Mr Michael Loke) despite Resolution 2 (Remuneration Report) being connected with the remuneration of KMP.

In relation to Resolution 2 (Remuneration Report), if Shareholders have not marked the 'For', 'Against' or 'Abstain' boxes, Shareholders will be deemed to have expressly authorised the Chairman to vote in favour of Resolution 2 (Remuneration Report). If you do not wish to give the Chairman such express authorisation, you should ensure that a box is clearly marked.

5.7 Further information

Please refer to the Notices of Meeting for the General Meeting of all Shareholders, Special Meeting of Exiting and Partially Exiting Shareholders and Annual General Meeting which are respectively contained in Appendix 2, Appendix 3 and Appendix 4 to this Explanatory Memorandum for further information on voting procedures and details of the resolutions to be voted on at the Meetings. If you have any questions about voting (including completing your Proxy Forms), please email your query to Phileo's Company Secretary at phileo@palltd.com.au.

This page has been intentionally left blank.

Section 6

Profile of Phileo

6. Profile of Phileo

6.1 Introduction

This section provides an overview of Phileo, its principal assets and history. As Phileo is listed on ASX it is obliged to comply with the continuous disclosure requirements of ASX. As such, information about Phileo may also be obtained from ASX's website www.asx.com.au or from Phileo's website www.palltd.com.au.

The Independent Expert's Report set out in Appendix 1 to this Explanatory Memorandum contains further information about Phileo.

6.2 Background

Phileo is an ASX-listed property investment company which holds commercial real estate and development sites. Phileo has been listed since 1995. Its principal activities are property development, hotel operation and the rental of its commercial property holdings.

6.3 Overview of Phileo's property portfolio

Phileo's key properties are as follows:

Address	Description
303 Collins Street, Melbourne	A 30-storey Melbourne CBD office tower with ground floor tenancies located on the corner of Collins Street and Elizabeth Street.
14 Federation Street, Box Hill	A site in the eastern suburbs of Melbourne which houses the heritage-listed Box Hill Brickworks and is a former landfill site. Phileo is working with regulatory bodies to resolve certain environmental issues relating to rehabilitation of the former landfill site and issues relating to the historic nature of the Box Hill Brickworks.
1A Railway Street, Bendigo	The Bendigo site is a vacant rural land parcel which is currently zoned as residential. Phileo is applying to have the property rezoned to industrial.
Ramada Encore Dandenong Hotel, 50-52 McCrae Street	A 108-room hotel located in the south-eastern suburbs of Melbourne. The property also includes two ground floor retail units with frontages to McCrae Street.
Black Forest Road, Wyndham Vale	In July 2017, Phileo entered into three separate contracts with Country Garden Mambourin Pty Ltd (Country Garden) for the sale of its land held for development in Wyndham Vale, Victoria with settlement to take place over 4.5 years. The land consists of five lots. The first contract for Lots 1 and 2 was settled on 15 February 2018. Both the deposit and the proceeds from settlement of the first contract are reflected in Phileo's current cash balance. The second contract for Lots 3 and 4, and the third contract for Lot 5 are due to settle on 17 February 2020 and 15 February 2022 respectively. Title to Lots 3, 4 and 5 will be transferred upon settlement and will remain on Phileo's balance sheet until the relevant dates. Further to the announcement on 12 October 2018, Phileo has also submitted a claim for compensation from VicRoads relating to a Public Acquisition Overlay on the Wyndham Vale site. However, both the success of the claim, and the amount of compensation that Phileo will receive should the claim succeed, remain uncertain.

6.4 Historical financial information

(a) Consolidated income statement summary

Phileo – Consolidated income statement summary¹			
Currency: \$ 000	FY16A	FY17A	FY18A
Rental income	9,781	8,372	8,307
Sale of development property	-	35,000	122,222
Hotel operation	3,249	3,100	2,783
Other income			
Net change in the fair value of investment property	12,466	23,897	14,139
Net change in the fair value of financial instruments	-	1,711	1,264
Gain arising from other activities	2,110	31	70
Total revenue	27,606	72,111	148,785
Cost of development property sold	-	(31,307)	(7,265)
Rental operating expenses	(4,429)	(4,089)	(3,377)
Hotel operating expenses	(1,587)	(1,641)	(1,723)
Development property expenses	(1,455)	(1,934)	(2,759)
Employee benefits expense	(2,167)	(2,340)	(12,404)
Depreciation and amortisation expenses	(130)	(92)	(91)
Other expenses	(964)	(941)	(1,603)
Total expenses	(10,732)	(42,345)	(29,222)
EBIT	16,874	29,767	119,564
Finance costs	(3,208)	(3,073)	(2,849)
Interest income	14	284	2,035
Profit before income tax	13,680	26,977	118,749
Income tax expense	(4,143)	(3,583)	(33,651)
Profit after income tax	9,538	23,393	85,099

Source: Phileo 2017 and 2018 Consolidated Financial Statements.

Notes:

1. May not add due to rounding.

6. Profile of Phileo (continued)

(b) Consolidated financial position summary

Phileo – Consolidated financial position summary ²			
Currency: \$ 000, year ended 30 June	FY16A	FY17A	FY18A
Current assets			
Cash and cash equivalents	924	19,331	152,687
Trade and other receivables	138	11	29
Inventories	-	4,863	-
Other current assets	646	624	1,604
Total current assets	1,708	24,829	154,320
Non-current assets			
Inventories	65,828	32,527	33,380
Investment properties	108,000	132,500	148,600
Plant and equipment	795	735	655
Deferred tax assets	7,276	5,254	1,194
Other non-current assets	2,813	1,948	2,425
Total non-current assets	184,713	172,964	186,254
Total assets	186,420	197,793	340,574
Current liabilities			
Trade and other payables	1,230	1,496	5,273
Borrowings	-	-	45,000
Income tax payable	129	392	25,888
Current provisions	287	332	386
Total current liabilities	1,646	2,220	76,547
Non-current liabilities			
Trade and other payables	610	489	28,101
Borrowings	56,500	45,000	-
Derivatives	5,201	3,490	2,226
Deferred tax liabilities	21,050	22,349	25,795
Non-current provisions	47	64	73
Total non-current liabilities	83,409	71,392	56,194
Total liabilities	85,055	73,612	132,741
Net assets	101,366	124,181	207,833
Equity			
Issued shares	19,911	19,911	19,911
Reserves	14	14	14
Retained earnings	81,441	104,256	187,909
Total equity	101,366	124,181	207,833

Source: Phileo 2017 and 2018 Consolidated Financial Statements.

Notes:

2. May not add due to rounding.

(c) Consolidated cash flow summary

Phileo – Consolidated cash flow summary ³			
Currency: \$ 000	FY16A	FY17A	FY18A
Cash-flow from operations:			
Proceeds from sale of property	-	35,000	150,000
Receipts from ordinary activities	14,258	13,651	11,449
Payment to suppliers & employees	(12,050)	(13,805)	(22,066)
Payment for property development	(908)	(936)	(1,145)
Income tax paid	-	-	(649)
Operating cash flow	1,301	33,910	137,589
Cash-flow from investing activities:			
Payment for purchase of plant & equipment	(55)	(32)	(11)
Payment for improvement to investment properties	(534)	(603)	(1,961)
Cash from investing	(590)	(635)	(1,972)
Cash-flow from financing activities:			
Interest paid	(3,208)	(3,073)	(2,849)
Interest received	14	284	2,035
Dividend paid	(579)	(579)	(1,446)
Proceeds from borrowing	2,992	2,000	-
Repayment of borrowings	-	(13,500)	-
Cash from financing	(779)	(14,868)	(2,260)
Net change in cash	(68)	18,406	133,356
Opening cash balance	993	924	19,331
Net change in cash	(68)	18,406	133,356
Closing cash balance	924	19,331	152,687

Source: Phileo 2017 and 2018 Consolidated Financial Statements.

Notes:

3. May not add due to rounding.

6.5 Material changes in the financial position of Phileo

Other than:

- the accumulation of profits in the ordinary course of trading; or
- as disclosed in this Explanatory Memorandum or to ASX by Phileo,

the Independent Directors are not aware of any material change to the financial position of Phileo since 25 September 2018, being the date of its audited full year financial report for the financial year ended 30 June 2018.

6. Profile of Phileo (continued)

6.6 Phileo Shares and capital structure

(a) Phileo Shares on issue

Phileo currently has 28,927,016 ordinary shares on issue.

(b) Substantial shareholders

As at the date of this Explanatory Memorandum, Phileo's substantial shareholders are as follows:

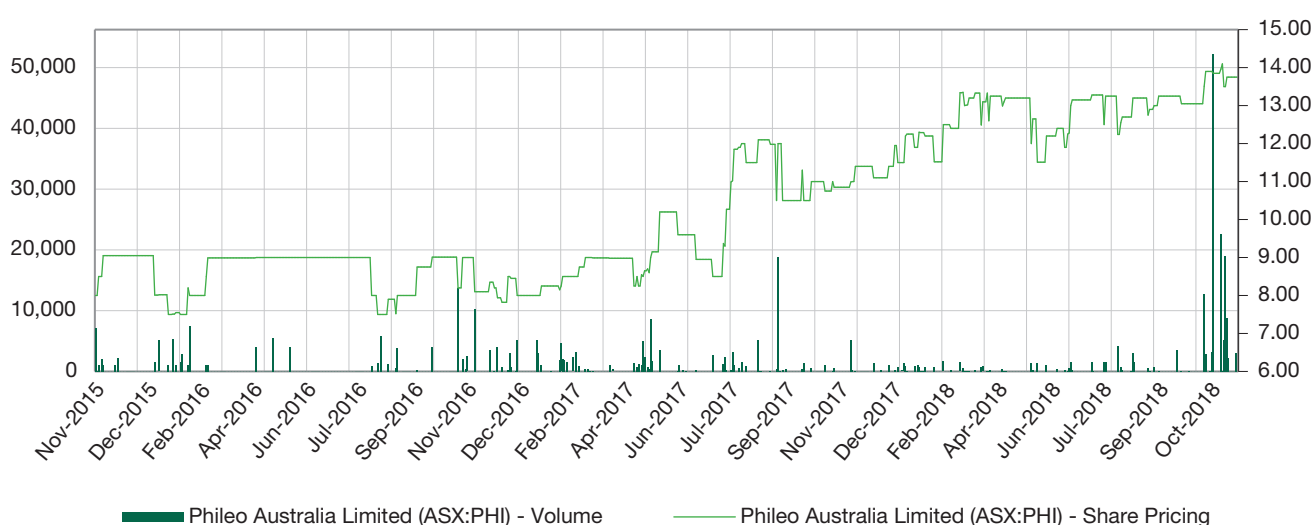
Shareholder	Number of Shares	Shareholding (%)
Pal Investments (Aust.) Pty Ltd	10,053,678	34.76%
HSBC Custody Nominees (Australia) Limited	3,409,603	11.79%
Puico Enterprises Corp	2,750,000	9.51%
JP Morgan Nominees Australia Limited	2,750,000	9.51%
Beelye Pty Ltd (as trustee for B L Superannuation fund)	1,962,196	6.78%
ACEQ Pty Ltd (as trustee for Alfred Sung's superannuation fund)	1,896,849	6.56%
Radiance Group Trading Ltd	1,470,824	5.09%
Total	24,293,150	84.00%

6.7 Recent Phileo Share performance

Phileo Shares have been characterised by deep illiquidity and low daily trading volumes for many years. In the three years between 13 November 2015 and 13 November 2018:

- Phileo Shares did not trade at all (zero volume) for 581 out of 759 trading days (or 76.54% of the trading days in this specific period);
- averaged out across the full 759 trading days in this period, the average daily volume of Phileo Shares traded was only 520;
- on the 178 days where Phileo Shares actually traded, the average daily volume of shares traded was 2217;
- on the 178 days where Phileo Shares actually traded, the median daily volume of shares traded was 999; and
- Phileo Shares traded below a daily volume of 10,000 for 752 of 759 trading days (or 99.07% of the trading days).

Phileo Share price performance over the last three years to 13 November 2018



6.8 Phileo's intentions if the Proposed Transaction does not proceed

If the Proposed Transaction is not approved and implemented, Phileo plans to retain its current available cash and the cash it expects to receive from settlement of the remaining contracts of sale for its Wyndham Vale site.

Phileo intends to explore opportunities to use this cash to undertake capital-intensive works which will add value to its core property assets while maintaining sufficient funds to pursue attractive property investment opportunities as they become available.

6.9 Outlook

During the financial year ended 30 June 2018, Phileo recorded an increase in operating revenue of 189% to \$135.42 million and an increase in profit after tax and attributable to members of 264% to \$85.10 million from the previous financial year.

Settlement of the first contract of sale for the Wyndham Vale site contributed significantly to Phileo's performance in the 2018 financial year. Settlement of the second and third contracts will be an important determinant of Phileo's performance in the short term.

Phileo's outlook is largely tied to the performance of and its plans for the key assets in its property portfolio, which are as follows:

- (a) 303 Collins Street is expected to continue benefiting from historically low vacancies, increasing rents and strong demand for CBD office space. Phileo is in the process of refurbishing vacant floors and fitting out new offices in response to market demand. However, supply of office space is projected to increase in the near future as new developments and backfill spaces are added to the market, potentially placing upward pressure on vacancy rates;
- (b) Phileo is working through a number of regulatory issues relating to its development site at 14 Federation Street, Box Hill which will impact the costs of development, the extent of ongoing environmental controls required and the nature and extent of development which will be permitted on the site;
- (c) the application for the rezoning of the parcel of land at 1A Railway Street, Bendigo is ongoing. Phileo currently intends to build 48 compact office warehouses on the site if the rezoning application is successful; and
- (d) the Ramada Encore Hotel, Dandenong has experienced low occupancy rates and deteriorating performance in recent years. Efforts continue to improve occupancy.

6.10 Public information available for inspection

ASIC also maintains a record of documents lodged with it by Phileo, and these may be obtained from or inspected at any office of ASIC.

Phileo is required to prepare and lodge with ASIC and ASX both annual and half year financial statements accompanied by a statement and report from the Directors and an audit or review report.

Copies of these and other documents lodged with ASIC and ASX may be obtained from an ASIC office and are accessible from ASX's website at www.asx.com.au.

This page has been intentionally left blank.

Section 7

Risks

7. Risks

7.1 Introduction

The risk factors described in this Section 7 are not an exhaustive list. Phileo gives no assurance or guarantee that the risks set out in this Section 7 will not change, or that additional risks will not arise after the date of this Explanatory Memorandum. There may be additional material risks and uncertainties not currently known to Phileo that may also have an adverse effect on Phileo's business and the value of its Shares.

The risks set out in Section 7.2 and Section 7.3 are relevant to all Shareholders if the Proposed Transaction is not approved and implemented. If however the Proposed Transaction is implemented, these risks and those additional risks in Section 7.4 will only be relevant to Continuing Shareholders and Partially Exiting Shareholders (in respect of the Shares they elect to retain).

The information in this Section 7 does not take into account the investment objectives or financial circumstances of individual Shareholders. It is important that Shareholders carefully read this Explanatory Memorandum in its entirety (particularly the risks set out in this Section 7). Shareholders should also have regard to their own investment objectives and financial circumstances and seek professional advice from their legal, financial and other independent advisers before determining how to participate and whether to vote in favour of the Proposed Transaction.

7.2 General risks

(a) Operations

Phileo's operations are subject to a variety of operational risks including strategic and business decisions (such as acquisitions and/or divestments of assets), reputation risk, fraud, compliance with legal and regulatory obligations, counterparty performance under contracts of sale and leases, legal risk, key personnel risk and external events.

(b) Key personnel

Phileo is reliant on the expertise of its key personnel. If Phileo cannot retain its key employees, then this may adversely impact its profitability and the management of Phileo's business.

(c) Litigation

Phileo may become involved in litigation or other disputes in the ordinary course of its business, with employees, tenants, regulators, counterparties, competitors and/or third parties. Proceedings may result in significant legal costs, adverse monetary judgments and/or damage to Phileo's reputation which may adversely affect Phileo's financial performance.

(d) Economic risk and external market factors

Phileo's performance is affected by domestic and global economic conditions. Factors including, but not limited to, political movements, stock market trends, changing client preferences, interest rates, inflation levels, foreign exchange rates, industrial disruption, international competition, taxation changes and changes in domestic or international fiscal, monetary, regulatory and other government policies, may all have an adverse impact on Phileo's operating costs, profit margins and share price. These factors are beyond the control of Phileo and Phileo cannot, to any degree of certainty, predict how any of these changes will impact Phileo and its operations.

(e) Equity capital market fluctuations

Shareholders should be aware that there are risks associated with holding shares in a company listed on ASX. The value of Shares may fluctuate depending on the financial and operating performance of Phileo and external factors over which Phileo has no control. These external factors include:

- (i) general movements in domestic and international stock markets;
- (ii) investor sentiment;
- (iii) domestic and international economic conditions and outlook;
- (iv) changes in interest rates and the rate of inflation;
- (v) changes in government regulation and policies;
- (vi) announcement of new technologies; and
- (vii) geo-political instability, including international hostilities and acts of terrorism.

(f) Counterparty risk

There is always a risk that parties with whom Phileo has contractual arrangements may experience financial or other difficulties which may affect those parties' ability to perform their obligations under the relevant arrangements. Depending on the nature of the arrangements and obligations, any such failure may have an adverse impact upon Phileo's financial performance.

(g) No guaranteed return

Phileo gives no guarantee as to the payment of any dividend, return of capital or increase in the market value of the Shares.

(h) Tax

Changes in tax law, or changes in the way tax laws are interpreted, particularly in respect of stamp duty and land taxes, may impact Phileo's tax liabilities, or the tax treatment for both Phileo and Shareholders in respect of the steps undertaken to implement the Proposed Transaction.

Further, tax law is frequently being changed, both prospectively and retrospectively. Any actual or alleged failure to comply with, or any change in the application or interpretation of tax rules applied in respect of such transactions may increase Phileo's tax liabilities or expose it to legal, regulatory or other actions.

An investment in Shares also involves tax considerations which may differ for each Shareholder depending on their own personal circumstances.

7.3 Specific risks relating to Phileo

(a) Value of property portfolio

Phileo is mainly engaged in property investment and development. The value of Phileo's property portfolio may be adversely affected by a number of factors including general property market conditions, availability of credit, the level of inflation, interest rates and planning and development regulations.

As property valuations fluctuate, so too may Phileo's returns from its properties. Rental income and occupancy levels may change as a result of changes in the property market which may, in turn, affect the value of the Shares as well the potential for any dividends to be declared. The value of Phileo's properties may also fall if the assumptions on which the current valuations were formed change, or prove to be incorrect.

(b) Tenants

Phileo currently derives income from renting some of its properties, such as the 303 Collins Street office tower. If a tenant is in financial difficulty, it may not be able to meet its rental payment obligations. This would result in a loss of income for Phileo and may affect the value of an investment in Shares.

(c) Re-leasing of properties

If current tenants do not exercise any options to extend their leases, Phileo may not be able to negotiate suitable lease extensions with existing tenants or to replace outgoing tenants with new ones under leases on substantially the same terms. Phileo may also incur additional costs to re-lease the properties, particularly if new tenants must be found. The costs incurred, and timeframe to re-lease properties, will depend on the market conditions and other financial considerations at that time. If Phileo is unable to replace tenants or re-lease properties to existing tenants on the same or more favourable terms, it may have an adverse impact on the value of the relevant properties and Phileo's overall financial performance.

(d) Environmental

Property held by Phileo may be or become contaminated in the future. Government environmental authorities, such as the Environmental Protection Agency, may require Phileo to remediate any contamination, and may require Phileo to do so at its own cost. This would have an adverse impact on Phileo's financial performance. In addition, there are also penalties for environmental damage and contamination which can be material.

As at the date of this Explanatory Memorandum, the only sites that Phileo is aware of that are contaminated are its properties in Box Hill and Bendigo. Phileo is continuing to undertake remediation work on its Box Hill site to address the contamination. The remediation work required at the Bendigo site is dependent on the zoning of that land. As Phileo is applying to change the zoning of the property from residential to industrial, it has not commenced remediation work, and will not commence any remediation work until the outcome of that application is known.

(e) General development risk

There is a risk that future developments of any of Phileo's properties could be delayed. Completion of a development may be delayed for a number of reasons, including industrial disputes, poor weather conditions, dealings with counterparties, changes to legislative requirements, delays in obtaining regulatory approvals or contractors having financial difficulties.

Consequently, Phileo may suffer loss due to the increased costs of the development or from failure to meet projected commencement dates of rental payments due to a delay in completing a development. This may negatively impact the financial performance of Phileo and also impact upon the value of Shares.

7. Risks (continued)

(f) Box Hill site

Phileo's Box Hill site is subject to a number of regulatory issues relating to environmental contamination and also a heritage overlay. These regulatory issues will impact upon the costs of the development, the timeframe within which the site can be developed, the extent of ongoing environmental controls, the nature and extent of development which will be permitted on the site and Phileo's ability to sell the site in the future. There will be an adverse impact on Phileo's financial performance if the site cannot be fully developed, or the costs involved in addressing these regulatory issues are substantial.

(g) Property liquidity

As property is a relatively illiquid asset, if Phileo is required to realise its assets, it may not be able to do so within a short period of time, or for a price equal to the amount at which the property has been valued. As such, the realisable value of Phileo's property may be less than the full value currently included in its balance sheet. This may adversely affect Phileo's net asset value and the value of Shares.

(h) Capital expenditure

Phileo has forecast the capital expenditure required to maintain its properties based on its current best estimates. Capital expenditure incurred or supported by Phileo may exceed Phileo's current forecasts, which may adversely affect Phileo's financial results. Some examples of unforeseen circumstances that may require Phileo to increase its capital expenditure include damage to the properties caused by fire, flood or other weather events, changes to regulatory requirements such as environmental, building or safety regulations or any property defects or environmental issues that are discovered in the future. Unforeseen expenditure may also be required to keep Phileo's properties in their current condition.

Any unforeseen capital expenditure may affect returns to Shareholders and/or the value of Shares.

(i) Geographic concentration

Phileo's property portfolio is made up of properties located solely in Victoria. Investment in properties in Victoria only (albeit in different regions within Victoria) may involve a greater geographic concentration risk than a more geographically diverse property portfolio. If the property market in Victoria or its economy experiences a downturn in activity, Phileo's performance and, in particular, the valuation of its assets may be adversely affected.

(j) Liquidity for Shares

There can be no guarantee of an active market in Shares or that the price of Shares will increase. There may be relatively few potential buyers or sellers of the Shares on ASX at any given time. Shares have historically been illiquid, due to Phileo being a closely held company and there has also been low daily trading volumes for many years. This limited liquidity may increase the volatility of the market price of the Shares, as any sale of a sizeable portion of Shares would likely result in a substantial reduction in Phileo's share price.

(k) Insurance

Phileo maintains insurance for each property consistent with industry practice. There can be no guarantee however that such insurance will continue to be available in the future and/or on commercially reasonable terms. There are also some risks that are not able to be insured against at acceptable premiums, such as damage or losses caused by natural disasters or civil unrest.

Any losses incurred due to uninsured risks, or a loss in excess of the insured amounts, may adversely affect Phileo's financial performance. Financial performance may also be impacted upon increases in insurance premiums, depending on the extent of the increase.

(l) Future acquisitions

Phileo may acquire additional properties in the future, depending on its operational strategy. The risks faced by Phileo from any future acquisition will depend on the terms of the transaction and market conditions at the time. Future acquisitions do however have the ability to affect the value of the Shares and Phileo's overall financial performance.

There is also a risk that Phileo's future growth may be limited if it is unable to find and purchase properties on appropriate terms.

(m) Settlement of Country Garden contracts

The purchase price for Phileo's Wyndham Vale site sold to Country Garden in 2017 is payable in staggered instalments. Phileo has to date received \$150 million of the \$400 million payable under all the sale contracts for the site. The final payment is due to be made in February 2022. There are default risks associated with the collection of these payments, particularly as the final instalment is not due until 2022. Country Garden may encounter financial difficulties over the next four years and become unable to fulfil its obligations under the contracts or it may determine not to honour the contracts depending on its investment strategy and performance at the relevant time.

Any delay or failure to secure receipt of the remaining sale proceeds from Country Garden will have a material adverse impact on Phileo's financial performance. As title to the relevant lots is transferred to Country Garden gradually as the purchase price is paid, Phileo would however retain title to the remaining lots if Country Garden defaults on its contractual obligations.

(n) VicRoads compensation claim

Phileo has the right to make a claim in respect of one of the Wyndham Vale lots sold to Country Garden relating to a Public Acquisition Overlay for the Outer Metropolitan Ring Transport Corridor. As announced to the market on 12 October, Phileo submitted its claim and was advised that, in the absence of supporting documentation, Phileo does not have a valid claim. There are risks associated with this claim including incurring additional costs in pursuing the claim and that Phileo may not receive any compensation. Phileo is however unable to estimate the outcome of the application or the amount of compensation that may be received at this time.

7.4 Risks related to implementation of the Proposed Transaction

(a) Privatisation

Continuing Shareholders will be shareholders in an unlisted public company whose governance arrangements and disclosure framework will be fundamentally different to those that currently apply to Phileo as an ASX listed entity.

(b) Change in control

Mr Koh, through the Koh Entities, will hold a controlling stake in Phileo following implementation of the Proposed Transaction. Depending on the number of Shares cancelled under the Capital Return, Mr Koh's shareholding may increase up to a maximum of 56.16%. With such a shareholding, Mr Koh will be able to influence decisions and the appointment of directors.

Shareholders should refer to Section 8 for further information about the future intentions for Phileo if the Proposed Transaction is approved and implemented.

(c) Reduction in available cash

Phileo is required to use a significant portion of its available cash to fund the Capital Return. Following implementation of the Proposed Transaction, Phileo will have less available cash which could result in Phileo having a limited ability to acquire further properties or needing to seek to raise additional funds.

(d) Increased financial indebtedness

Phileo's indebtedness may increase if the Proposed Transaction is implemented as the value of its current facility with National Australia Bank may be increased if this occurs, which would result in Phileo paying more interest on that facility. Phileo's increased debt, and reduction in available cash following payment of the Cancellation Price per Cancelled Share, has some consequences for Phileo including the following:

- (i) requiring Phileo to dedicate a portion of its cash flow from its operations to meet principal and interest payments, which reduces the availability of cash to fund working capital, capital expenditure, acquisitions and other general corporate purposes;
- (ii) increasing Phileo's vulnerability to adverse general economic or industry conditions; and
- (iii) placing Phileo at a competitive disadvantage compared to its competitors that have less debt.

Phileo considers however that the consequences above will be alleviated in part by the Delisting and reducing the ongoing costs associated with being a listed entity. There can however be no guarantee that this will be the case.

(e) Triggering change of control provisions

The implementation of the Capital Return may give rise to contractual consequences under material contracts to which Phileo is a party, including rights for the contractual counterparty to review the contractual arrangements or exercise other rights such as termination rights. If a contractual counterparty elects to exercise such rights upon the implementation of the Capital Return, this may have an adverse effect on Phileo's financial performance.

(f) Liquidity for Shares

As Phileo will be an unlisted company following implementation of the Proposed Transaction, there will be no active public market in Shares. It may therefore be difficult for Continuing Shareholders and Partially Exiting Shareholders to sell their Shares in the future.

This page has been intentionally left blank.

Section 8

Mr Koh's future intentions as the proponent of the Proposed Transaction

8. Mr Koh's future intentions as the proponent of the Proposed Transaction

8.1 Introduction

This section provides an overview of Mr Koh's current interest in Phileo and sets out the current intentions of the Koh Entities regarding the future of Phileo if the Proposed Transaction is approved and implemented.

8.2 Overview of Mr Koh and the Koh Entities

Mr Koh is the Managing Director and major shareholder of Phileo. Mr Koh currently holds 35.78% of Phileo Shares, through the Koh Entities, as set out in the below table.

Shareholder	Number of Shares	Shareholding (%)
Pal Investments (Aust.) Pty Ltd	10,053,678	34.76%
Cameo Holdings Pty Ltd	20,000	0.07%
KRR Investments Pty Ltd atf the RK Investment Trust	115,302	0.40%
Koh Superannuation Fund	159,834	0.55%
Total	10,348,814	35.78%

Mr Koh has been a member of Phileo's Board of Directors since its listing in 1995 and became Managing Director of Phileo in 2001. Over this time, Mr Koh has been involved in formulating and implementing plans to develop and position each of the key assets in Phileo's property portfolio. Key events undertaken by Phileo during Mr Koh's tenure as Managing Director include:

- (a) purchase of the Black Forest Road, Wyndham Vale site in 2004;
- (b) redevelopment of the McCrae Street property in Dandenong to the Ramada Encore Hotel in 2005;
- (c) sale of the Estate One 81-125 Prices Highway, Dandenong industrial site in 2007;
- (d) purchase of the 303 Collins Street, Melbourne office tower in 2009;
- (e) sale of the Rocklea Homemaker Centre in Bendigo in 2016; and
- (f) sale of the Black Forest Road, Wyndham Vale site in 2017.

8.3 Future intentions

(a) Qualifications

The statements of intention in this Section 8 must be read subject to the following:

- (i) the statements are based on information concerning Phileo and the circumstances affecting Phileo that are known to Mr Koh and the Koh Entities as at the date of this Explanatory Memorandum;
- (ii) Mr Koh is not aware of all of the material information, facts and circumstances that are necessary to assess the financial, operational, commercial, taxation and other implications of the intentions set out in this Section 8. As such, the statements reflect current intentions only and are subject to change as new information becomes available or as circumstances change; and
- (iii) laws regarding related party transactions (particularly under the Corporations Act and Listing Rules) may place restrictions on the ability of Phileo to enter into certain transactions with Mr Koh, the Koh Entities or any of their Associates.

(b) Privatisation of Phileo

Mr Koh intends to propose that Phileo to be converted into a proprietary company following implementation of the Proposed Transaction. This requires that the number of non-employee Shareholders be no more than 50 and that Shareholders approve the conversion by a special resolution. The Koh Entities would be eligible to vote on that special resolution but could not assure the passage of the resolution on their own with their shareholding following implementation of the Capital Return. The Koh Entities' maximum aggregate shareholding post-implementation of the Capital Return would be 56.16%. The resolution must be passed by at least 75% of votes cast by Shareholders entitled to vote on the resolution.

Constitution

Mr Koh intends that Phileo adopt a new constitution suitable for a private company. A summary of the key terms of the proposed new constitution is included at Appendix 5 of this Explanatory Memorandum. The provisions of this constitution are relatively standard in nature for a proprietary company. Mr Koh does not intend for this constitution to be supplemented by a shareholders' agreement. The approval of Continuing Shareholders and Partially Exiting Shareholders will be required to adopt this new constitution and this will be sought after the Delisting has occurred. Shareholders must resolve to adopt the new constitution by a special resolution, with the Koh Entities being eligible to vote on that resolution. As noted above, the Koh Entities would be unable to assure the passage of the resolution on their own, as their maximum aggregate shareholding post-implementation of the Capital Return would be 56.16%.

Delisting

If the Delisting Resolution is not approved by Shareholders at the Annual General Meeting but the Capital Return is approved and implemented, Mr Koh intends to apply to ASX to remove Phileo from the official list of ASX following implementation of the Capital Return.

(c) Phileo Board

Mr Koh intends to continue as a director of a privatised Phileo following implementation of the Proposed Transaction. Once Delisted, Mr Koh intends to transition Phileo to a proprietary company and, at that time, reduce the number of directors on the Board.

Mr Koh however has no present intentions to substantially change the Board. Following Delisting, Mr Koh will engage with the other members of the Board regarding the Board's composition once Phileo is privatised.

(d) Business, operations and assets

Mr Koh will have influence over the nature and conduct of Phileo's business. Mr Koh does not presently intend to make any changes to Phileo or to deviate from its current strategy.

Accordingly, Mr Koh does not presently intend to make any changes to Phileo's workforce or assets other than as required in the ordinary course of Phileo's business.

8.4 Voting intentions

The Koh Entities intend to vote in favour of the First Capital Return Resolution at the General Meeting of all Shareholders and the Delisting Resolution at the Annual General Meeting.

The Koh Entities and their Associates will not attend or vote at the Special Meeting of Exiting and Partially Exiting Shareholders.

This page has been intentionally left blank.

Section 9

Taxation implications of the Capital Return and the Dividend Component

9. Taxation implications of the Capital Return and the Dividend Component



Deloitte Private Pty Ltd
ACN 120 167 455
550 Bourke Street
Melbourne, VIC, 3000
Australia

Phone: +61 3 9671 7000
www.deloitte.com.au

Commercial in confidence

Mr Graham Homes
Chairman
Phileo Australia Limited
Level 14, 303 Collins Street
Melbourne VIC 3000

16 November 2018

Dear Mr Homes

Phileo Australia Limited (Phileo) – General Tax Guide for the Proposed Selective Capital Return

We are pleased to provide our comments at Annexure 1 concerning the expected Australian income tax consequences for Phileo shareholders in respect of the Proposed Selective Capital Return (**the Capital Return**). We understand the tax comments are to be included in the Explanatory Memorandum (**EM**) (as provided by email dated 16 November 2018) provided to Phileo shareholders in respect of the Capital Return.

This document sets out a brief and generalised summary of the expected tax consequences that should apply to Phileo shareholders that participate in the Capital Return. We are expecting confirmation from the Australian Taxation Office (**ATO**) (through the Phileo Class Ruling application) on the Australian income tax consequences outlined in Annexure 1.

Please note this document does not contain any comments in relation to the legal or non-income tax considerations. Our comments should not be regarded as tax advice and we would recommend that each Phileo shareholder seek their own independent tax advice in respect to the Capital Return.

Further, we have assumed the same background facts as stated in the Class Ruling Application. Please advise us if any of our understanding is not correct as it may materially alter our comments.

Please contact us if you have any questions in relation to the attached.

Yours sincerely

A handwritten signature in black ink, appearing to read "Michael Gastevich".

Michael Gastevich
Director, Deloitte Private Pty Ltd

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

The entity named herein is a legally separate and independent entity. In providing this document, the author only acts in the named capacity and does not act in any other capacity. Nothing in this document, nor any related attachments or communications or services, have any capacity to bind any other entity under the 'Deloitte' network of member firms (including those operating in Australia).

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

ANNEXURE 1

9.1 General

The following comments are not tax advice and are intended as only a general guide to the Australian income tax and GST implications discussed in this section, and not in respect of any other Australian or foreign tax issues. Further, these comments should not be a substitute for advice from an appropriate professional adviser and all Phileo shareholders are strongly advised to obtain their own professional advice on the tax implications based on their own specific circumstances.

The comments are based on existing law and practice of the tax authorities in Australia as at the date of this EM.

Phileo is in the process of applying for a Class Ruling from the ATO on certain matters discussed in this section (specifically the Capital Return). The following comments are consistent with the details that are to be confirmed by the ATO when it issues the Class Ruling.

It is anticipated that the ATO will issue the Class Ruling prior to the implementation of the Capital Return (but possibly after the shareholder meetings to consider the Capital Return).

The comments summarise certain limited aspects of the Australian income tax and GST consequences of the Capital Return from the perspective of certain Phileo shareholders who hold their Phileo shares on capital account. These comments do not apply to those shareholders who hold their Phileo shares as trading stock, under an employee share plan, as a financial arrangement, as revenue assets or otherwise on revenue account.

9.2 Selective Capital Return

9.2.1 Components of the Capital Return

Phileo expects that the Capital Return will comprise a dividend component and a capital component for Australian income tax purposes. It is expected that the capital component will be \$1.21 per Phileo share (based on the 'Slice Approach' prescribed in prevailing ATO guidance) and the balance of \$11.45 per Phileo share will be a dividend for Australian income tax purposes.

9.2.2 Capital component

The capital component will be the Cancellation Price less the amount of the dividend, subject to the comments below. The capital component is expected to be \$1.21 per Phileo share as noted above. This amount would be debited to the share capital account of Phileo.

The capital component of the Capital Return will be addressed in the Class Ruling.

9.2.2.1 *Australian resident shareholders*

The disposal of Phileo Shares by an Australian tax resident shareholder will constitute a CGT event for Australian income tax purposes. The CGT event date should occur on completion of the Capital Return, which is expected to occur in the week commencing 21 January 2019.

Broadly, Australian tax resident Phileo shareholders will make a capital gain on the disposal of their Phileo shares where the 'capital proceeds' (i.e. the capital component as described above) from the disposal of the Phileo shares exceed the 'cost base' of those Phileo shares. Conversely, a capital loss will be made where the capital proceeds are less than the reduced cost base of the

9. Taxation implications of the Capital Return and the Dividend Component (continued)



shares. Capital losses may be used to offset capital gains made in the current year or may be carried forward for offset against any future capital gains, subject to the satisfaction of certain loss recoupment rules for some shareholders.

Some shareholders (e.g. individuals, trusts or complying superannuation funds) may be entitled to a CGT discount if they have held their Phileo shares for at least 12 months before the disposal of the shares on the CGT event date. The CGT discount is applied after available capital losses have been offset to reduce the capital gain. The discount rate for individuals and trusts is 50%. The discount rate for complying superannuation funds is 33⅓%. As the rules relating to discount capital gains for trusts are complex, we recommend trustees seek their own advice on how the CGT discount provisions will apply to them and the beneficiaries. The CGT discount is not available to shareholders that are companies.

9.2.2.2 Non-resident shareholders

Non-Australian tax residents that derive a capital gain on disposal of their Phileo shares would be subject to Australian CGT to the extent that the Phileo shares are 'taxable Australian property'. Broadly, non-Australian tax residents would be subject to Australian CGT if the shareholder (together with associates) holds 10% or more of Phileo shares (at the time of disposal or throughout a 12 month period during the two years before disposal), and the majority of Phileo's assets consist of real property situated in Australia.

Having regard to the underlying assets owned by Phileo, Phileo shares are likely to be considered taxable Australian property at the date of this EM. Accordingly, any non-resident Phileo shareholders (who together with their associates) hold 10% or more of Phileo shares should be subject to Australian CGT on disposal of their Phileo shares.

Rules have been enacted which can apply to the disposal of certain taxable Australian property under contracts entered into on or after 1 July 2016. The current non-final withholding tax rate is 12.5%. The regime applies to any transaction involving the acquisition of the legal ownership of an asset that is taxable Australian property from a relevant non-resident shareholder.

Non-Australian tax resident Phileo shareholders should seek their own independent tax advice as to the tax implications of the Capital Return, including the tax implications in their country of residence.

9.2.3 Dividend component

The dividend component per share is expected to be equal to the Cancellation Price of \$12.66 less the capital component of \$1.21.

The amount of the dividend component and the extent to which it is franked cannot be determined at this stage as these amounts are subject to numerous variables that will not be known until at or around the completion of the Capital Return process. The franked and unfranked component of the Capital Return dividend will be set out in the Class Ruling.

9.2.3.1 Australian resident shareholders

Australian tax resident shareholders will be required to include the dividend component of the Capital Return in their assessable income. To the extent that the dividends are franked, subject to the comments below, the associated franking credits should also be included in the Australian tax resident shareholder's assessable income (that is, the dividends are required to be 'grossed-up'). In such circumstances, shareholders are subject to tax at their applicable rate of tax on the grossed-up dividends received (but may be entitled to a tax offset for the associated franking credits as discussed below).

To the extent that the dividends are unfranked, there is no gross-up (or tax offset) and Australian resident shareholders should be subject to tax at their applicable rate of tax on the unfranked dividends received.

Generally, shareholders should be entitled to a 'tax offset' equal to the amount of any franking credits received.

To the extent that the franking credits received by non-corporate shareholders that are individuals and complying superannuation entities exceed the amount of tax payable, those shareholders should be entitled to a refund from the ATO of any excess franking credits. Where the franking credits are less than the tax payable on the dividends, those shareholders will need to pay an additional amount of tax.

In relation to non-corporate shareholders that are trusts (other than trustees of complying superannuation entities) or partnerships, such shareholders should include any franking credits in determining the net income of the trust or partnership. The relevant beneficiary or partner may then be entitled to a corresponding tax offset, subject to certain requirements being satisfied.

Corporate shareholders are also entitled to a tax offset equal to the amount of franking credits received; however, unlike non-corporate shareholders, they are unable to claim refunds for excess franking credits. Where excess franking credits exist, a corporate shareholder should be entitled to have the surplus credits converted into carry forward tax losses.

Corporate shareholders (including those which are deemed to be companies) should also be entitled to a franking credit in their franking accounts equal to the franking credits received in respect of the dividends. A corporate shareholder may be able to then use the credits to make franked distributions to its shareholders.

In relation to trusts or limited partnerships, the rules surrounding the taxation of dividends are complex and advice should be sought to confirm the appropriate taxation considerations and treatment.

There are certain limitations imposed by the Australian taxation law which may prevent a shareholder from obtaining the benefit of any franking credits. In this regard, shareholders seeking to claim tax offsets for franking credits must be 'qualified persons' in respect of the relevant dividends.

In broad terms, shareholders who have held their Phileo shares 'at risk' for at least 45 days (excluding the dates of acquisition and disposal) should be qualified persons and should be able to claim a tax offset for the amount of franking credits received. Furthermore, individual Australian shareholders whose total franking tax offsets (for all franked distributions received in the income year) do not exceed \$5,000 for the income year should generally be deemed to be qualified persons. Special rules apply to arrangements which involve the making of related payments to pass on the benefit of a franked dividend to another person.

Whether the Phileo shares are held at risk and are free of related payment obligations depends on the particular circumstances of the taxpayer. Examples of risk reduction arrangements to which the related payments rule may apply include options and hedge arrangements and dividend swap arrangements. Again, as these rules are complex, advice should be sought to confirm the appropriate treatment for tax purposes.

The holding period rules generally work on a last-in-first-out basis such that the Exiting Shareholders in the Capital Return will be deemed to have disposed of their most recently acquired shares under the Capital Return process for the purposes of applying this rule.

The availability of the franking credits attached to the Capital Return is subject to the application of certain integrity and other measures. The application of these imputation integrity and other measures is part of the Class Ruling application and the comments in this section are based on a favourable Class Ruling being obtained in respect thereof. In addition, the particular circumstances of each participating shareholder will also be relevant in determining whether the

9. Taxation implications of the Capital Return and the Dividend Component (continued)

Deloitte. Private

rules deny the benefit of the tax offset or franking credit. For example, the period during which the Phileo shares are held and any arrangements the shareholders have in relation to the Phileo shares will be relevant.

9.2.3.2 Non-resident shareholders

The Australian income tax outcomes for non-resident shareholders will depend on the extent to which the dividend is franked or unfranked. Generally, the unfranked component of the dividend should be subject to dividend withholding tax. To the extent that dividends to non-residents include an unfranked component, Phileo will be required to withhold tax at the rate applicable to each non-resident shareholder. Australian dividend withholding tax is levied at a flat rate of 30% on the gross amount of the dividends unless a shareholder is a tax resident of a country that has an applicable double tax treaty with Australia. In these circumstances, the withholding tax is generally limited to 15%, although in certain cases, depending on the shareholder's country of residence and the size of their shareholding, the rate may be reduced further.

The fully franked component of the dividend should not be subject to Australian dividend withholding tax.

It is recommended that non-resident shareholders also consider the tax implications of receiving dividends from Phileo under their respective domestic tax regimes.

The above comments assume that the dividend is not attributable to an Australian permanent establishment of the non-resident shareholders. If the Phileo Shares are so held, independent advice should be sought.

9.3 GST

There should be no GST payable by a Phileo shareholder that participates in the Capital Return.

9.4 Tax File Numbers and Australian Business Numbers

Under Australian taxation law, a company is entitled to ask its shareholders to disclose their TFN or ABN to the company. A shareholder can choose to disclose or not disclose the TFN or ABN.

If an Australian resident shareholder chooses not to disclose their TFN or ABN to Phileo, Phileo is required by the tax law to withhold tax, at the top marginal tax rate plus Medicare levy (being 47% as at the date of this EM), on any dividends paid to the shareholder, unless the dividend is fully franked. If the tax withheld by Phileo is more than the shareholder would have paid in tax, the shareholder must wait until the shareholder lodges an income tax return before being entitled to a refund of any excess tax withheld from the dividend payment. On the other hand, if an Australian resident shareholder chooses to disclose the TFN or ABN, Phileo does not have to withhold any tax from any dividends paid to the shareholder.

If a Phileo shareholder has not previously provided their TFN or ABN, and would like to disclose their TFN or ABN to Phileo, the shareholder should contact the Registry and provide the TFN or ABN before 22 January 2019.

Section 10

Implementation

10. Implementation

10.1 Determination of Exiting Shareholders and Continuing Shareholders

Shareholders have until 7.00pm on Tuesday, 11 December 2018, to return an Opt-Out Election Form to Phileo's Share Registry if they wish to opt out. After this time any purported Opt-Out Election Forms received will be reviewed to confirm that they are valid, with Phileo retaining an overriding discretion to make a determination of that matter. All of the Continuing Shareholders and Partially Exiting Shareholders will then be identified.

On Wednesday, 12 December 2018 Phileo will release an ASX announcement identifying the material details (on an aggregated basis) of the Opt-Out Elections received. Any Shareholder who is not a Continuing Shareholder or Partially Exiting Shareholder will be deemed to be an Exiting Shareholder, and will participate in the Capital Return for all of their Shares they hold on the Capital Return Record Date, if the Capital Return is approved by the requisite majorities and the other Conditions to the Proposed Transaction are satisfied or waived.

10.2 Implementation of Capital Return

If the Capital Return is approved by the requisite majorities at the Meetings, then:

- trading in Shares will continue on ASX until 4.00pm on Monday, 21 January 2019 at which time trading will cease;
- the shareholdings of Exiting Shareholders and Partially Exiting Shareholders (except to the extent that those shareholdings are subject to an Opt-Out Election Form) as at 7.00pm on the Capital Return Record Date, which is currently scheduled for Wednesday, 23 January 2019, will be identified for cancellation; and
- on Thursday, 31 January 2019 the Capital Return will be implemented. At this date, all Shares attributable to Exiting Shareholders and Partially Exiting Shareholders (except to the extent that those shareholdings are subject to an Opt-Out Election Form) will be cancelled, and payment will be despatched to those Exiting Shareholders and Partially Exiting Shareholders in respect of their Cancelled Shares.

10.3 Delisting of Phileo

If Shareholders approve the Capital Return and the Delisting, Phileo will be removed from the official list of ASX. The date of removal will be no earlier than one month after the date of shareholder approval, as advised by ASX.

Phileo intends to request a voluntary suspension from trading with effect from 21 January 2019 being at least one month from the date of the Annual General Meeting. If this is granted, 21 January 2019 will be the last day on which you can trade your Shares before Delisting. The indicative date for the Delisting is Friday, 1 February 2019.

Phileo will release an ASX announcement confirming the timetable for the Delisting process in due course if the Delisting Resolution is approved by Shareholders at the Annual General Meeting.

Prior to the voluntary suspension of Shares, all Shareholders (irrespective of whether or not they have submitted an Opt-Out Election Form) will continue to be able to trade their Shares on ASX. However, the illiquid nature of Shares will continue to operate as a practical constraint on the ability to trade a material volume of Shares.

Shareholders who remain on the Share Register after the Delisting will retain the protections afforded to them under the Corporations Act and Phileo's constitution (noting that provisions of Phileo's constitution which refer to ASX listing will no longer apply and Mr Koh's stated intention to replace Phileo's constitution with a new constitution – please refer to Section 8.3 of this Explanatory Memorandum for further details).

Also, if Phileo has more than 100 shareholders following the Delisting, the Shares may be classified as unlisted enhanced disclosure securities which would oblige Phileo to disclose material information in a timely fashion to ASIC. Phileo however would be under no obligation to lodge this information with a market operator but will post information on its website, www.palltd.com.au

Section 11

Additional Information

11. Additional Information

11.1 Independent Directors' interests in Phileo Shares

The table below sets out the Phileo Shares held by or on behalf of the Independent Directors.

Name	Position	Phileo Shares held by or on behalf of the Independent Director	Proportion of Phileo Shares
Michael Loke	Non-Executive Director	3,345,500	11.57%
Andrew Hang	Non-Executive Director and Independent Director)	2,590,196	8.95%
Alfred Sung	Executive Director	1,896,849	6.56%
Graham Homes	Chairman and Non-Executive Independent Director)	59,116	0.20%
Total		7,891,661	27.28%

Please refer to Section 1.12 for information on each Independent Director's intention with respect to participating in the Capital Return.

11.2 Independent Directors' interests in any contracts with Mr Koh

No Independent Director or any of his Associates has entered into, or otherwise has any interest in, any contract entered into with Mr Koh, the Koh Entities or their Associates.

11.3 Independent Directors' interests in agreements connected with or conditional on the Proposed Transaction

No Independent Director has an interest in any agreement connected with or conditional on the Proposed Transaction other than in respect of their interest in Phileo Shares, as set out in Section 11.1 of this Explanatory Memorandum.

11.4 ASIC relief

As announced to ASX on 17 October 2018, ASIC has exercised its power under section 250P(2) of the Corporations Act to grant Phileo an extension of time to hold its Annual General Meeting.

Under section 250N(2) of the Corporations Act, Phileo is required to hold its Annual General Meeting by 30 November each year. The extension granted by ASIC allows Phileo to hold its Annual General Meeting on the same day as the meetings for the Proposed Transaction, but in any event no later than 31 January 2019.

Phileo sought this extension of time to hold the Annual General Meeting to minimise the cost to Phileo, and inconvenience to Shareholders of holding multiple general meetings on separate days within close proximity of each other.

11.5 Consents and disclaimers

The following parties have given and have not, before the date of this Explanatory Memorandum, withdrawn their written consent to be named in this Explanatory Memorandum in the form and context in which they are named and have consented to the statements by them, or statements said in this Explanatory Memorandum to be based on statements by them, in the form and context in which those statements are included in this Explanatory Memorandum:

- each of the shareholders identified in the table in Section 1.14;
- MinterEllison as legal adviser to Phileo;
- Ernst & Young Transaction Advisory Services Limited as the Independent Expert;
- Deloitte Private Pty Ltd as the Australian tax adviser to Phileo; and
- Boardroom Pty Ltd as the Share Registry.

Mr Koh has given, and has not, before the date of this Explanatory Memorandum, withdrawn his consent, to the inclusion of Koh Information in this Explanatory Memorandum and the references to the Koh Information in the form and context in which they are included.

Ernst & Young Transaction Advisory Services has given, and has not before the date of this Explanatory Memorandum, withdrawn its consent, to the inclusion of statements attributed to it in Section 2.2(c) of this Explanatory Memorandum and

to the inclusion of the Independent Expert's Report set out in Appendix 1 to this Explanatory Memorandum in the form and context in which they are included.

Deloitte Private Pty Ltd has given, and has not before the date of this Explanatory Memorandum, withdrawn its consent, to the inclusion of its taxation opinion in Section 9 of this Explanatory Memorandum.

Each of the persons listed above in Section 11.5:

- has not authorised or caused the issue of this Explanatory Memorandum;
- does not make, or purport to make, any statement in this Explanatory Memorandum or any statement on which a statement in this Explanatory Memorandum is based other than a statement or report included in this Explanatory Memorandum with the consent of that party;
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Explanatory Memorandum, other than as described in this Explanatory Memorandum with the consent of that party; and
- except for Mr Koh, does not assume any responsibility for the accuracy, relevance or completeness of Koh Information. The Koh Information has been prepared by, and is the sole responsibility of, Mr Koh.

11.6 Independent advice

Shareholders should consult their financial, legal or other professional adviser if they have any queries regarding:

- the Proposed Transaction;
- the taxation implications for them if the Proposed Transaction is implemented;
- the Independent Directors' recommendations and intentions in relation to the Proposed Transaction, as set out in Sections 1.11, 1.12 and 2 of this Explanatory Memorandum; or
- any other aspects of this Explanatory Memorandum.

11.7 Legislative framework for Capital Return

The below is a brief summary of the Corporations Act provisions relevant to the Capital Return.

Under section 256C of the Corporations Act, a company may make a selective capital reduction if it is approved by a special resolution passed at a general meeting of the company, with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction or whose liability to pay amounts unpaid on shares is to be reduced, or any Associate of that person.

The Corporations Act provides that the rules relating to a reduction of share capital are designed to protect the interest of shareholders and creditors by:

- addressing the risk of the transaction leading to the company's insolvency;
- seeking to ensure fairness between the shareholders of the company; and
- requiring the company to disclose all material information.

In particular, section 256B of the Corporations Act requires that a company may only reduce its capital if:

- it is fair and reasonable to the company's shareholders as a whole;
- it does not materially prejudice the company's ability to pay its creditors; and
- it is approved by shareholders in accordance with section 256C of the Corporations Act.

The Capital Return is a 'selective' capital reduction within the meaning of section 256B(2) of the Corporations Act, as the reduction does not apply to each Shareholder in proportion to the number of Shares they hold and the terms of the reduction are not the same for each Shareholder.

Section 256C(4) of the Corporations Act requires that a company must include with a notice a statement setting out all information known to the company that is material to the decision on how to vote on the resolution. However, the company does not have to disclose information if it would be unreasonable to require the company to do so because the company had previously disclosed the information to Shareholders. This Explanatory Memorandum (other than the notices convening the Meetings) constitutes the explanatory statement required by section 256C(4) of the Corporations Act in relation to the Capital Return.

11.8 Other material information

Except as set out in this Explanatory Memorandum, in the opinion of the Independent Directors, there is no other information material to the making of a decision in relation to the Proposed Transaction, being information that is within the knowledge of any Independent Director or of any related company of Phileo, which has not been previously disclosed to Shareholders.

This page has been intentionally left blank.

Section 12

Glossary

12. Glossary

The following terms used in this Explanatory Memorandum have the meanings given to them below, unless the context otherwise requires.

Annual General Meeting	the annual general meeting for the financial year ended 30 June 2018 to be convened in accordance with the Notice of Annual General meeting contained in Appendix 4 to this Explanatory Memorandum.
ASIC	the Australian Securities and Investments Commission.
Associate	has the meaning given to that term by section 9 of the Corporations Act.
ASX	ASX Limited ACN 008 624 691 or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.
ATO	the Australian Taxation Office.
Board or Phileo Board	the board of directors of Phileo.
Cancellation Price	\$12.66 per Cancelled Share.
Cancelled Share	each Share to be cancelled as part of the Capital Return.
Capital Return	a selective capital reduction of up to a maximum of 10.50 million Shares on issue as at the Capital Return Record Date under section 256B and section 256C of the Corporations Act, but excluding all Shares: (a) held by the Koh Entities at that date; and (b) which are the subject of an Opt-Out Election Form.
Capital Return Record Date	7.00pm on the record date for the Capital Return, as determined by Phileo in accordance with Appendix 7A to the Listing Rules or as otherwise approved by ASX.
Capital Return Resolutions	the First Capital Return Resolution and the Second Capital Return Resolution collectively.
Class Ruling	the class ruling from the ATO in relation to the tax treatment of the Dividend Component.
Company or Phileo	Phileo Australia Limited ABN 52 007 608 755.
Competing Proposal	any expression of interest, proposal, offer, transaction, agreement, arrangement or understanding (other than any transaction that may be made and implemented in accordance with the Implementation Deed) by or with any person pursuant to which a third party (either alone or together with any Associate) may, if entered into or completed substantially in accordance with its terms: (a) directly or indirectly acquire an interest (including an economic interest by way of an equity swap or any similar transaction or arrangement) in, or a Relevant Interest in, or become the holder of, 20% or more of the Shares or shares in any Phileo Group Member; (b) directly or indirectly acquire, obtain a right to acquire or otherwise obtain an economic interest in, all or a substantial part of the assets or business of Phileo or any other Phileo Group Member; (c) acquire Control of Phileo or any other Phileo Group Member; (d) enter into any agreement, arrangement or understanding requiring Phileo or any Independent Director to change, withdraw or modify that Independent Director's recommendation in favour of the Proposed Transaction; or (e) otherwise directly or indirectly acquire, merge or amalgamate with Phileo or any other Phileo Group Member, whether by way of takeover offer, scheme of arrangement, shareholder-approved acquisition, capital reduction, share buy-back or repurchase, sale or purchase of assets, partnership, joint venture, reverse takeover, dual-listed company structure, recapitalisation, establishment of a new holding company for the Phileo Group or other synthetic merger or any other transaction, arrangement or understanding whatsoever.
Conditions	the conditions set out in clause 2 of the Implementation Deed.

Continuing Shareholders	each of: (a) Mr Koh and the Koh Entities; and (b) a Shareholder who delivers a valid Opt-Out Election Form to Phileo by the Opt-Out Election Cut-Off Date in respect of all of its Shares, and who continues to hold Shares as at the Capital Return Record Date.
Control	has the meaning given to that term by section 50AA of the Corporations Act.
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Country Garden	Country Garden Mambourin Pty Ltd ACN 620 145 039.
Delisting	removing Phileo from the official list of ASX following the implementation of the Capital Return and Delist has a corresponding meaning.
Delisting Resolution	Resolution 1 to be considered at the Annual General Meeting to approve the Delisting.
Deloitte	Deloitte Private Pty Ltd.
Dividend Component	\$11.45 per Share, being the component of the Cancellation Price that is characterised as a frankable dividend for income tax purposes (subject to the approval of the ATO through the Class Ruling).
Exclusivity Period	the period commencing on the 5 October 2018 and ending on the earlier of: (a) the date Phileo is Delisted; (b) 30 June 2019 (or such other date as agreed by Phileo and Mr Koh); and (c) the date the Implementation Deed is terminated.
Exiting Shareholders	each Shareholder who is neither a Continuing Shareholder nor a Partially Exiting Shareholder.
Explanatory Memorandum	this explanatory memorandum which includes the Independent Expert's Report, the Notices of General Meeting of all Shareholders, Notice of Special Meeting of Exiting and Partially Exiting Shareholders, the Notice of Annual General Meeting, the Proxy Forms and the Opt-Out Election Form.
FATA Act	the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth).
FATR	the <i>Foreign Acquisitions and Takeovers Regulation 2015</i> (Cth).
FIRB	the Foreign Investment Review Board.
First Capital Return Resolution	the resolution to be put to Shareholders at the General Meeting of all Shareholders to approve the Capital Return.
Foreign Person	has the meaning given to that term in the FATA Act.
General Meeting of all Shareholders	the General Meeting of all Shareholders to be convened in respect of the Capital Return in accordance with the Notice of the General Meeting of all Shareholders contained in Appendix 2 to this Explanatory Memorandum.
GST	has the meaning given to that term in the GST Act.
GST Act	the Act known as <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth).
Implementation Date	the date that the Capital Return is implemented, in accordance with the Appendix 7A to the Listing Rules, or such other timetable as approved by ASX.
Implementation Deed	the Implementation Deed executed by Phileo and Mr Koh on 5 October 2018 as amended or varied from time to time and as attached as Annexure B to the ASX announcement issued by Phileo on 5 October 2018.

12. Glossary (continued)

Independent Directors	each of the Phileo directors other than Mr Koh, being, as at 5 October 2018: (a) Mr Albert Graham Homes; (b) Mr Alfred Hing Pui Sung; (c) Mr Andrew Chooi Seng Hang; and (d) Mr Michael Tan Chung Loke, together with any other person appointed as a director of Phileo after 5 October 2018 (provided any such other person is not an Associate of Mr Koh).
Independent Expert	Ernst & Young Transaction Advisory Services Limited.
Independent Expert's Report	the report of the Independent Expert that is attached as Appendix 1 to this Explanatory Memorandum.
Koh Entities	each of: (a) PAL Investments (Aust.) Pty. Ltd. ACN 072 027 288; (b) Cameo Holdings Pty. Ltd. ACN 058 184 008; (c) KRR Investments Pty. Ltd. ACN 130 385 054 as trustee for the R K Investment Trust; and (d) Koh Superannuation Fund.
Koh Information	the information prepared by Mr Koh & the Koh Entities for inclusion in this Explanatory Memorandum and for which Mr Koh & the Koh Entities are responsible, being Section 8 and Appendix 5.
Listing Rules	the official listing rules of ASX as amended from time to time.
Meetings	the: (a) General Meeting of all Shareholders; (b) Special Meeting of Exiting and Partially Exiting Shareholders; and (c) Annual General Meeting, and includes any adjournment of those meetings.
Notice of Annual General Meeting	the notice despatched by Phileo to Shareholders in relation to the Annual General Meeting, attached to this Explanatory Memorandum at Appendix 4 to this Explanatory Memorandum.
Notice of General Meeting of all Shareholders	the notice despatched by Phileo to Shareholders in relation to the General Meeting of all Shareholders, attached to this Explanatory Memorandum at Appendix 2 to this Explanatory Memorandum.
Notice of Special Meeting of Exiting and Partially Exiting Shareholders	the notice despatched by Phileo to Shareholders in relation to the Special Meeting of Exiting and Partially Exiting Shareholders, attached to this Explanatory Memorandum at Appendix 3 to this Explanatory Memorandum.
Opt-Out Election	an election made by a Shareholder to not participate in the Capital Return, in respect of either all its Shares or (in the case of an eligible Shareholder) some of its Shares, and which election is the subject of a valid Opt-Out Election Form.
Opt-Out Election Cut-Off Date	7.00pm on Tuesday, 11 December 2018, being the latest time by when an Opt-Out Election Form must be lodged.
Opt-Out Election Form	a notice in the form accompanying this Explanatory Memorandum given by a Shareholder to Phileo which states that the Shareholder will not participate in the Capital Return, in respect of either all its Shares or (in the case of an eligible Shareholder) some of its Shares.
Partially Exiting Shareholder	a Shareholder who delivers a valid Opt-Out Election Form to Phileo by the Opt-Out Election Cut-Off Date for some but not all of their Shares and who would thereby retain at least 10,000 Shares after the Capital Return is implemented.
Phileo Group	Phileo and each of its Subsidiaries.

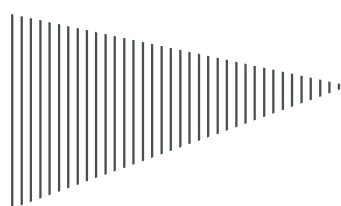
Phileo Group Member	a member of the Phileo Group.
Proposed Transaction	(a) the Capital Return; and (b) the Delisting.
Proxy Forms	each of (a) the Proxy Form for the General Meeting of all Shareholders; (b) the Proxy Form for Special Meeting of Exiting and Partially Exiting Shareholders; and (c) the Proxy Form for AGM.
Proxy Form for AGM	the proxy form for the Annual General Meeting accompanying this Explanatory Memorandum or, as the context requires, any replacement or substitute proxy form provided by or on behalf of Phileo.
Proxy Form for General Meeting of all Shareholders	the proxy form for the General Meeting of all Shareholders accompanying this Explanatory Memorandum or, as the context requires, any replacement or substitute proxy form provided by or on behalf of Phileo.
Proxy Form for Special Meeting of Exiting and Partially Exiting Shareholders	the proxy form for the Special Meeting of Exiting and Partially Exiting Shareholders accompanying this Explanatory Memorandum or, as the context requires, any replacement or substitute proxy form provided by or on behalf of Phileo.
Relevant Interest	has the meaning given to that term in the Corporations Act.
Representative	has the meaning given to that term in the Implementation Deed.
Second Capital Return Resolution	the resolution to be put to Exiting Shareholders and Partially Exiting Shareholders at Special Meeting of Exiting and Partially Exiting Shareholders to approve the Capital Return.
Share Register	the share register of Phileo.
Share Registry	the share registry engaged by Phileo, being Boardroom Pty Ltd.
Shareholders	each registered holder of Shares in the capital of Phileo.
Shares or Phileo Shares	fully-paid ordinary shares in the capital of Phileo.
Special Meeting of Exiting and Partially Exiting Shareholders	the Special Meeting of Exiting and Partially Exiting Shareholders to be convened in respect of the Capital Return in accordance with the Notice of the Special Meeting of Exiting and Partially Exiting Shareholders contained in Appendix 3 to this Explanatory Memorandum.
Subsidiary	has the meaning given to that term by section 9 of the Corporations Act.
Superior Proposal	a bona fide Competing Proposal (except with respect to provision (a) of the definition of Competing Proposal, the percentage threshold shall be 50% and not 20%) received after 5 October 2018 (and not resulting from a breach by Phileo of any of its obligations under clause 5 of the Implementation Deed (it being understood that any actions by the Representatives of Phileo in breach of clause 5 of the Implementation Deed shall be deemed to be a breach by Phileo for the purposes of this definition)) which the Board considers to be its fiduciary and statutory duties (after receiving written advice from its legal advisers acting in the area of corporate law and written advice from its financial advisers): (a) is reasonably capable of being valued and completed, taking into account all aspects of the Competing Proposal, including any timing considerations, any conditions precedent, the identity, reputation and financial standing of the third party making the Competing Proposal; and (b) would, if completed substantially in accordance with its terms, be more favourable to the Shareholders, as a whole, than the Proposed Transaction (as such Proposed Transaction may be amended or varied following application of the matching right set out in clause 5.5 of the Implementation Deed), taking into account all terms and conditions of the Competing Proposal and all aspects of the Proposed Transaction.

This page has been intentionally left blank.

Appendix 1 -

Independent Expert's Report

Appendix 1 - Independent Expert's Report



Independent Expert's Report and Financial Services Guide

In relation to the proposed selective capital reduction in Phileo Australia Limited

14 November 2018



Building a better
working world



Ernst & Young Transaction Advisory
Services Limited
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Part 1 – Independent Expert's Report

The Independent Directors
Phileo Australia Limited
Level 14, 303 Collins Street
Melbourne VIC 3000

14 November 2018

Dear Independent Directors

Independent Expert's Report

Background

Phileo Australia Limited ("Phileo" or the "Company") is an Australian Securities Exchange ("ASX") listed property investment company, with holdings in commercial real estate and development sites in Victoria. The Company, which is based in Melbourne, rents the commercial property and has plans to develop the land. The Company was established in 1995 through the takeover of Renak Holdings Limited ("Renak"), which was already listed on the ASX.

In December 2017 following the sale of development properties to Country Garden Mambourin Pty Ltd in July 2017 for \$400 million via a staged settlement, the Board established an Independent Committee to oversee and evaluate capital return opportunities to shareholders of Phileo. The Independent Committee comprises three members:

- ▶ Mr Michael Schoenfeld (independent consultant to the Board and Chairman of the Independent Committee);
- ▶ Mr Graham Homes (Chairman of Phileo and independent non-executive director); and
- ▶ Mr Tejas Gandhi (Group Financial Controller and Company Secretary of Phileo).

On 12 July 2018, Phileo received an initial confidential, non-binding and indicative proposal from Mr Rudy Koh ("Mr Koh"), the Managing Director and largest shareholder of Phileo. The Independent Committee evaluated that proposal including obtaining external valuation, legal and tax advice. After negotiation with Mr Koh, a revised and improved proposal was received on 11 September 2018. Following further discussions, the Independent Committee made a recommendation to the Phileo Board, excluding Mr Koh (the "Independent Directors"). On 5 October 2018 ("Announcement Date"), Phileo announced that it had entered into an implementation deed ("Implementation Deed") with Mr Koh in relation to a proposed selective capital reduction of the shares in Phileo ("Phileo Share" or "Share") and a subsequent delisting and privatisation of Phileo from the ASX ("Proposed Transaction").

The proposal is for Phileo to undertake a selective capital reduction whereby all shareholders in Phileo ("Phileo Shareholders"), other than Mr Koh, will have the opportunity to participate in the reduction and receive cash consideration for the cancellation of their shares of \$12.66 per Share (the "selective capital reduction"). Shareholders participating in the selective capital reduction are referred to as Exiting Shareholders.

Phileo expects that the cash consideration of \$12.66 per Share (the "Cancellation Price") payable under the selective capital reduction will comprise a dividend component of \$11.45 per Share (or 90%) and a capital return component of \$1.21 per Share (or 10%). Phileo has engaged Deloitte Private Pty Ltd to apply for a class ruling from the Australian Taxation Office confirming the above split and the ability for a portion of the consideration to be characterised as a frankable dividend such that eligible shareholders will have access to

Appendix 1 - Independent Expert's Report (continued)



a refundable tax offset ("ATO class ruling"). The ATO class ruling is not expected to be received prior to the shareholder meetings in respect of the Proposed Transaction.

Shareholders may elect to opt-out of the selective capital reduction in respect of all ("Continuing Shareholders") or a portion of their shareholding ("Partially Exiting Shareholders"), however they may only partially opt-out if they will hold at least 10,000 shares in the unlisted Phileo following the Proposed Transaction. Therefore,

- ▶ A shareholder with more than 10,000 shares may elect to either opt-out for their entire shareholding or they may opt-out for only a portion of their shares, provided they will hold at least 10,000 shares in the unlisted Phileo following the Proposed Transaction.
- ▶ A shareholder with less than 10,000 shares may only elect to opt-out for their entire shareholding. They are not able to opt-out for only a portion of their shares.

A Shareholder failing to make an opt-out election will be treated as participating in respect of their entire shareholding.

Under the Proposed Transaction there is a cap on the maximum number of shares which can be cancelled of 10.5 million shares, representing approximately 36% of Phileo's current share capital. Mr Koh owns or controls 35.8% of Phileo Shares. We are advised that, as a result of the Independent Committee confidentially canvassing those shareholders with a holding above 1.0 million Shares, three other shareholders have each expressed a current intention to opt-out of the selective capital reduction (two fully, and one partially) and each retain 2.75 million of their Shares in Phileo. Each of these shareholders has reserved the right to change their stated current intentions, however the selective capital reduction is conditional on opt-out notices totalling at least 8.08 million shares being received. This condition will be satisfied if each of the three shareholders who has expressed a current intention to opt-out of the selective capital reduction acts consistently with that intention, by lodging an opt-out election before the shareholder meetings to vote on the selective capital reduction.

Based on the shares owned and controlled by Mr Koh, together with the shares held by these three other shareholders intending to opt-out from the selective capital reduction, the maximum 10.5 million shares proposed to be cancelled is sufficient to enable all other shareholders to exit in full if they wish to do so. As a result the selective capital reduction is not expected to be over-subscribed and will not proceed if over-subscribed.

Three shareholder meetings to consider and vote on the Proposed Transaction will be held consecutively on the same day on 20 December 2018:

- ▶ First Meeting: A meeting of all Phileo shareholders to vote on a special resolution to approve the selective capital reduction. Mr Koh and all Continuing Shareholders will be eligible to vote their shares in favour or against, whilst all Exiting Shareholders and Partially Exiting Shareholders will only be eligible to vote their shares against (if they vote).
- ▶ Second Meeting: A meeting of all Exiting Shareholders and Partially Exiting Shareholders to vote on a special resolution to approve the selective capital reduction. Mr Koh and Continuing Shareholders will not be eligible to vote.
- ▶ Third Meeting: Subject to the special resolutions of the first two meetings being approved, a meeting of all Phileo Shareholders to vote on the delisting of Phileo. All Phileo shareholders (including Mr Koh and any other Continuing Shareholders) will be eligible to vote. This third meeting will also serve as the 2018 annual general meeting ("AGM") of Phileo shareholders. As announced by Phileo to the ASX on 17 October 2018, the Australian Securities and Investments Commission ("ASIC") has granted Phileo an extension of time to hold its AGM so that it can be held as part of the series of meetings to vote on the Proposed Transaction.

The delisting of Phileo will only be put to shareholders to vote if the two selective capital reduction resolutions are approved. The selective capital reduction is not dependent or conditional on the delisting of Phileo being approved.

Further details of the terms and conditions relevant to the Proposed Transaction are included in the accompanying Explanatory Memorandum. Our independent expert's report considers the fairness and reasonableness of the selective capital reduction.

Requirement for an independent expert's report

Pursuant to Item 1 of section 256B of the *Corporations Act 2001* (Cth) (the "Corporations Act" or the "Act") a company may reduce its share capital in a way that is not otherwise authorised by law if the reduction:

- (a) Is fair and reasonable to the company's shareholders as a whole; and
- (b) Does not materially prejudice the company's ability to pay its creditors; and,
- (c) Is approved by shareholders under section 256C of the Act.

Item 4 of section 256C of the Act requires that the shareholders of the company are provided with all information known to the company that is material to the decision on how to vote on the resolution. Whilst item 4 of section 256C does not explicitly require an independent expert's report to be prepared, it is common for directors of companies to commission a report so as to present all available information to their shareholders. In addition, ASIC Regulatory Guide 111: *Content of experts reports* ("RG 111") notes that an expert report should usually be prepared in order to satisfy the information requirements of fairness under section 256C(4).

The Directors of Phileo have therefore commissioned Ernst & Young Transaction Advisory Services Limited ("EY" or "us") to prepare an independent expert's report, the purpose of which is to state whether or not, in our opinion, the selective capital reduction is fair and reasonable to Phileo's shareholders as a whole. This independent expert's report will be included in the Notice of Meeting and Explanatory Memorandum being sent to Phileo Shareholders in relation to the selective capital reduction. It is not EY's role to assess whether the selective capital reduction complies with the other conditions of item 1 of Section 256B noted above. In considering the reasonableness of the selective capital reduction, we have also taken into consideration the totality of the Proposed Transaction (including the proposed delisting).

Approach

The Act does not define the term "fair and reasonable". In preparing this independent expert's report, we have had regard to a number of reference points:

- ▶ The Act.
- ▶ ASIC Guidance Note RG 111 – which provides guidance in the preparation of independent expert's reports required in a range of transactions, including selective capital reductions.
- ▶ The Explanatory Memorandum to the *Company Law Review Bill 1997*.
- ▶ Case law – specifically *Elkington v Costa Exchange Limited* (Supreme Court of Victoria, 5 October 2011).
- ▶ Industry practice – the approach taken by other independent experts in preparing independent expert's reports in relation to selective capital reductions.

Clause 8 of RG 111 states that a control transaction is one where a person "...acquires, or increases, a controlling stake in a company...". This clause goes on to confirm that a control transaction can be achieved through a number of legal mechanisms – including a selective capital reduction.

Appendix 1 - Independent Expert's Report (continued)



Clause 9 of RG 111 emphasises that an expert should focus on the substance of a control transaction rather than the legal mechanism used to effect it.

The Proposed Transaction will have the effect of increasing Mr Koh's shareholding in Phileo from 35.78% to a maximum of 56.16% (assuming the maximum of 10.5 million shares are cancelled). As a result Mr Koh will become the majority shareholder in Phileo. Given this, and bearing in mind also the proposed plans to then delist Phileo from the ASX, we consider that the Proposed Transaction is a control transaction as outlined in Clause 8 of RG 111, as outlined on the prior page.

Clauses 10 to 17 of RG 111 outline how "fair and reasonable" should be assessed in the context of takeover bids but do not specifically outline how "fair and reasonable" should be assessed in the context of a selective capital reduction. However, Clauses 24 to 29 then provide guidance that other forms of control transactions, including selective capital reductions, should be analysed as if they were a takeover bid – in other words, consistent with Clause 10.

As a result of the above, we have assessed the selective capital reduction consistent with Clause 10 of RG 111. Specifically, we have separately considered:

- ▶ Whether the selective capital reduction is fair; and
- ▶ Whether the selective capital reduction is reasonable.

Under RG 111, while generally considered in the context of a takeover bid, the guidance makes it clear that "fair" and "reasonable" are two distinct concepts. Under this approach:

- ▶ an offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer; and
- ▶ an offer is "reasonable" if it is fair. It might also be "reasonable" if, despite being "not fair", the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

This approach is consistent with most recent independent expert's reports in relation to selective capital reductions. However, we do recognise that an alternative approach (as contemplated in the independent expert's report that was relevant in the case in *Elkington v Costa Exchange Limited* (Supreme Court of Victoria, 5 October 2011)), would be to consider "fair and reasonable" as a single compound phrase. Whilst we consider this example less relevant in the case of the Phileo selective capital reduction given we consider this to be a control transaction, we have nonetheless also considered whether this alternative approach would have changed our opinion.

RG 111.11 states that the comparison of the value of the consideration and the value of the securities that are the subject of a takeover bid is to be made assuming 100% ownership of the target and it is "inappropriate to apply a discount on the basis that the shares being acquired represent a minority or portfolio parcel of shares". In this instance, if the value of the consideration being offered to Phileo's shareholders (\$12.66) per Share is the same or greater than the fair value of one share on a controlling interest basis, then the proposed transaction would be considered to be fair for the Existing Shareholders and Continuing Shareholders.

RG 111.78 provides that an independent expert should usually give a range of values for the securities that are the subject of the offer. If the value of the consideration offered falls within the range of values of the securities, the offer is considered to be fair.

Summary of opinion

Fairness

We have determined whether the selective capital reduction is fair by comparing the assessed fair value of a Phileo Share, on a controlling interest basis, to the Cancellation Price that will be received by Exiting Shareholders in the event that the selective capital reduction is approved. The following table summarises this comparison:

Evaluation of the fairness of the selective capital reduction			
\$/Share	Ref	Low	High
Cancellation Price	Section 1.2	12.66	12.66
Assessed fair value of a Phileo Share	Section 6.1	12.32	13.08
Premium of the Cancellation Price to the assessed fair value per Phileo Share		0.34	(0.42)
% Premium		2.8%	(3.2%)

Source: EY Transaction Advisory Services Limited analysis

The assessed fair value of a Phileo Share on a controlling interest basis is between \$12.32 and \$13.08 per Phileo Share. The Cancellation Price is \$12.66 per Phileo Share.

We conclude that, as the Cancellation Price falls within our assessed fair value range of a Phileo Share, the selective capital reduction is fair to Exiting Shareholders.

Given the Cancellation Price sits within our assessed fair value range we consider the selective capital reduction is also fair to Continuing Shareholders. However, we also consider that, in the absence of a future control transaction, the future price that may be realised by a Continuing Shareholder in the event that Phileo Shareholders also approve the delisting may be lower than our assessed fair value range.

Reasonableness

In order to form our conclusion on whether the selective capital reduction is reasonable to Phileo Shareholders as a whole, we have separately considered below the perspectives of Exiting Shareholders and Continuing Shareholders. The perspectives of Partially Exiting Shareholders can be considered by reference to both the Exiting Shareholders and Continuing Shareholders' perspectives, in proportion to the number of Phileo Shares that will be cancelled relative to those that will be retained. We have summarised below considerations that are potentially relevant to shareholders. Individual shareholders may interpret these factors differently depending on their own circumstances.

Exiting Shareholders

Advantages of the selective capital reduction to Exiting Shareholders

► **The selective capital reduction provides an immediate liquidity opportunity**

The selective capital reduction represents an opportunity for Exiting Shareholders to achieve an immediate sale of their Phileo Shares at a known price and without incurring brokerage costs. The historically low volumes of trading in Phileo Shares means that it may otherwise be difficult for Phileo Shareholders to realise a fair value in the open market for large volumes of Phileo Shares. In recent years, a number of Phileo's shareholders have requested a mechanism to allow them to exit their Shares should they wish. This Proposed Transaction follows Phileo's announcement on 23 November 2017 that it would investigate its options to return capital to its shareholders in the most effective manner following the announcement of the staged sale of the Wyndham Vale land to Country Garden in July 2017.

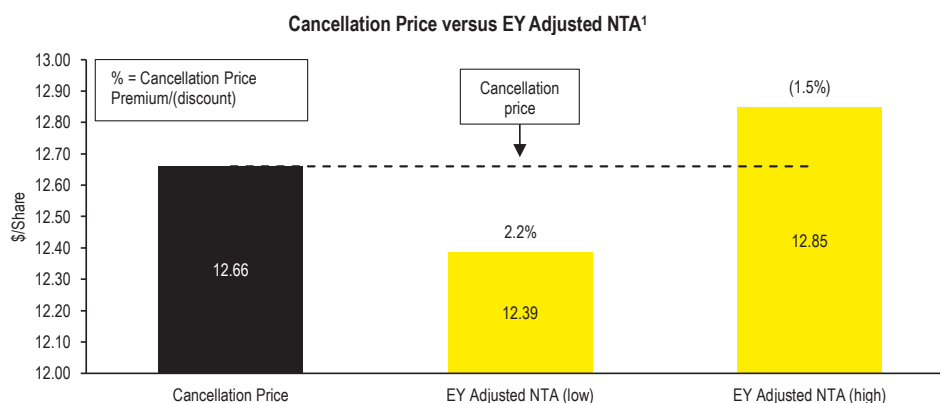
Appendix 1 - Independent Expert's Report (continued)



Further, in the absence of the selective capital reduction there is no guarantee of future dividends. In section 2.4 of the Explanatory Memorandum the Independent Directors noted that an alternative method to return capital to shareholders was to pay a dividend to all shareholders, however the dividend would be limited to \$4.00 to \$4.50 per Share and so was considered to be inferior.

► The selective capital reduction is within the range of the Adjusted NTA

As at 30 June 2018, the reported audited net tangible assets ("NTA") of Phileo was \$207.8 million. We have identified a number of adjustments, primarily in relation to the Country Garden sale proceeds and related tax consequences (which are not recorded on the balance sheet), to assess an Adjusted NTA of Phileo in the range of \$358.3 million to \$371.7 million. Based on the number of shares outstanding as at the Announcement Date, this is equivalent to an Adjusted NTA in the range of \$12.39 to \$12.85 per Phileo Share. The Cancellation Price represents between a 1.5% discount and a 2.2% premium to our assessed Adjusted NTA range per Phileo Share.



Source: EY Transaction Advisory Services Limited analysis, Company Announcements

¹ EY Adjusted NTA differs to our assessed fair value range. It excludes portfolio premium and deductions for corporate costs and one off transaction costs as a result of the selective capital reduction as set out in section 6.1.

► Immediate access to share of future Wyndham Vale settlement proceeds

We have assessed the net value of the proceeds from the settlement of the remaining two contracts with Country Garden to account for approximately 50% of our assessed value of a Phileo Share. Whilst we consider there to be a low risk of default, there is inherent risk associated with the settlement and thus receipt of funds by Phileo in relation to these contracts. We have assessed the value of those receivables after applying an appropriate discount based on both the time value of money and the perceived default risk. Whilst default would mean that Phileo would continue to own those parcels of land, realisation of any value for these would inevitably be further delayed. Settlement is not due until February 2020 and February 2022 and as such the proceeds will not be received by Phileo and available for potential distribution to shareholders for a number of years. As such, the selective capital reduction effectively represents an opportunity for Exiting Shareholders to receive value for their share of the expected future proceeds now.

► Immediate and certain access to some value from the VicRoads compensation claim

There is uncertainty in relation to the success of any claim resulting from the Public Acquisition Overlay ("PAO") in relation to a portion of the Wyndham Vale site. There is also uncertainty as to the likely amount of compensation to be received by Phileo from VicRoads in the event the claim is successful. In assessing our value of a Phileo Share we assessed nil value to the compensation at the low end of

our range and \$0.62 per Share at the high end. The selective capital reduction represents an opportunity for Exiting Shareholders to avoid the uncertainty associated with this matter.

► **Removal of exposure to development risk associated with the Box Hill Site**

Phileo is currently progressing the rehabilitation of the site, which is a precursor to any development. However, a Certificate of Environmental Audit for the land has not yet been issued, and getting this issued will involve a lengthy process requiring ongoing monitoring and management of environmental issues. As such, the selective capital reduction provides Exiting Shareholders with a certain price now for the Box Hill Site, removing their exposure to risks associated with the ongoing development of the site, particularly in relation to the cost and timing of the rehabilitation.

► **Tax consequences**

We have not considered the specific taxation implications that may be relevant for individual Exiting Shareholders in connection with the selective capital reduction. Shareholders should seek advice from their tax advisors in relation to this matter. However, for those shareholders to whom it is relevant, there is potentially material additional benefit above the Cancellation Price, as a result of tax consequences that may flow from the selective capital reduction. We also note that these tax consequences depend on a class ruling from the ATO, which is yet to be provided.

Franking Credits

It is proposed that a material portion of the cash consideration payable under the selective capital reduction will be characterised as a dividend, which is expected to be partially franked, such that for those shareholders for whom this is relevant, they will have access to a refundable tax offset. Should the ATO class ruling support this, this refundable tax offset has the potential to be a significant additional source of value for those shareholders who are able to take advantage of this based on their individual circumstances. Thus the selective capital reduction may make the decision to participate in the selective capital reduction substantially more attractive for those shareholders able to access this refundable tax offset. Phileo Shareholders should consider the information contained in sections 2.2(b) and 9 of the Explanatory Memorandum in weighing up the relevance of this matter to them.

Capital Gains / Losses

We also note that the selective capital reduction may generate capital losses or gains for individual Shareholders. Again, this will depend on their own individual circumstances and on the ATO class ruling, and has the potential to make the selective capital reduction more or less attractive.

The above, together with other tax consequences which may be relevant to individual shareholders, should be considered by shareholders in weighing up the merits of the selective capital reduction.

Disadvantages of the selective capital reduction to Exiting Shareholders

► **Phileo Shareholders are receiving a discount to the price of Phileo Shares prior to the announcement of the Proposed Transaction**

The last traded price of Phileo Shares on 4 October 2018, the day prior to the Announcement Date, was \$13.05 per Phileo Share. In the period since the Proposed Transaction was made public, shares have traded in the range of \$13.50 to \$14.10. The Cancellation Price represents a 3.0% discount to the price of a Phileo Share on the day prior to the Announcement Date, a 1.7% discount to the previous three month's VWAP of \$12.87 per Phileo Share prior to the Announcement Date and a 10.2% discount to the highest price since the Announcement Date.

Whilst we have had regard to the Phileo Share price in weighing up the merits of the selective capital reduction, we consider it to have limitations in its reflection of the fair value of Phileo due its lack of liquidity. In addition, and notwithstanding the uncertainty as a result of the ATO class ruling, we consider

Appendix 1 - Independent Expert's Report (continued)



that the price observed since the Announcement Date may reflect the desire of buyers to take advantage of the potential franking credits and capital return treatment (based on their individual circumstances) and the desire of sellers who based on their circumstances may not be able to take advantage of these factors, or who consider these potential sources of value upside unlikely.

Finally, until the release of this Explanatory Memorandum and this Independent Expert's Report, certain aspects of the value of Phileo (for example in relation to the fair value of Box Hill) were perhaps not well understood by Phileo Shareholders.

Given the above, we do not consider the recent observed traded prices for small parcels of shares to be the best indication of the fair value of Phileo Shares.

► **No participation in the future of Phileo's business**

Phileo has achieved significant capital appreciation over recent years – most significantly because of the Country Garden transaction. By approving the selective capital reduction, Exiting Shareholders will receive the Cancellation Price, but as a result will not receive the benefit of any future dividends and any future increases in the value of the portfolio as a result of operational and development success or market movements. For example, whilst our assessed value of a share in Phileo reflects the fair value of the Box Hill development based on its current status, any future enhancement to value of this site will not be available to shareholders who choose to exit now.

Continuing Shareholders

In considering whether the terms of the selective capital reduction are reasonable to Continuing Shareholders, we have separately considered Mr Koh to the remaining shareholders (including the three shareholders who have provided opt-out commitments).

Mr Koh (proponent of the Proposed Transaction)

We have had regard to the following in forming our view as to whether the selective capital reduction is reasonable to Mr Koh:

- Mr Koh is the proponent of the Proposed Transaction, and given he is voluntarily undertaking the Proposed Transaction, as such is considered to be willing to transact based on the terms of the selective capital reduction.
- Mr Koh is the Managing Director and Chief Executive Officer of Phileo, a position that he has held for over 17 years (and he has been on the Phileo board since its listing in 1995), and accordingly it is appropriate to expect that he has full knowledge of the historical financial performance and position and the future prospects of Phileo. It is also appropriate to expect that Mr Koh has detailed knowledge of the property portfolio, the contracts of sale to Country Garden and the VicRoads compensation claim, based on the facts known at the time the Proposed Transaction was submitted.
- Mr Koh has significant experience in the property market in Australia and it is reasonable to expect that he is aware of the issues currently facing the office, hotel and residential property markets and their future prospects.

Given Mr Koh submitted the Proposed Transaction voluntarily and with the benefit of his extensive knowledge of Phileo and the industry in which it operates, we consider that the selective capital reduction must therefore be reasonable to Mr Koh.

Remaining minority shareholders (including the three shareholders¹ who have provided opt-out commitments)

Advantages

► **Increased ownership interest in Phileo**

In the event that the selective capital reduction is approved and implemented, the shareholding of Continuing Shareholders in Phileo will each increase in line with their current shareholding relative to the reduced capital base post the selective capital reduction.

► **Participation in the future of Phileo's business**

By opting out of the selective capital reduction, Continuing Shareholders will continue to be exposed to the benefit of any future dividends and any future increases in value of the portfolio or business as a result of operational and development success or market movements. This may include any future increases in the value of the Box Hill Site in the event of any favourable outcomes in relation to the development and/or market appetite. This may also include the value uplift from the avoidance of costs associated with the operation of an ASX listed company, including listing fees, compliance and registry costs and the cost of time devoted by Phileo in managing its listing, in the event that Phileo is delisted from the ASX as is the intention of Mr Koh.

► **No trigger for tax consequences of the Proposed Transaction**

Depending on their individual circumstances, shareholders may not wish to trigger the tax consequences that may flow from a realisation of their investment in Phileo but rather, to defer this to a later date.

Disadvantages

► **Reduced Liquidity and reduced shareholder rights**

It is the intention of Mr Koh to delist Phileo from the ASX in the event the Proposed Transaction proceeds. The ASX has given its in-principle confirmation to the Independent Committee that it will support the delisting of Phileo. In this circumstance, and notwithstanding current share liquidity is already poor, other Continuing Shareholders would have a reduced capacity to sell their shares in the future, as there would be no ready mechanism through which to trade these shares, which at that stage, would represent investments in a private, unlisted company. The most likely avenue for a future liquidity event would be to sell to the other shareholders (if they wished to buy) or to tag along with other shareholders in the event they decide to sell. However, whether that occurs, and at what future date, is unknown, and would be outside the control of those continuing minority shareholders.

The rights of minority shareholders in a smaller, unlisted, privately owned Phileo would also be diminished, relative to those conferred on shareholders in a listed entity, including that they will no longer have the protections of the ASX Listing Rules, continuous disclosure regime and ASX corporate governance requirements. The circumstances that Continuing Shareholders would face are likely to include the following, having regard to the draft Constitution provided by Mr Koh, which we understand he intends for Phileo to adopt (once finalised) if the Proposed Transaction proceeds:

- **Access to information:** A privately owned Phileo will not be required to meet the higher public company information requirements set out in the Corporations Act and the ASX. This includes the right to attend an annual general meeting and receive the annual report comprising the financial statements, director's report and auditor's report, as well as the right to timely significant announcements that could affect a company's share price or as required in accordance with the ASX continuous disclosure requirements. If Phileo has more than 100 shareholders following the Proposed Transaction, then the shares may be classified as unlisted

¹ Includes one Partially Exiting Shareholder, Michael Loke

Appendix 1 - Independent Expert's Report (continued)



enhanced disclosure securities such that Phileo would be required to disclose material information to shareholders. However, the draft Constitution includes a requirement for the number of shareholders to not exceed 50 (excluding employees).

- ▶ **Voting influence:** In the event the Proposed Transaction proceeds, Mr Koh's shareholding will increase from 35.8% to a maximum of 56.2%, and the other three substantial shareholders will each hold up to 14.8%. Whilst certain voting rights would be available to continuing shareholders, it is likely that their influence, in the context of Mr Koh and three other shareholders collectively holding the majority of shares, will be diminished relative to the position now. This is likely to further limit Continuing Shareholders' ability to influence the future decisions (including payment of dividends, granting of bonuses to directors / management and deciding on the attractiveness of future sale opportunities).

Based on the above observations regarding reduced liquidity and reduced shareholder rights, we consider that the value of a minority interest in Phileo post the selective capital reduction may be substantially diminished relative to both the value of that share now and the Cancellation Price. We consider it likely that the value of a share on a minority basis, post the selective capital reduction may attract a significant discount relative to the Cancellation Price in the absence of any other control transaction.

- ▶ **Reduced access to capital to fund future growth**

The Proposed Transaction includes the proposed delisting of Phileo from the ASX, which would remove the ability for Phileo to raise capital from the ASX. As a result, any future need for additional capital, if required, would need to be sourced from a new or existing shareholder, its existing cash reserves (noting these will likely be substantially diminished if the selective capital reduction proceeds), or from the debt markets.

- ▶ **Exposure to ongoing business risk**

There is risk associated with a number of factors that may impact the future value of Phileo. This includes the risk associated with the settlement of the remaining two contracts with Country Garden, the success and quantum of any claim with VicRoads resulting from the PAO and the development of the Box Hill Site. By choosing not to participate in the selective capital reduction and remain a shareholder in Phileo, Continuing Shareholders will remain exposed to the future risks of the business and be an investor in a business with a significantly lower cash balance.

- ▶ **Increased debt**

In order to complete the selective capital reduction it is anticipated that Phileo may draw down additional debt of up to \$27.2 million. Continuing Shareholders will therefore be exposed to a more highly geared company with lower earnings after interest payments.

- ▶ **Tax consequences**

We have not considered the specific taxation implications that may be relevant for individual Continuing Shareholders in connection with the selective capital reduction. However, we note that sections 2.3(e) and 9 of the Explanatory Memorandum states that Continuing Shareholders will not be able to access their proportionate share of the franking credits Phileo has accumulated to date, as these are intended to be distributed in full to Exiting Shareholders and Partially Exiting Shareholders. As such, Continuing Shareholders may be foregoing their ability to receive the full benefit from franking credits in the future.

The exact nature and impact of any tax consequences are uncertain and will depend upon the profile of each Continuing Shareholder. These specific consequences need to be borne in mind by each Continuing Shareholder in weighing up the merits of the selective capital reduction. Continuing Shareholders should consider the information contained in section 9 of the Explanatory Memorandum.

Other factors applicable to all Phileo Shareholders

Costs associated with the selective capital reduction

Phileo has agreed, as set out in the Implementation Deed, that it will be responsible for the costs it has and will incur in preparing the Implementation Deed and the materials it is submitting to shareholders to consider the Proposed Transaction, as well as the costs of implementing the Proposed Transaction if duly approved. Phileo estimates that these costs will be in the range of \$0.95 million to \$1.0 million. A significant proportion of these transaction costs will be payable by Phileo regardless of whether the selective capital reduction is approved and implemented.

Uncertainty as to intentions of the three shareholders who have expressed a current intention to opt-out of the selective capital reduction (two fully and one partially)

We note that three substantial shareholders have each declared their current intention to opt out of the selective capital reduction (two fully and one partially) for a total of 8.25 million shares. As a result, the selective capital reduction terms are sufficient to allow all other shareholders to participate in full should they wish to do so. We note that the selective capital reduction is conditional on a minimum opt-out by shareholders of 8.08 million shares. Consequently, whilst it is assumed that these shareholders will maintain their current intentions to opt-out (two fully and one partially), uncertainty exists for other shareholders as to whether or not this proposal will proceed.

Potential for alternative superior proposals to emerge

Taking into consideration the existing shareholdings of Mr Koh and other board members we consider it unlikely for a competing proposal to be forthcoming. We also note that the Proposed Transaction has resulted from an extensive period of negotiation between Mr Koh and the Independent Committee. This negotiation process resulted in an improved proposal relative to that initially tabled by Mr Koh. Given the above, the most likely alternate in the event the Proposed Transaction does not proceed will be for a continuation of the business on its current basis (refer below).

If Proposed Transaction does not proceed

If the Proposed Transaction does not proceed, Phileo will likely remain on the ASX, barring an alternate proposal coming from either Mr Koh or an alternate party. Liquidity in Phileo shares would likely continue at low levels, providing limited opportunity for shareholders to exit at a price equivalent to the Cancellation Price. Mr Koh would remain the largest individual shareholder. The ability for shareholders to receive proceeds from the previous Country Garden sale or from future events would depend on the voting intentions of shareholders – over which Mr Koh and other substantial shareholders would continue to have significant influence. As such, we consider the price of a Phileo share in this circumstance would likely be below the Cancellation Price in the near term.

Intentions of the directors and major shareholders

The participation intentions of the Independent Directors of Phileo (holding 27.3% of Phileo Shares in aggregate) and the other major shareholders of Phileo other than Mr Koh (holding 30.9% of Phileo Shares in aggregate) are set out in section 1 of the Explanatory Memorandum. Of this shareholder group, which holds 58.2% of Phileo Shares in aggregate, 49% of Phileo Shares are intended to be retained and 51% cancelled should the selective capital reduction be implemented. We consider this to suggest that there are no significant inequities in the terms of the selective capital reduction to Exiting Shareholders relative to Continuing Shareholders, as there is a broadly equal split between those shareholders who, based on their understanding of the terms of the Proposed Transaction, are minded to opt-out and retain their Phileo Shares relative to those minded to participate and have their Phileo Shares cancelled.

Appendix 1 - Independent Expert's Report (continued)



Conclusion

Taking into consideration the matters detailed in this Independent Expert's Report, in our opinion, in the absence of a superior proposal, the selective capital reduction is fair and reasonable to Phileo Shareholders as a whole.

Other matters

This Independent Expert's Report has been prepared specifically for the shareholders of Phileo in relation to the selective capital reduction. Neither Ernst & Young Transaction Advisory Services Limited, Ernst & Young, nor any member or employee thereof, undertakes responsibility to any person, other than the shareholders of Phileo, in respect of this Independent Expert's Report, including any errors or omissions howsoever caused.

This Independent Expert's Report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of Phileo Shareholders. The decision as to whether to approve the selective capital reduction is a matter for individual Phileo Shareholders. Phileo Shareholders should have regard to the Explanatory Memorandum prepared by Phileo's Independent Directors and management. Phileo Shareholders who are in doubt as to the action they should take in relation to the selective capital reduction should consult their own professional adviser.

Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full Independent Expert's Report as attached. All amounts are in Australian dollars ("A\$") unless otherwise stated.

EY Transaction Advisory Services Limited has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is included as Part 2 of this Independent Expert's Report.

Yours faithfully

Ernst & Young Transaction Advisory Services Limited

A handwritten signature in black ink, appearing to read 'T. Hatherley', is written over a horizontal line.

Tim Hatherley
Director and Representative

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

Julie Wolstenholme
Director and Representative

Contents

1.	Introduction	3
1.1	Summary of Phileo	3
1.2	Overview of the Proposed Transaction	3
2.	Scope of the Independent Expert's Report	7
2.1	Purpose of the report	7
2.2	Meaning of fair and reasonable	7
2.3	Basis of evaluation	8
2.4	Fair value	10
2.5	Independence	10
2.6	Limitations and reliance on information and specialist reports	10
2.7	Shareholder decisions	11
3.	Industry overview	13
3.1	Melbourne CBD office market	13
3.2	Australian and Victorian hotel sector	17
3.3	Melbourne residential development	20
4.	Overview of Phileo	24
4.1	Background and history	24
4.2	Phileo's property assets	26
4.3	Country Garden receivable	28
4.4	VicRoads compensation claim	29
4.5	Financial information	30
4.6	Shareholders	36
4.7	Distributions	36
4.8	Share price performance	36
5.	Valuation approach	40
5.1	Overview of valuation methodology adopted	40
5.2	Property assets (including development assets)	41
5.3	Country Garden receivable	43
5.4	VicRoads compensation	43
5.5	Deferred tax liability	43
5.6	Net debt	44
5.7	Other assets and liabilities	44
5.8	Portfolio premium	44
5.9	Corporate and transaction costs	45
5.10	Control premium / minority discount	45
5.11	Other valuation factors considered	45
6.	Valuation of Phileo	47
6.1	Summary of values	47
6.2	Property assets (including development assets)	47
6.3	Country Garden receivable	51
6.4	VicRoads compensation	53
6.5	Deferred tax liability	54
6.6	Net cash	54
6.7	Other assets and liabilities	54
6.8	Portfolio premium	55
6.9	Corporate and transaction costs	58
6.10	Number of Shares on issue	58
6.11	Cross checks	59

Appendix 1 - Independent Expert's Report (continued)



7.	Evaluation of the selective capital reduction	62
7.1	Overview	62
7.2	Fairness	63
7.3	Reasonableness	63
7.4	Other factors applicable to all Phileo Shareholders	68
7.5	Conclusion	69
Appendix A	Statement of qualifications and declarations	71
Appendix B	Valuation methodologies	73
Appendix C	Recent transaction multiples	74
Appendix D	Comparable companies	77
Appendix E	Sources of information	79
Appendix F	Glossary	80

1. Introduction

1.1 Summary of Phileo

Phileo Australia Limited (“Phileo” or the “Company”) is an Australian Securities Exchange (“ASX”) listed property investment company, with holdings in commercial real estate and development sites in Victoria. The Company, which is based in Melbourne, rents the commercial property and has plans to develop the land. The Company was established in 1995 through the takeover of Renak Holdings Limited (“Renak”), which was already listed on the ASX.

Phileo’s key property assets include a 30-level Melbourne central business district (“CBD”) office building, a 108-room hotel in Dandenong as well as two pieces of land held for development in Box Hill and Bendigo. In addition, Phileo has a \$250 million balance owing to it on development property it has contracted with Country Garden Mambourin Pty Ltd (“Country Garden”) to sell, that is expected to settle in two phases during the next 3.5 years. Phileo also holds in excess of \$150 million in cash largely as the result of deposits received on these sales to Country Garden, together with a previous sale to the same party, which has already been settled. Details of the transactions are provided in section 4.3.

Whilst listed on the ASX, the volume of shares traded is extremely low, meaning shareholders who have wished to divest their shares have had limited opportunity to do so. As at 5 October 2018 (“Announcement Date”), Phileo had 28,927,016 ordinary shares on issue, and a total of 281 shareholders including a number of shareholders whose holdings were acquired prior to Phileo’s takeover of Renak².

A more extensive overview of Phileo is provided in section 4.

In December 2017 following the sale of properties to Country Garden in July 2017 as outlined above, the Board established an Independent Committee to oversee and evaluate capital return opportunities to shareholders of Phileo. The Independent Committee comprises three members³:

- ▶ Mr Michael Schoenfeld (independent consultant to the Board and Chairman of the Independent Committee);
- ▶ Mr Graham Homes (Chairman of Phileo and independent non-executive director); and
- ▶ Mr Tejas Gandhi (Group Financial Controller and Company Secretary of Phileo).

1.2 Overview of the Proposed Transaction

On 12 July 2018, Phileo received an initial confidential, non-binding and indicative proposal from Mr Rudy Koh (“Mr Koh”), the Managing Director and largest shareholder of Phileo. The Independent Committee evaluated that proposal including obtaining external valuation, legal and tax advice. After negotiation with Mr Koh, a revised and improved proposal was received on 11 September 2018. Following further discussions, the Independent Committee made a recommendation to the Phileo Board, excluding Mr Koh (the “Independent Directors”). On 5 October 2018, Phileo announced that it had entered into an implementation deed (“Implementation Deed”) with Mr Koh in relation to a proposed selective capital reduction of the shares in Phileo and a subsequent delisting and privatisation of Phileo from the ASX (“Proposed Transaction”).

The proposal is for Phileo to undertake a selective capital reduction whereby all shareholders in Phileo (“Phileo Shareholders”), other than Mr Koh, will have the opportunity to participate in the reduction and receive cash consideration for the cancellation of their shares of \$12.66 per Share (the “Cancellation Price”) (the

² Source: Phileo Holdings shareholding report as at 31 July 2018 and ASX announcements

³ Source: ASX announcement, Proposed Capital Return and Delisting, 5 October 2018

Appendix 1 - Independent Expert's Report (continued)



"selective capital reduction"). Shareholders participating in the selective capital reduction are referred to as Exiting Shareholders.

Phileo holds considerable cash reserves following the completion of the first of three phases of a transaction with Country Garden. The selective capital reduction is proposed to be funded primarily through Phileo's existing cash reserves (\$150.3 million as at 31 August 2018) and, if required or otherwise considered appropriate, through additional debt by increasing its existing National Australia Bank ("NAB") facility by up to \$27.2 million.

Phileo has engaged Deloitte Private Pty Ltd ("Deloitte") to provide a summary of the expected tax implications for Australian resident Phileo shareholders that participate in the selective capital reduction. This summary is provided in Section 9 of the Explanatory Memorandum. According to Deloitte, Phileo expects that the cash consideration of \$12.66 per Share payable under the selective capital reduction will comprise a dividend component of \$11.45 per Share (or 90%) and a capital return component of \$1.21 per Share (or 10%). Phileo has engaged Deloitte to apply for a class ruling from the Australian Taxation Office confirming the above split and the ability for a portion of the consideration to be characterised as a frankable dividend such that eligible shareholders will have access to a refundable tax offset ("ATO class ruling"). The ATO class ruling is not expected to be received prior to the shareholder meetings in respect of the Proposed Transaction.

The Proposed Transaction, of which the selective capital reduction is a key element, is subject to a number of preconditions and approvals, including but not limited to:

- ▶ The Independent Directors continuing to unanimously support the Proposed Transaction;
- ▶ Phileo receiving opt-out notices in respect of at least 8.08 million shares, excluding shares controlled by Mr Koh, such that all remaining eligible shareholders may participate in full;
- ▶ A maximum of 10.5 million shares being cancelled;
- ▶ Shareholders approving the resolutions for the selective capital reduction and delisting (noting that different voting eligibility applies for each of the underlying resolutions); and
- ▶ The three foreign residents who have expressed a current intention to opt-out of the selective capital reduction obtaining all necessary clearances (i.e. Foreign Investment Review Board ("FIRB") approval) under the *Foreign Acquisition and Takeovers Act 1975 (Cth)* in order to increase their proportionate percentage shareholding in Phileo above 10%.

The selective capital reduction is also conditional on an independent expert concluding that the selective capital reduction is fair and reasonable to Phileo Shareholders as a whole (or at least reasonable). This report (the "Independent Expert's Report") addresses this matter.

Shareholders may elect to opt-out of the selective capital reduction in respect of all ("Continuing Shareholders") or a portion of their shareholding ("Partially Exiting Shareholders"), however they may only partially opt-out if they will hold at least 10,000 shares in the unlisted Phileo following the Proposed Transaction. Therefore,

- ▶ A shareholder with more than 10,000 shares may elect to either opt-out for their entire shareholding or they may opt-out for only a portion of their shares, provided they will hold at least 10,000 shares in the unlisted Phileo following the Proposed Transaction.
- ▶ A shareholder with less than 10,000 shares may only elect to opt-out for their entire shareholding. They are not able to opt-out for only a portion of their shares.

A Shareholder failing to make an opt-out election will be treated as participating in respect of their entire shareholding.

Under the selective capital reduction there is a cap on the maximum number of shares which can be cancelled of 10.5 million shares, representing approximately 36% of Phileo's current share capital. Mr Koh owns or controls 35.8% of Phileo Shares. We are advised that, as a result of the Independent Committee confidentially canvassing those shareholders with a holding above 1.0 million Shares, three other shareholders have each expressed a current intention to opt-out of the selective capital reduction (two fully, and one partially) and each retain 2.75 million of their Shares in Phileo. Details of these three shareholders were disclosed in Annexure A of Phileo's announcement of 5 October 2018 and are also provided in section 4.4(b) of the Explanatory Memorandum. Each of these three shareholders has received confirmation from FIRB that the selective capital reduction is not a notifiable or significant action for the purposes of the *Foreign Acquisitions and Takeovers Act 1975* and as such they do not require FIRB approval in relation to the selective capital reduction. Each of these shareholders has reserved the right to change their stated current intentions, however the selective capital reduction is conditional on opt-out notices totalling at least 8.08 million shares being received. This condition will be satisfied if each of the three shareholders who has expressed a current intention to opt-out of the selective capital reduction acts consistently with that intention, by lodging an opt-out election before the shareholder meetings to vote on the selective capital reduction.

Based on the shares owned and controlled by Mr Koh, together with the shares held by these three other shareholders intending to opt-out from the selective capital reduction, the maximum 10.5 million shares proposed to be cancelled is sufficient to enable all other shareholders to exit in full if they wish to do so. As a result the selective capital reduction is not expected to be over-subscribed and will not proceed if over-subscribed.

Conditions relating to the maximum number of Shares to be cancelled	
Shareholders	Shares
Shares on issue	28,927,016
Less: Shares of those with current intentions to opt-out from the selective capital reduction	
Mr Koh	(10,348,814)
Puico Enterprises Corp. (controlled by Michael Loke, a Non-Executive director of Phileo)	(2,750,000)
Sovielle Holdings Limited	(2,750,000)
Belandas Group Limited	(2,750,000)
Total remaining Shares in Phileo	10,328,202

Source: ASX announcement, Proposed Capital Return and Delisting, 5 October 2018

Shareholders can choose to not participate in the selective capital reduction by making an opt-out election. The ability to make an opt-out election is available to all shareholders, irrespective of the size of their shareholding. As a result of any deliberate non-participation, shareholders would retain their shares in Phileo after the selective capital reduction, which will then (subject to Shareholder approval) be de-listed from the ASX.

As noted above, under the selective capital reduction, all shareholders of Phileo, apart from Mr Koh (as the proponent) and other Continuing Shareholders, will receive cash consideration of \$12.66 for every share held in Phileo ("Phileo Share" or "Share") that is cancelled. If Phileo Shareholders approve the selective capital reduction resolutions, the cash consideration will be paid to Exiting Shareholders in relation to their cancelled Shares no earlier than 14 days after a copy of the resolutions approving the selective capital reduction has been lodged with the Australian Securities and Investments Commission ("ASIC").

The Independent Directors of Phileo unanimously recommended that all Phileo Shareholders vote in favour of the Proposed Transaction on all resolutions they are eligible to vote on, including the selective capital reduction, and intend to vote all of their shares in Phileo in favour of the Proposed Transaction on all resolutions they are eligible to vote on, in the absence of a superior proposal. The Independent Directors' recommendation and voting intention as outlined above are also subject to the independent expert determining that the selective capital reduction is fair and reasonable to shareholders as a whole (or at least reasonable).

Mr Koh and Phileo have entered into an Implementation Deed to provide an agreed framework to give effect to the Proposed Transaction. The Implementation Deed was released in full to the ASX as Annexure B to Phileo's public announcement of the Proposed Transaction on 5 October 2018. The selective capital reduction

Appendix 1 - Independent Expert's Report (continued)



component of the Proposed Transaction is being undertaken in accordance with Chapter 2J of the *Corporations Act 2001* (Cth) ("Corporations Act" or the "Act"). The key terms and conditions of the Implementation Deed are set out on the prior page. Some of these are subject to exceptions relating to the fiduciary duties of Phileo or its directors. These are discussed further in the Implementation Deed and section 2.5(e) of the Explanatory Memorandum. The delisting component of the Proposed Transaction is being undertaken in accordance with ASX Listing Rule 17.11. The ASX has provided in-principle confirmation to Phileo that the ASX will likely agree to the removal of Phileo from the official list of the ASX, subject to shareholder approval.

Three shareholder meetings to consider and vote on the Proposed Transaction will be held consecutively on the same day on 20 December 2018:

- ▶ First Meeting: A meeting of all Phileo shareholders to vote on a special resolution to approve the selective capital reduction. Mr Koh and all Continuing Shareholders will be eligible to vote their shares in favour or against, whilst all Exiting Shareholders and Partially Exiting Shareholders will only be eligible to vote their shares against (if they vote).
- ▶ Second Meeting: A meeting of all Exiting Shareholders and Partially Exiting Shareholders to vote on a special resolution to approve the selective capital reduction. Mr Koh and Continuing Shareholders will not be eligible to vote.
- ▶ Third Meeting: Subject to the special resolutions of the first two meetings being approved, a meeting of all Phileo Shareholders to vote on the delisting of Phileo. All Phileo shareholders (including Mr Koh and any other Continuing Shareholders) will be eligible to vote. This third meeting will also serve as the 2018 annual general meeting ("AGM") of Phileo shareholders. As announced by Phileo to the ASX on 17 October 2018, ASIC has granted Phileo an extension of time to hold its AGM so that it can be held as part of the series of meetings to vote on the Proposed Transaction.

The notices convening these three meetings are appendices to the Explanatory Memorandum.

The delisting of Phileo will only be put to shareholders to vote if the two selective capital reduction resolutions are approved. The selective capital reduction is not dependent or conditional on the delisting of Phileo being approved.

Based on the current timetable, the Proposed Transaction is expected to be implemented in January 2019.

Further details of the terms and conditions relevant to the Proposed Transaction are included in the accompanying Explanatory Memorandum.

2. Scope of the Independent Expert's Report

2.1 Purpose of the report

The Proposed Transaction is to be undertaken through a selective capital reduction of certain shares in Phileo.

Pursuant to Item 1 of section 256B of the Act a company may reduce its share capital in a way that is not otherwise authorised by law if the reduction:

- (a) Is fair and reasonable to the company's shareholders as a whole; and
- (b) Does not materially prejudice the company's ability to pay its creditors; and,
- (c) Is approved by shareholders under section 256C of the Act.

Item 4 of section 256C of the Act requires that the shareholders of the company are provided with all information known to the company that is material to the decision on how to vote on the resolution. Whilst item 4 of section 256C does not explicitly require an independent expert's report to be prepared, it is common for directors of companies to commission a report so as to present all available information to their shareholders. In addition, ASIC Regulatory Guide 111: *Content of experts reports* ("RG 111") notes that an expert report should usually be prepared in order to satisfy the information requirements of fairness under section 256C(4).

The Directors of Phileo have therefore commissioned Ernst & Young Transaction Advisory Services Limited ("EY" or "us") to prepare an independent expert's report, the purpose of which is to state whether or not, in our opinion, the selective capital reduction is fair and reasonable to Phileo's shareholders as a whole. This independent expert's report will be included in the Notice of Meeting and Explanatory Memorandum being sent to Phileo Shareholders in relation to the selective capital reduction. It is not EY's role to assess whether the selective capital reduction complies with the other conditions of item 1 of Section 256B noted above. In considering the reasonableness of the selective capital reduction, we have also taken into consideration the totality of the Proposed Transaction (including the proposed delisting).

2.2 Meaning of fair and reasonable

The Act does not define the term "fair and reasonable". In preparing this Independent Expert's Report, we have had regard to a number of reference points:

- ▶ The Act.
- ▶ ASIC Guidance Note RG 111 – which provides guidance in the preparation of independent expert's reports required in a range of transactions, including selective capital reductions.
- ▶ The Explanatory Memorandum to the *Company Law Review Bill 1997*.
- ▶ Case law – specifically *Elkington v Costa Exchange Limited* (Supreme Court of Victoria, 5 October 2011).
- ▶ Industry practice – the approach taken by other independent experts in preparing Independent Expert's Reports in relation to selective capital reductions.

Clause 8 of RG 111 states that a control transaction is one where a person "...acquires, or increases, a controlling stake in a company...". This clause goes on to confirm that a control transaction can be achieved through a number of legal mechanisms – including a selective capital reduction.

Clause 9 of RG 111 emphasises that an expert should focus on the substance of a control transaction rather than the legal mechanism used to effect it.

Appendix 1 - Independent Expert's Report (continued)



The Proposed Transaction will have the effect of increasing Mr Koh's shareholding in Phileo from 35.78% to a maximum of 56.16% (assuming the maximum of 10.5 million shares are cancelled). As a result Mr Koh will become the majority shareholder in Phileo. Given this, and bearing in mind also the proposed plans to then delist Phileo, we consider that the Proposed Transaction is a control transaction as outlined in Clause 8 of RG 111, as outlined above.

Clauses 10 to 17 of RG 111 outline how "fair and reasonable" should be assessed in the context of takeover bids but do not specifically outline how "fair and reasonable" should be assessed in the context of a selective capital reduction. However, Clauses 24 to 29 then provide guidance that other forms of control transactions, including selective capital reductions, should be analysed as if they were a takeover bid – in other words, consistent with Clause 10.

As a result of the above, we have assessed the selective capital reduction consistent with Clause 10 of RG 111. Specifically, we have separately considered:

- ▶ Whether the selective capital reduction is fair; and
- ▶ Whether the selective capital reduction is reasonable.

Under RG 111, while generally considered in the context of a takeover bid, the guidance makes it clear that "fair" and "reasonable" are two distinct concepts. Under this approach:

- ▶ an offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer; and
- ▶ an offer is "reasonable" if it is fair. It might also be "reasonable" if, despite being "not fair", the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

This approach is consistent with most recent Independent Expert's Reports in relation to selective capital reductions. However, we do recognise that an alternative approach (as contemplated in the Independent Expert's Report that was relevant in the case in *Elkington v Costa Exchange Limited* (Supreme Court of Victoria, 5 October 2011), would be to consider "fair and reasonable" as a single compound phrase. Whilst we consider this example less relevant in the case of the Phileo selective capital reduction given we consider this to be a control transaction, we have nonetheless also considered whether this alternative approach would have changed our opinion.

RG 111.11 states that the comparison of the value of the consideration and the value of the securities that are the subject of a takeover bid is to be made assuming 100% ownership of the target and it is "inappropriate to apply a discount on the basis that the shares being acquired represent a minority or portfolio parcel of shares". In this instance, if the value of the consideration being offered to Phileo's shareholders (\$12.66) per Share is the same or greater than the fair value of one share on a controlling interest basis, then the proposed transaction would be considered to be fair for the Existing Shareholders and Continuing Shareholders.

RG 111.78 provides that an independent expert should usually give a range of values for the securities that are the subject of the offer. If the value of the consideration offered falls within the range of values of the securities, the offer is considered to be fair.

2.3 Basis of evaluation

We have assessed whether the selective capital reduction is fair by comparing the consideration being offered to Phileo Shareholders to the fair value of Phileo Shares. If the consideration offered for one Phileo Share is the same or greater than the fair value of one Phileo Share, then the selective capital reduction would be considered to be fair.

RG 111 provides that an offer may be “reasonable” despite not being “fair”, if the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of a superior offer before the close of the offer period.

In considering whether the selective capital reduction is reasonable to the Phileo Shareholders as a whole, we considered likely advantages and disadvantages of the selective capital reduction, including:

- ▶ The prices at which Phileo’s shares have recently traded on the ASX.
- ▶ The liquidity of Phileo’s shares, referencing volumes traded on the ASX over the past few years.
- ▶ The premium, if any, that Mr Koh may be offering in consideration for participating in the selective capital reduction.
- ▶ The total shareholding of Mr Koh.
- ▶ The intentions of the Phileo Board of Directors, other than Mr Koh.
- ▶ The stated current intentions of other major shareholders.
- ▶ The strategic rationale for the Proposed Transaction.
- ▶ The respective shareholder base of Phileo before and after the selective capital reduction and the collective interest held by the Continuing Shareholders in Phileo should the selective capital reduction be approved.
- ▶ The rights of the Continuing Shareholders after the selective capital reduction.
- ▶ The potential impact on the value of Phileo Shares, once de-listed and with Mr Koh as the controlling shareholder.
- ▶ The alternatives to the selective capital reduction, including the likelihood of future exit events and the likelihood of an alternative superior offer being made to shareholders.
- ▶ The financial position and solvency of Phileo, including the factors set out in RG 111.26, given the consideration is intended to be primarily funded by way of cash.
- ▶ The likely implications for Phileo Shareholders if the proposed selective capital reduction is not approved.
- ▶ Any costs and risks associated with the selective capital reduction.
- ▶ Other advantages and disadvantages that the Phileo Shareholders as a whole should consider in assessing whether to approve the selective capital reduction.

Given the requirement under the Act for the independent expert to consider whether the selective capital reduction is “*fair and reasonable to shareholders as a whole*” we have considered the perspectives of several groups of shareholders as follows:

- ▶ *Exiting Shareholders* – the shareholders who choose to, or are obliged to as a result of inaction, participate in the selective capital reduction and accordingly see their shareholding in Phileo reduced in full under the selective capital reduction.
- ▶ *Continuing Shareholders* – the shareholders who elect to opt-out of the selective capital reduction entirely, including Mr Koh, and two of the three additional substantial shareholders who have each indicated their intention to retain 2.75 million Shares.

Appendix 1 - Independent Expert's Report (continued)



- ▶ **Partially Exiting Shareholders** – the shareholders who elect to opt-out of the selective capital reduction for a portion of their shareholding only, and therefore remain a Shareholder in Phileo in relation to a portion of their shareholding and thus see their shareholding in Phileo reduce. This includes one of the three additional substantial shareholders who have each indicated their intention to retain 2.75 million Shares.

In undertaking our assessment of the selective capital reduction, we have had regard to a number of references including ASIC Regulatory Guidelines, in particular RG 111 and Regulatory Guide 112, *Independence of Experts*, and relevant market valuation guidelines and generally accepted practices in the preparation of expert reports. This Independent Expert's Report has also been prepared in accordance with APES 225 *Valuation Services (revised)* issued by the Accounting Professional & Ethical Standards Board Limited in May 2012. In accordance with APES 225, this Independent Expert's Report is a valuation engagement, which is defined as *"an engagement where the valuer is free to choose the valuation approaches, methods and procedures as appropriate to the circumstances. The estimate of value that results is a conclusion of value."*

A glossary summarising the abbreviations we have used in this Independent Expert's Report is contained in Appendix F - *Glossary*. All amounts are in Australian dollars (" \$" or "AUD") unless otherwise stated.

2.4 Fair value

We have assessed the value of a Phileo Share on a fair value basis. Fair value in this context is considered to be:

"The price at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting at arm's length".

Fair value does not incorporate any special value. Special value is the additional value, which may be in the form of synergistic benefits, which may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

2.5 Independence

Prior to accepting this engagement, we considered our independence with respect to Phileo and Mr Koh with reference to ASIC Regulatory Guide 112, *Independence of Experts*. In our opinion, we are independent of Phileo and Mr Koh.

EY Transaction Advisory Services Limited and EY have not provided any services to Phileo or Mr Koh in relation to the selective capital reduction, the Proposed Transaction or in relation to any other prior matter.

2.6 Limitations and reliance on information and specialist reports

We have considered a number of sources of information in preparing our Independent Expert's Report and arriving at our opinion. These sources of information are detailed in Appendix E – *Sources of information*.

The information provided to us for the preparation of this Independent Expert's Report has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the selective capital reduction is fair and reasonable for Phileo Shareholders. We also held discussions with Mr Michael Schoenfeld, independent consultant to the Board and Chairman of the Independent Committee, and Mr Tejas Gandhi, a member of the Independent Committee and Group Financial Controller and Company Secretary of Phileo, in relation to the Proposed Transaction, as well as the operations, financial position and operating results of Phileo. However, we do not warrant that our enquiries have identified all of the matters that an audit, an extensive examination or tax investigation might disclose.

In particular, we have had regard to a number of independent property valuation reports prepared by independent professionally qualified valuers engaged by Phileo or separately by Mr Koh. These valuations were either undertaken for financial reporting purposes or under the instructions of Mr Rudy Koh as a precursor to him preparing the Proposed Transaction, at various dates over the last nine months.

We note that our review does not imply, and nor should it be construed that, we have subjected the valuations to any form of audit or due diligence. The values ascribed to Phileo's properties by us in this Independent Expert's Report should not be regarded as being a substitute for the values ascribed to such properties by Phileo for the purposes of preparing its financial statements, which are determined in accordance with Phileo's valuation policy.

Preparation of this Independent Expert's Report does not imply that we have, in any way, audited the accounts or records of Phileo. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles including the Australian equivalents to International Financial Reporting Standards and International Financial Reporting Standards, as applicable.

In forming our opinion we have also assumed that:

- ▶ Matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed.
- ▶ The assessments by Phileo and its advisers with regard to legal, regulatory, tax and accounting matters relating to the transaction are complete and accurate.
- ▶ The information set out in the Explanatory Memorandum and accompanying documents to Phileo Shareholders is complete, accurate and fairly presented in all material respects.
- ▶ The publicly available information relied upon by us in our analysis was accurate and not misleading.
- ▶ The selective capital reduction will be implemented in accordance with the terms provided in the Explanatory Memorandum.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue. Our opinion is also based on economic, market and other external conditions prevailing at the date of this Independent Expert's Report. These conditions can change over relatively short periods of time and these changes can be material.

The statements and opinions given in this Independent Expert's Report are given in good faith and in the belief that such statements and opinions are not false or misleading. This Independent Expert's Report should be read in the context of the full qualifications, limitations and consents set out in Appendix A of this Independent Expert's Report.

We provided draft copies of sections of this Independent Expert's Report to the Independent Directors and management of Phileo, and Mr Koh for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Amendments made as a result of this review have not changed the methodology or conclusions reached by us.

2.7 Shareholder decisions

This Independent Expert's Report has been prepared specifically for Phileo Shareholders at the request of the Independent Directors. This Independent Expert's Report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of Phileo Shareholders. The decision to approve or not approve the selective capital reduction is a matter for individual shareholders. Phileo Shareholders should consider the advice in the context of their own circumstances, investment objectives, tax position, preferences, risk profiles and expectations of future market conditions. Phileo Shareholders should also have regard to the Explanatory Memorandum prepared by the Independent

Appendix 1 - Independent Expert's Report (continued)



Directors and management of Phileo in relation to the Proposed Transaction. Phileo Shareholders who are in doubt as to the action they should take in relation to the selective capital reduction should consult their own professional adviser.

Ernst & Young Transaction Advisory Services Limited has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this Independent Expert's Report.

3. Industry overview

Phileo's real estate holdings can be categorised into the following markets:

- ▶ The Melbourne CBD office market;
- ▶ The Australian and Victorian hotel market; and
- ▶ The Melbourne residential development market.

These are discussed separately below.

3.1 Melbourne CBD office market

The office property sector comprises entities engaged in the ownership and management of office property such as the CBD, suburban and regional office buildings. The quality of office properties is distinguished by investment grade – defined by the Property Council of Australia ("PCA") as Premium, A and B grade.

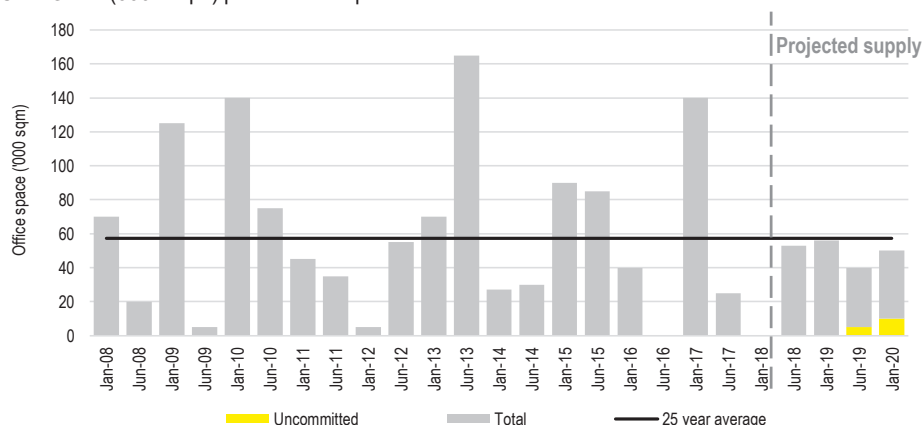
3.1.1 Key drivers

Supply & Development

- ▶ Subdued office supply in Melbourne's CBD has contributed to steadily declining vacancy rates over the past four years. Over the next three years however, approximately 450,000 square metres ("sqm") in new supply is expected to be added to Melbourne's CBD office market⁴. This is the largest increase in supply in over 20 years⁵. 2018 will see three new office developments completed: 664 Collins Street, One Melbourne Quarter, and Melbourne Quarter Tower Five. 2019 is expected to see the completion of the developments at 276 Flinders Street, 839 Collins Street, 271 Spring Street, and 447 Collins Street.

Gross New Supply & Commitment

CBD Office (000's sqm) per six month period



⁴ Source: Savills, "Briefing – Melbourne CBD Office", August 2018

⁵ Source: CBRE, "Marketview – Australia Office, Q2, 2018", August 2018

Appendix 1 - Independent Expert's Report (continued)

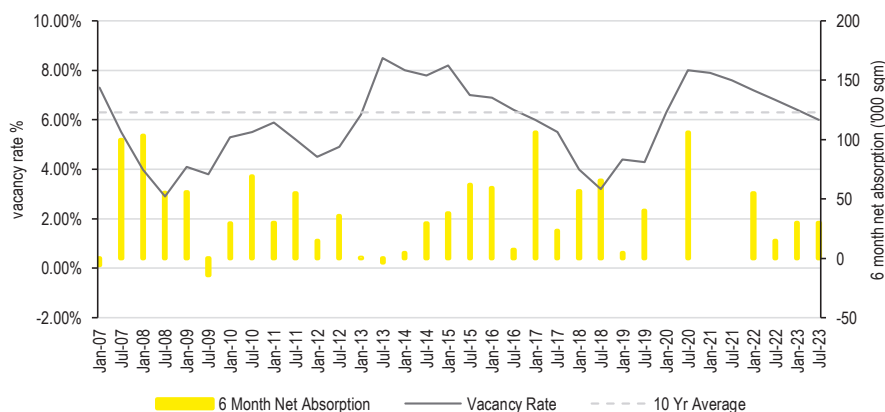


- ▶ Looking further forward, a total net lettable area ("NLA") of 328,000 sqm is under construction and expected to be delivered from 2020, encompassing 311 Spencer Street, 297 Collins Street, 80 Collins Street, 130 Lonsdale Street, 477 Collins Street, and 405 Bourke Street. A further 69,880 sqm of speculative NLA may be developed⁶.
- ▶ Highlighting the strength of demand of the office market in Melbourne are the levels of tenancy pre-commitments for the current supply, which are currently 100% for completions in 2018, 75% for 2019 and 53% for 2020. It is further noted that a number of these major pre-commitments will have no corresponding backfill, i.e. it is expected that the vacant space created will be re-let, due to tenant expansions and relocations from the suburban areas⁵.

Demand

- ▶ The vacancy rate for Melbourne CBD offices has continued to decline from 9.1% in January 2015 to 3.6% as at July 2018, the lowest Melbourne vacancy rate in a decade and well below the long-term average. Melbourne's vacancy is now well below that of Sydney at 4.6%⁶. Melbourne's tight vacancy rate can be attributed to several years of elevated net absorption rates underpinned by strong tenant demand, reflecting a well performing economy, a competitive employment market, and consequential continued demand for office space. The PCA shows a positive net supply of 26,079 sqm over the six months to July 2018 and net absorption over the same period of 65,392 sqm. This illustrates that demand is far outpacing supply.

Vacancy rates vs. net absorption



Source: PCA OMR July 2018

- ▶ All office grades recorded a decline in vacancy over the six months to July 2018.
- ▶ Driving the decline in vacancy rates has been strong demand, driven by population growth and above trend growth in white collar employment (in addition to the minimal supply additions over recent years). It is predicted that an additional 10,000 white collar jobs will be created in the next two years, which equates to approximately 112,000 sqm of additional office space⁷. The PCA states there to be currently 163,000 sqm of vacant office across the whole of the Melbourne CBD market and therefore the take up of new supply is expected to be strong. Victoria ("VIC") holds the largest year-on-year growth on the eastern seaboard for professional office job advertisements⁸.

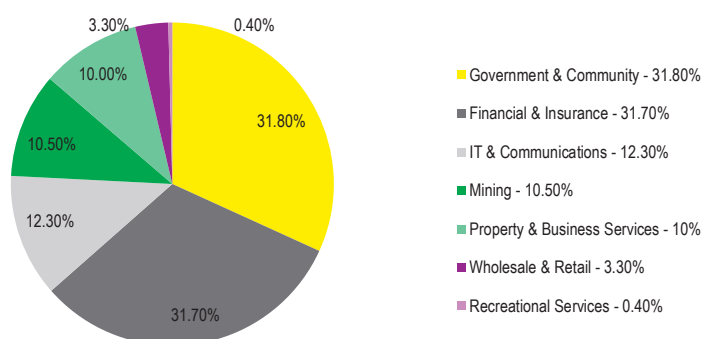
⁶ Source: PCA, "2018 Office Market Report", July 2018

⁷ Source: Colliers International, "CBD Office, Second Half 2018", August 2018

⁸ Source: Savills, "Briefing – Melbourne CBD Office", August 2018

- ▶ According to Colliers International, the majority of enquiries for Melbourne office accommodation this year have been from business services, education and training, State Government, information technology and insurance sectors. The education sector has been a significant driver of leasing activity with major lease commitments recently agreed in the CBD to Monash College, Melbourne University and La Trobe University. Strong demand has also been experienced in City Fringe office locations and this has had a flow on impact for the Melbourne CBD.

Leasing activity by tenant type (> 1,000 sqm)



Source: Savills Research

3.1.2 Key metrics

Rental growth has continued to increase through 2018. On average, net face rents have increased by 8.8% over the 12 months to June 2018⁴. Average net effective rents across premium, A and B grade buildings in Melbourne CBD are now at their highest level in more than a decade⁴.

Office metrics at July 2018				
Melbourne CBD office	A grade		B grade	
	Low	High	Low	High
Rental – Net Face (\$/sqm)	520	640	455	485
Incentive (%)	24	28	22	26
Outgoings (\$/sqm)	155	170	122	156
Typical Lease Term	5	8	3	7
Yield (% Net Face Rental)	4.95	5.40	5.00	5.70
Capital Values (\$/sqm)	8,000	12,000	6,000	10,000

Source: Savills Research

3.1.3 Capital markets

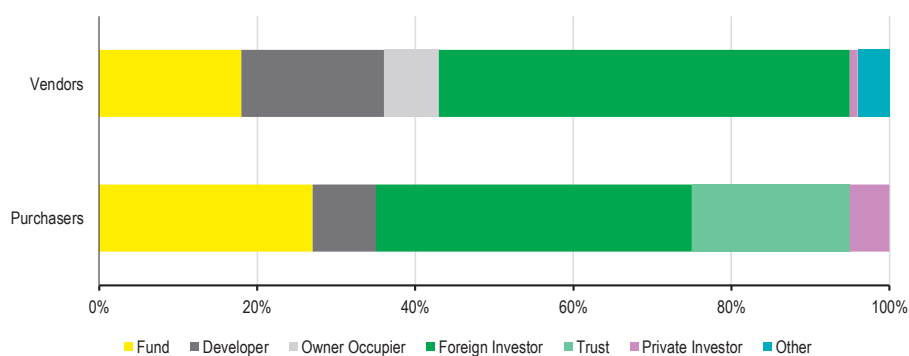
Constrained supply of investment grade product and continued strong demand from both domestic and offshore investors has seen prime and secondary grade yields compress over the past 12 months by 26 basis points and 65 basis points respectively⁷. This continued yield compression, combined with the aforementioned rental growth has translated into continued capital growth over recent years. Average capital values for A grade properties have risen 5.3% on a year-on-year basis (as at June 2018)⁴. There are signs that the rate of yield compression is beginning to slow however, with no change in average A grade yields since September 2017⁴.

Appendix 1 - Independent Expert's Report (continued)



Australian funds and trusts have been the dominant purchasers of these properties over the previous 12 months, accounting for over half of transactions, and foreign investors accounting for 38% of Melbourne acquisitions⁴. Over the past 10 years, Australian funds and trusts have generally accounted for approximately 35% of office acquisitions in Melbourne CBD (of at least \$5 million). Foreign investors were the most active group, in terms of divestment capital in Melbourne, being responsible for almost 60% of assets sold over the same period.

Vendor and purchaser type for Melbourne CBD property acquisitions over the last 10 years (> \$5 million)



Source: Savills Research

3.1.4 Outlook

The Melbourne office market is currently experiencing historically low vacancies, increasing rents and strong demand for prime CBD office space.

- ▶ White collar employment has been forecasted by Knight Frank to increase by 2.9% per annum over the next three years, therefore it is likely demand will remain high⁹. This aforementioned growth is underpinned by the thriving Professional Services and Government Administration industries, as seen through the high number of public infrastructure projects currently underway and in the pipeline.
- ▶ This demand will continue to be met by significantly constrained supply in the Melbourne CBD, with over 76% of new developments already being pre-committed as at March 2018.
- ▶ However, although the vacancy rate is forecast to remain low for the 2018-2019 period, from 2020 and beyond it is anticipated that the vacancy rate will gradually increase as new developments and backfill spaces are steadily added to the market. Until this time, rents will likely keep increasing. Prime and secondary rents are forecasted to grow by 7% and 5% respectively⁹.

The capital markets sector will continue to see activity driven by local and global institutions, as well as pension funds.

- ▶ New-generation office buildings such as Mirvac's 477 Collins Street and 664 Collins Street, will remain highly sought-after assets to the majority of purchasers.
- ▶ Colliers have suggested that the office market is edging towards the bottom of the yield cycle, with further compressions through to 2019⁷.

⁹ Source: Knight Frank – Melbourne CBD Office Market Overview, March 2018

- Investment volumes are unlikely to match the high levels of 2017 however, Knight Frank indicate that this is due to scarcity of investment opportunities rather than diminishing investor appetite⁹.

3.2 Australian and Victorian hotel sector

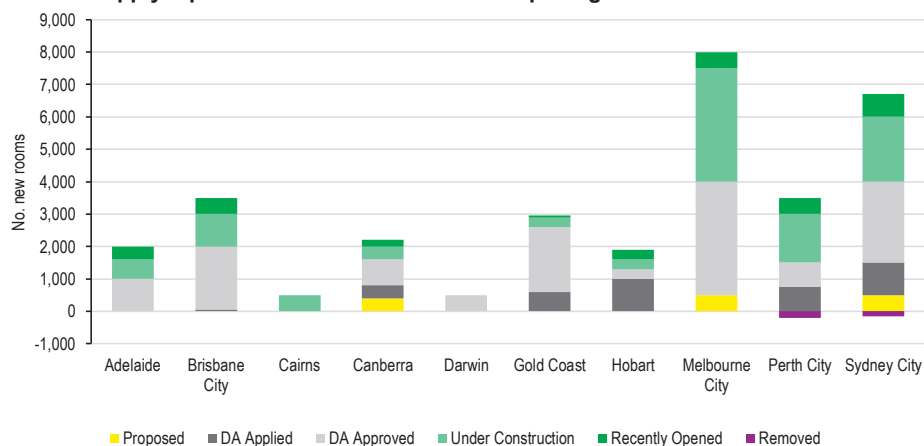
3.2.1 Hotel market overview

Australia's hotel industry has experienced significant growth in recent years, driven largely by the robust growth in international arrivals, mostly from countries in the Asia-Pacific region such as China. International visitor arrivals recorded 7.5% growth from June 2017 to June 2018, reaching a record high of 8.3 million¹⁰. Domestic overnight trips increased by 6.7% to 97.8 million across the same period. Spending by international visitors in the year to March 2018 was \$29 billion, up 6.7% in the year to March 2017, while the overnight spend on domestic trips increased 5.5% to \$65.1 billion¹⁰.

The broader Australian hotel market achieved an annual revenue per available room ("RevPAR") growth of 3.2% reaching \$144 for the year ending June 2018. The only Australian capital cities posting negative RevPAR growth over the same period were Perth (RevPAR declined by 9%), Hobart (RevPAR declined by 4.2%) and Melbourne (RevPAR declined by 0.3%). Over the same period, the national Average Daily Rate ("ADR") increased 1.7% over the same period to reach \$188¹⁰, while national occupancy achieved annual growth of 1.4 percentage points reaching 76.4% for the year ended June 2018.

The chart below shows the number of new rooms that are expected to enter into each of the major markets in the medium term (i.e. opening before December 2022). Markets such as Hobart, Melbourne and Perth have large supply pipelines of new rooms, which may have an unfavourable effect on their performance, potentially leading to a declining RevPAR¹⁰.

National Supply Pipeline – Number of new rooms opening before December 2022



Source: CBRE Research Q2, 2018

¹⁰ Source: CBRE Marketview – Australian Hotels Q2, 2018

Appendix 1 - Independent Expert's Report (continued)



3.2.2 Melbourne market

Melbourne observed a decrease in RevPAR of 0.3% in the 12 months to June 2018. Melbourne recorded a decrease in occupancy rates of 0.5% over the same period as an influx of new hotel supply and generic apartment product entered the market¹⁰. The Melbourne hotel market remained in a relatively neutral position for the year ended June 2018, with the decrease in occupancy offset by the 0.2% increase in ADR.

Key Melbourne market indicators				
	ADR	RevPAR	Occupancy	Comments
As at June 2018	\$185	\$153	82.8%	0.5% decrease in occupancy, offset by 0.2% increase in ADR. Combined RevPAR decrease of 0.3%

Source: CBRE Research, Q2 2018

The suburban Melbourne and regional Victorian hotel markets are not deep markets, nor are they well reported. Based on our review of published market reports (i.e. CBRE, Savills, Deloitte and Dransfield) reporting of the hotel sector is generally focussed on the CBD capital city markets. The suburban and regional hotel sectors are generally dominated by locally operated motels and serviced apartments, rather than hotels, with limited reporting on this sector outside of the ABS.

The Victorian Accommodation Sector Performance results based on the ABS Survey of Tourist Accommodation indicated that in the year ending June 2016, there were increases across several key indicators for Victorian Hotels, Motels and Serviced Apartments ("HMSA") of 15 rooms or more. Takings increased 5.3% year-on-year to reach \$2.2 billion, while occupancy rates increased by 2.6 percentage points to 71.0%. Yield per room night occupied decreased slightly by 0.8% to \$176.¹¹

Increases for Melbourne drove much of the growth for Victoria. In the year ending June 2016, occupancy rates in Melbourne HMSA 15+ increased 3.2 percentage points to 81.5%, while takings increased 5.1% to \$1.8 billion. However, yield per room night occupied decreased 1.1% to \$186 per night. Comparatively, regional Victoria also experienced increases across key indicators. Takings increased 5.8% year-on-year to reach \$420 million, while occupancy rates increased by 1.5 percentage points to 50.3%. Yield per room night occupied increased by 0.3% to \$142 per night.

3.2.3 New development activity for Melbourne

Melbourne has experienced strong supply growth over the last decade, and continues to display moderate construction and proposal activity. Unlike any other Australian city, Melbourne has a high amount of near-city residential apartments in the development pipeline, creating additional shadow stock pressure. The demand outlook has improved, which in turn has partly induced an increase to supply expectations, which are still expected to be fully absorbed over time.

Development is expected to continue over the coming years and will fuel new supply within the Australian hotel market. Melbourne is home to the majority of this new supply, and currently has over 50 projects underway¹². This high level of supply is, for the moment, being met by demand, which is considered a positive outcome.¹³ Based on research conducted by Savills into the hotel pipeline for Melbourne CBD, it is unlikely that all projects will proceed, and a significant number of planned or proposed projects may not materialise¹⁴.

Dransfield Hotels and Resorts conducted a supply forecast of hotel rooms to 2026 and have assessed that approximately 9,400 new rooms will enter the Melbourne market over the period (40% of current stock) at an average annual growth rate of 4.3%¹⁵, while CBRE is forecasting supply growth in the medium term to financial year 2020 ("FY20") is expected to average 5.1% p.a.¹³.

¹¹ Source: ABS Survey of Tourist Accommodation June 2016

¹² Source: Deloitte Access Economics – Tourism and Hotel Market Outlook – Edition 1, 2018

¹³ Source: CBRE Research, Q2 2018

¹⁴ Source: Savills Hotels – Market Report February 2018

3.2.4 Forecast Melbourne market metrics

The industry is sensitive to changes in the number of international visitor nights spent in Australia. When inbound tourism activity in Australia increases, demand for hotels typically rises. The exchange rate, availability, price of international flights and economic development in overseas countries all influence inbound tourism. The number of international tourist visitor nights is expected to increase over the coming years providing an opportunity for industry expansion.

Current development activity									
Year	Rooms	Supply % change	Demand % change	ARR	% change	RevPAR	% change	\$2017 Real RevPAR	Occupancy
FY18	21,478	4.10%	3.50%	\$196.98	0.00%	\$167.13	-0.60%	\$163.05	84.80%
FY19	22,293	3.80%	3.80%	\$202.89	3.00%	\$172.15	3.00%	\$163.38	84.90%
FY20	23,965	7.50%	6.00%	\$206.95	2.00%	\$173.15	0.60%	\$159.85	83.70%
Avg FY18-20	-	5.10%	4.40%	-	1.70%	-	1.00%	\$162.09	84.50%
FY21	25,904	8.10%	7.10%	\$211.08	2.00%	\$174.99	1.10%	\$157.15	82.90%
FY22	26,758	3.30%	3.70%	\$217.42	3.00%	\$180.94	3.40%	\$158.07	83.20%
FY23	27,960	4.50%	3.80%	\$225.03	3.50%	\$186.04	2.80%	\$158.09	82.70%
FY24	28,739	2.80%	3.80%	\$235.15	4.50%	\$196.32	5.50%	\$162.29	83.50%
FY25	29,314	2.00%	3.60%	\$245.73	4.50%	\$208.38	6.10%	\$167.56	84.80%
FY26	30,047	2.50%	3.60%	\$258.02	5.00%	\$221.14	6.10%	\$172.98	85.70%
Avg FY21-26	-	3.90%	4.30%	-	3.80%	-	4.20%	\$162.69	83.80%
Total Forecast Avg FY18-26	-	4.30%	4.30%	-	3.10%	-	3.10%	\$162.49	84.00%

Source: CBRE Research, Q2 2018

Annual demand growth of 4.3% is forecast for hotels within metropolitan Melbourne over the long term (i.e. FY18 to FY26), while the medium term demand growth (i.e. FY18 to FY20) is expected to average 4.4% p.a. The anticipated supply growth in Melbourne has been delayed, with the majority of new rooms expected to come online in FY20 and FY21. However, a lack of growth in ADR coupled with tightened lending could see the delay of some development proposals¹⁵.

It is notable that although there is a large number of net supply additions expected within the forecast period, occupancy is anticipated to remain relatively steady throughout the period. Furthermore, long term expectations portray demand growth absorbing the majority of new supply, in addition to high occupancy facilitating rate growth recovery. Based on this, annual RevPAR growth of 3.1% is expected for Melbourne city hotels over the long term (i.e. FY18 to FY26).

3.2.5 National transaction activity

Despite a recent lack of stock, transaction activity demonstrates that buyer interest has remained. This appears to be driven by foreign investors continually recognising Australia as a resilient market, where high quality assets will receive considerable interest if placed on the market. Hotel assets continue to be tightly held investments. From January 2018 to June 2018, passing national yields tightened from 6.8% down to 6.1%¹⁶.

¹⁵ Source: Dransfield Hotel & Resorts – Hotel Futures 2018

¹⁶ Source: Savills Hotels – June Quarterly Update, August 2018

Appendix 1 - Independent Expert's Report (continued)



Major Transactions since February 2018					
Date	Hotel	State	Approximate price	Price per room (\$)	No. of rooms
Jun-18	Watermark Hotel Brisbane	QLD	\$10,299,956	\$109,574	94
Jun-18	Quest Springfield Central	QLD	\$24,324,972	\$296,646	82
Jun-18	Hotel Urban Brisbane	QLD	\$30,999,936	\$173,184	179
May-18	Bell City Hotel	VIC	\$157,000,392	\$189,614	828
May-18	Metro Hotel Tower Mill	QLD	\$9,999,982	\$243,902	41
Mar-18	Watermark Hotel & Spa Gold Coast	QLD	\$90,000,004	\$186,722	482
Mar-18	Breakfree on Clarence Hotel	NSW	\$29,999,996	\$576,923	52
Mar-18	Ibis Styles Adelaide Grosvenor	SA	\$35,900,095	\$146,531	245
Mar-18	Holiday Inn City Centre Perth	WA	\$64,999,996	\$359,116	181
Mar-18	Amaroo Hotel	NSW	\$68,629,227	\$379,167	181
Mar-18	Corus Grosvenor Hotel	SA	\$20,000,140	\$68,966	290
Feb-18	Eurong Beach Resort	QLD	\$17,099,972	\$137,903	124
Feb-18	Kingfisher Bay Resort & Village	QLD	\$25,900,040	\$170,395	152
Feb-18	Emporium Brisbane	QLD	\$36,999,990	\$362,745	102
Feb-18	Quest Griffith Apartments	NSW	\$15,250,020	\$224,265	68

Source: Savills, March/June Quarterly Update 2018

Savills Research states that Chinese and Singaporean investors were responsible for close to 60% of hotel purchases in Australia in 2014 and nearly 50% in 2015¹⁷. In the second quarter of 2018 ("2Q18"), hotel sales amounted to approximately \$270 million. Interest from these Asian regions appears to have fuelled competitive pricing in the market. However, there is uncertainty in relation to the impact of greater restrictions being placed upon overseas investors following an increased focus on lending reform as a result of the recent banking royal commission. It is not yet evident whether this will have a major impact due to a lack of hotel transaction opportunities in recent years.

3.3 Melbourne residential development

3.3.1 Melbourne residential market overview

The Melbourne residential market is influenced by population and economic activity, which also underpins the land development market, across both established and growth area suburbs.

According to the Australian Bureau of Statistics ("ABS") data, Victoria has continued to experience high levels of population growth (i.e. 2.3% for the year ended 31 December 2017) exceeding the national average of 1.6%¹⁸. Jones Lang LaSalle Incorporated ("JLL") research suggests that strong economic and population growth has continued to support Melbourne's residential market, due to low interest rates, an unemployment rate that is declining and below the national rate, and improving employment growth which is exceeding the national rate¹⁹.

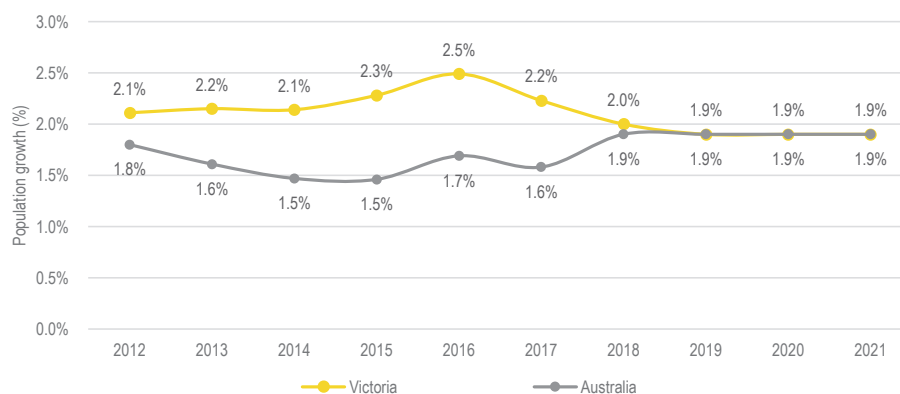
The ABS has noted in its population forecasts that beyond 2018 the population growth for Victoria and Australia as a whole is anticipated to moderate to a consistent level of c.1.9%¹⁸.

¹⁷ Source: Savills Hotels, Market Report February 2018

¹⁸ Source: ABS, Australian Demographic Statistics 31010 & Population Projections 32220

¹⁹ Source: Melbourne Residential Key Highlights September 2018

Population growth – Victoria vs Australia



Source: ABS, Australian Demographic Statistics 31010 & Population Projections 32220

Despite the current low Australian cash rate and strong employment levels, the local Melbourne residential land market has begun to experience a softening in buyer sentiment, following tightening lending requirements. JLL reported that annual sales volumes for houses and units (new and existing) fell 14% and 16.3% for houses and units respectively over the year to May 2018²⁰. However, JLL states that first home buyer incentives and favourable owner occupier lending rates by the big banks continue to drive demand in many affordable suburbs in Melbourne's growth areas.

The Real Estate Institute of Victoria reported that, in the second quarter of 2018, the median house price for metropolitan Melbourne was \$840,000. Whilst evidencing a 0.6% decline from the previous quarter, this reflects an annual median house price increase of c.3% from 2Q17.

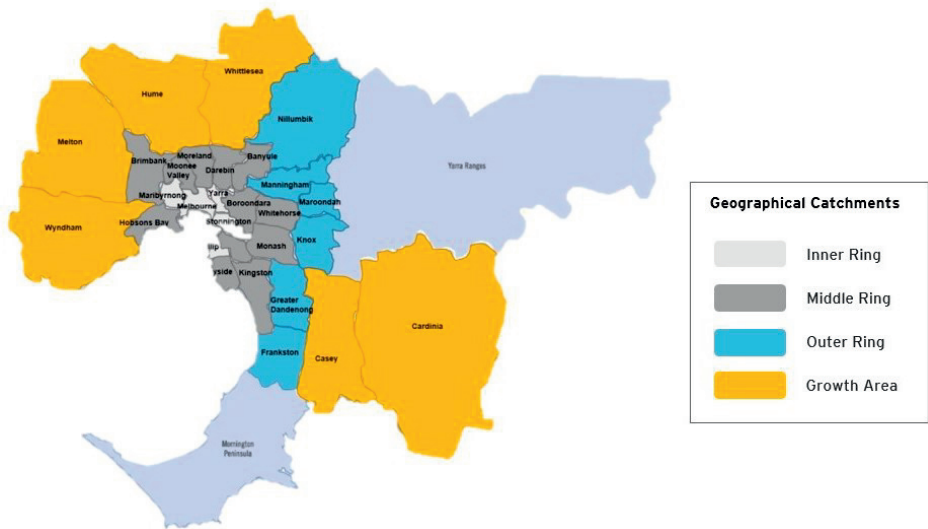
3.3.2 Melbourne greenfield market overview

Melbourne's growth areas are identified across six designated core growth corridors on the outer suburban fringe of metropolitan Melbourne encompassing the north (Hume, Whittlesea growth corridor), west (Wyndham and Melton growth corridor) and the south east (Casey & Cardinia growth corridor).

²⁰ Source: JLL, Melbourne Residential Key Highlights September 2018



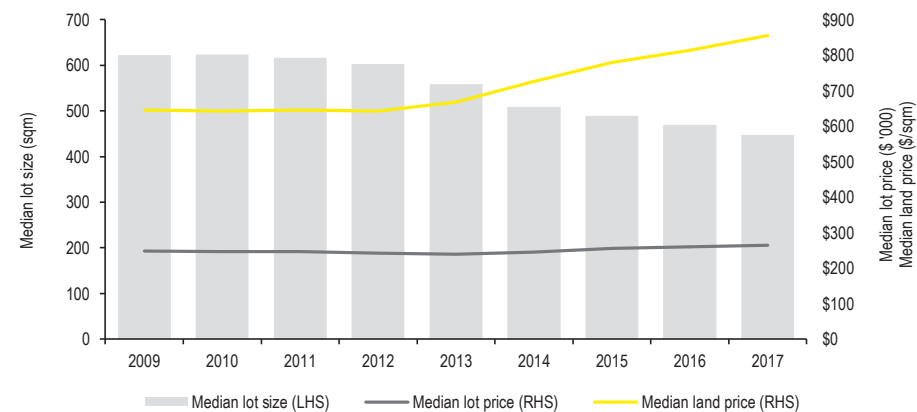
Melbourne growth areas



Source: EY Transaction Advisory Services Limited analysis 2018

The Urban Development Institute of Australia (“UDIA”) reported in the ‘State of the Land Report 2018’, that the Melbourne greenfield market continued to outperform other Australian capital cities over the 2017 calendar year, providing approximately 40% of all lots released nationally with a median lot price at \$304,000 per lot (at the end of the December 2017 quarter). The UDIA reported median lot price growth across Melbourne of 29% across the 2017 calendar year.²¹ This growth is depicted in the chart below published by the UDIA.

Melbourne growth area – Median lot size and price, and land price (\$/sqm)



Source: UDIA 2018

²¹ Source: UDIA, State of the Land Report 2018

Further the UDIA reported a growth in lot sales activity of 3.8% across calendar year 2017 with 23,750 lot sales achieved. This is moderated by commentary that Melbourne had a restricted level of supply over the second half of calendar year 2017 with six months' supply of average trading stock. According to the UDIA, population increase in recent years suggests that the development industry needs to deliver between 22,000 and 24,000 lots per annum across the Melbourne growth corridors, which is higher than the long term industry average stated by the UDIA of 15,000 lots.

In comparison, ABS data on building approvals for growth areas demonstrates increased demand reflecting a 10% increase in building approvals for houses from June 2017 to June 2018 and a decline in apartment building approvals²². This is reflective of the low volume of apartment built form across growth areas, compared to close to 95% growth in apartment building approvals across the middle ring suburbs of Melbourne.

It is reported by the UDIA that the western growth corridor provides the bulk of sales activity across metropolitan Melbourne growth areas, with almost 7 of every 10 lots sold located in this corridor, which incorporates the municipalities of Wyndham and Melton.

The UDIA reported sales activity prepared by the National Land Survey Program year on year, set out in the table below.

UDIA State of the Land Report (National Land Survey Program) - Summary table					
Year	Annual net lot sales number	Annual number of active estates	Median Lot Size (sqm)	Annual median lot price	Annual median land price (per sqm)
2009	13,713	100	514	\$171	\$333
2010	14,337	90	474	\$205	\$432
2011	8,058	117	448	\$220	\$490
2012	6,066	141	448	\$207	\$461
2013	8,823	151	447	\$198	\$442
2014	12,616	153	445	\$204	\$458
2015	19,835	154	429	\$212	\$493
2016	22,876	138	414	\$226	\$546
2017	23,750	123	405	\$281	\$692

Source: UDIA, State of the Land Report 2018

3.3.3 Melbourne Greenfield market outlook

The UDIA has identified that the continued supply of lots in the Melbourne greenfield market revolves around reform to the Precinct Structure Plan ("PSP") process, namely timing efficiencies to rezone land. The outlook for land demand is expected to soften on the back of tightened lending reform, although the RBA commented that overall borrowing remains low for both households and business and growth in housing debt has eased. Meanwhile JLL predicts that while recent supply has been concentrated in the inner city and outer suburbs, developers are now increasingly focusing on the middle ring suburbs, with JLL expecting medium density development targeted to owner occupiers to become prevalent in these areas over coming years.

²² ABS Building Approvals (8731.0)



4. Overview of Phileo

4.1 Background and history

Phileo is an ASX-listed property investment company with a portfolio comprising commercial and development property. Phileo was established through the takeover of Renak by Phileo Land Berhad and its wholly-owned subsidiary Pentaville Investments Limited in December 1995²³. Prior to the takeover, Renak's operations comprised brewing, wholesaling and retailing liquor in Australia. These activities ceased as a result of the takeover and Renak commenced the business of property development. Renak changed its name to Phileo Australia Limited in 1997. Phileo has interests in a portfolio of property assets comprising the following:

- ▶ 303 Collins Street, Melbourne ("303 Collins Street")
- ▶ Ramada Encore hotel, Dandenong ("Ramada Hotel")
- ▶ A development site at Box Hill ("Box Hill Site")
- ▶ A development site at Bendigo ("Bendigo Site")
- ▶ Three lots of land at Black Forest Road, Wyndham Vale ("Wyndham Vale Lots")

Further detail in relation to the property assets is provided in section 4.2.

On 10 July 2017, Phileo announced that it had entered into a sale contract for land held for development in Wyndham Vale, Victoria, for \$400 million²⁴ in three separate contracts. Of these three contracts, one (comprising two lots) has been settled, with the remaining two (comprising three lots) expected to settle in 2020 and 2022. Details of this transaction are provided in section 4.3.

All of Phileo's property interests are wholly owned, and are held within Phileo's subsidiaries.

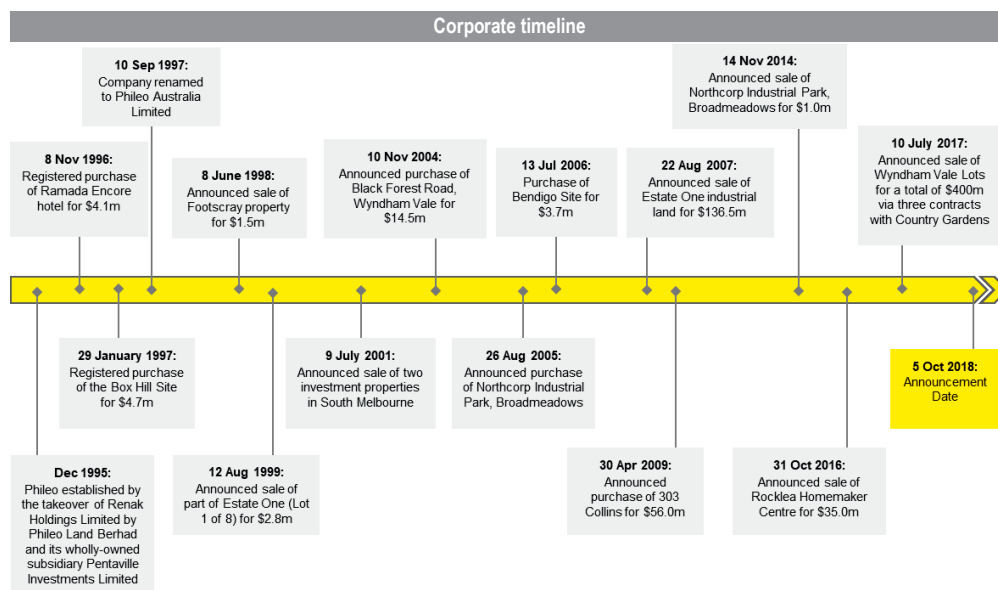
As at 30 June 2018, Phileo had reported net tangible assets of \$207.8 million²⁵. Its market capitalisation one day prior to the announcement of the Proposed Transaction was \$390.8 million.

²³ Source: Management, Morningstar Datanalysis

²⁴ Source: Phileo Company Announcement, 10 July 2017

²⁵ Source: Phileo Audited FY18 Financial Statements

The following diagram summarises key events in the history of Phileo:



Source: Company announcements, Management

Appendix 1 - Independent Expert's Report (continued)



4.2 Phileo's property assets

4.2.1 Overview of assets

The table below provides an overview of Phileo's assets by location, status and ownership with certain key metrics as at 30 June 2018 also presented including book value, lease term and occupancy. The assets are further described in the following sections.

List of Phileo's properties								
	Property	Nature	City, State	Status	Ownership	Book value at 30 June 2018 (\$'000)	Lease term	Occupancy (%) ¹
1	303 Collins Street, Melbourne	Office	Melbourne, VIC	Operational / Investment	100%	148,600	Weighted average lease term to expiry ("WALE"): 2.5 years	79.4%
2	Ramada Encore, 50-52 McCrae Street, Dandenong	Hotel	Dandenong, VIC	Operational / Investment	100%	8,428	Hotel brand licence expires 30/06/23. Retail lease expires 31/12/19	100% ²
3	14 Federation Street, Box Hill	Residential development	Box Hill, VIC	Development Site	100%	11,730	n/a	n/a
4	1A Railway Street, Bendigo	Residential development	Bendigo, VIC	Development Site	100%	984	n/a	n/a
Other								
5	Black Forest Road – lots sold to Country Garden	Residential development	Wyndham Vale, VIC	Five lots sold to Country Garden under three separate contracts.	One contract (of two lots) has settled to Country Garden, with the two final contracts settling 17 February 2020 and 15 February 2022	12,238	n/a	n/a

Source: Phileo 2018 Consolidated Financial Statements, Third party valuations received for each respective property

Notes:

¹ As at 30 June 2018, weighted by income

² 100% leased as at 30 June 2018, with retail units leased until 31 December 2019. However the retail units are stated to be currently unoccupied and marketed to lease due to the sitting tenant having advised Phileo that it has entered into administration and is unable to continue with the lease

The above noted book values of Phileo's properties reflect the values at which the properties are carried on the balance sheet of Phileo. In accordance with Phileo's accounting policy, only the 303 Collins Street property is stated at fair value. The remainder of Phileo's property portfolio are treated as inventory and accordingly the book values of the respective properties are stated at the lower of cost and net realisable value. We provide our observations on the fair values of Phileo's properties in Sections 5 and 6 of this Independent Expert's Report.

4.2.2 Operating assets²⁶

4.2.2.1 303 Collins Street – Melbourne VIC

303 Collins Street comprises a B-grade commercial office tower encompassing 29 levels of office accommodation, three ground level retail tenancies, and two levels of basement car parking, on a site totalling 1,653 sqm. Total NLA is currently 20,316sqm with upper floor plates averaging approximately 750sqm. The property was originally constructed in 1973 and is centrally located on the corner of Collins and Elizabeth

²⁶ Descriptions taken from external property valuation reports, Phileo's company website, Phileo's annual reports and company announcements

streets in Melbourne's CBD. The property has been subject to periodic refurbishments. Phileo 303 Collins Pty Ltd holds a 100% freehold interest in the property which, as at 27 June 2018, was let to 40 tenants and had a WALE of 2.5 years (weighted by income).

4.2.2.2 Ramada Encore, 50-52 McCrae Street – Dandenong VIC

The Ramada Hotel property was constructed in 1970 and originally utilised as an office. The property was extensively renovated in the early to mid-2000's into a 108 room hotel (4.0 self-rated) with conference and function facilities and two ground floor retail units with frontages to McCrae Street. An onsite car park provides 101 bays across the undercroft, ground and first floor levels. The property is located in Dandenong, a suburb approximately 30 radial kilometres south east of the Melbourne CBD. The hotel component is operated by Phileo utilising the Ramada brand under a licence agreement with Ramada International Inc. commencing from July 2013 for a period of 10 years. The ground floor retail units are under lease until December 2019; however the independent valuation report dated June 2018 notes that the premises are currently vacant and available for sub-lease. The sitting tenant has since advised Phileo that it has entered into administration and is unable to continue with the lease. Phileo Australia Ltd holds a 100% freehold interest in the property.

4.2.3 Assets held for sale

4.2.3.1 14 Federation Street – Box Hill VIC

The Box Hill Site comprises land earmarked for development located at the eastern end of Federation Street in Box Hill, a suburb approximately 14 radial kilometres east of the Melbourne CBD. The land is the site of the former Standard Brickworks and associated quarry, which ceased operation in 1988, and the site was subsequently used for landfill. The site has an area of approximately 70,040sqm. The Registered Proprietor of the land is Phileo Australia Limited.

The south west corner of the site includes a number of former brick making buildings, which are included on the Victorian Heritage Register and are within a Heritage Overlay. The site is zoned 'General Residential Zone' and 'Special Use Zone' and a planning permit is currently in place for the development of part of the land for the purpose of 79 dwellings ("Stage 1"). This planning permit will expire in December 2018 if works are not complete. Given that the Valuer identified the works as not commenced as at the date of valuation in March 2018 it was assumed the permit would expire. We note that an original permit was issued on 4 December 2006, a 24 month extension was granted in November 2010, a further 24 month extension was granted in September 2012, and a further 24 month extension was granted in January 2015. Given the number of extensions issued for the site by the Responsible Authority, the City of Whitehorse, the Permit would likely be extended if an appropriate application was made to Council. Heritage Victoria has additionally issued a permit allowing the redevelopment of the former brickworks buildings and this permit is stated to expire if works have not commenced by July 2019 or are not completed by July 2022.

The site is included within an Environmental Audit Overlay. The former landfill area has generally been rehabilitated in accordance with a Rehabilitation Plan approved by the Environment Protection Authority ("EPA"), however a Certificate of Environmental Audit for the land has not yet been issued and the exact costs associated with remediation or geotechnical works have not been finalised for the site.

4.2.3.2 1A Railway Street, Kangaroo Flat – Bendigo VIC

The Bendigo Site comprises a vacant land parcel of 19,340sqm situated on the western side of Railway Street, east of the Calder Highway in Kangaroo Flat, a suburb of the northern regional Victorian city of Bendigo, approximately 150 radial kilometres north of the Melbourne CBD. The site is a regular shaped allotment with a gentle slope from east to west. Surrounding land uses comprise residential dwellings to the north, industrial warehouses to the south, and The Rocklea Homemaker Centre adjoining to the west. The property is zoned 'General Residential Zone' under the Greater Bendigo Planning Scheme and is subject to three planning overlays (Development Planning Overlay – Schedule 17, Environmental Audit Overlay and Bushfire Management Overlay). An environment audit report does not exist and a biodiversity offset needs to be purchased in order to remove vegetation and develop the site. The highest and best use for this land is considered to be a residential development site, although we note that industrial development has been proposed for this site (however no such use is currently permitted). A planning permit or planning scheme amendment would be required to develop industrial uses on this site under the current residential zoning. The

Appendix 1 - Independent Expert's Report (continued)



property is vacant land and there is currently no income being generated from it. Phileo Australia Ltd holds a 100% freehold interest in the property.

4.2.3.3 Lots 3, 4 & 5, Black Forest Road –Wyndham Vale VIC

Phileo is the registered proprietor of three adjoining parcels of residential development land on the northern side of Black Forest Road, Wyndham Vale, approximately 30 radial kilometres south west of the Melbourne CBD. The property is contained within three individual parcels and Certificates of Title, all being regular in configuration and predominantly level in surface contour and are currently situated within the Western Growth Corridor of Melbourne and identified for future residential development. The property is situated within the Black Forest North PSP and included within an Urban Growth Zone – Schedule 7 ("Black Forest PSP").

The three titles are held freehold and have a gross title area of approximately 258.5 hectares, with developable area of approximately 195.0 hectares earmarked for transport, education, community, service open space and credited open space pursuant to the Black Forest PSP. A portion of Lots 3 and 4 are within a Public Acquisition Overlay ("PAO") for future road purposes. The PAO is discussed further in section 4.4.

Phileo has entered into two contracts for sale (one for Lots 3 and 4, and one for Lot 5) for a total consideration of \$278 million. A third contract for the sale of Lots 1 and 2 for consideration of \$122.2 million was settled in February 2018. Details of these transactions are provided in section 4.3.

4.3 Country Garden receivable

On 10 July 2017, Phileo announced that it had entered into three separate contracts for the sale of its five parcels of land held for development at Wyndham Vale, Victoria. Country Garden, an Australian-based subsidiary of Hong Kong-listed Country Garden Holdings Co. Ltd, agreed to purchase the five lots in three staged settlements over 4.5 years, totalling \$400 million. The first contract for Lots 1 and 2 was settled on 15 February 2018, with the remaining two contracts to settle in February 2020 (Lot 5) and February 2022 (Lots 3 and 4). Details of the arrangement are summarised in the table below²⁷:

Wyndham Vale Lots contracts						
Contract	Lots	Date of settlement	Total contract sum	Deposit / balance received	Balance outstanding ¹	Referred to in this Independent Expert's Report as
1	1 & 2	15-Feb-2018	\$122,222,222	\$122,222,222	Nil	Wyndham Vale Contract 1
2	5	17-Feb-2020	\$55,555,556	\$5,555,556	\$50,000,000	Wyndham Vale Contract 2
3	3 & 4	15-Feb-2022	\$222,222,222	\$22,222,222	\$200,000,000	Wyndham Vale Contract 3
Total			\$400,000,000	\$150,000,000	\$250,000,000	

Source: Phileo Company Announcement, Contracts of sales

Notes:

¹ As at the date of this Independent Expert's Report

As per the table above, Phileo has received the deposits for each of the contracts and the balance owing on Wyndham Vale Contract 1. Phileo has recognised a deferred revenue liability on its balance sheet comprising the deposits received for Wyndham Vale Contracts 2 and 3, as these amounts will not be recognised as revenue until settlement. Phileo retains these deposits in the event that Country Garden defaults. The balances owing on Wyndham Vale Contracts 2 and 3 (i.e. \$250 million in aggregate) will be received on settlement ("Country Garden receivable"). There were no conditions to settlement in the respective contracts. The land relating to Wyndham Vale Contracts 2 and 3 remains on Phileo's balance sheet as title does not transfer until settlement.

²⁷ Source: Phileo Company Announcement, 15 February 2018

4.4 VicRoads compensation claim

Wyndham Vale Lots 3 and 4 (i.e. Wyndham Vale Contract 3) are subject to a Public Acquisition Overlay ("PAO") by the Roads Corporation, a Victorian statutory corporation responsible for maintenance and construction of road networks ("VicRoads")²⁸. A PAO reserves the land for a possible future compulsory acquisition by Council, VicRoads or any other relevant authority for a proposed public purpose²⁹.

Under the *Planning & Environment Act (1987)* there are two mechanisms by which compensation can be claimed in relation to financial loss resulting from the reservation of the land for a public purpose under a PAO. Specifically, these mechanisms are either pursuant to a financial loss resulting from a sale of land subject to a PAO, or a financial loss relating to a refusal of a planning authority to provide a permit (for example for future development) as a result of the existence of the PAO.

Compensation under the above legislation needs to be differentiated from compensation under the *Land Acquisition Act (1986)*, which entitles the owner of land to compensation as the result of the compulsory acquisition of land by an Authority.

The contract of sale with Country Garden contemplates who receives compensation under both the above legislative arrangements as follows:

- ▶ Pursuant to Clause 39.2 of the contract of sale to Country Garden, the vendor (i.e. Phileo) retains the right to compensation relating to the PAO.
- ▶ Pursuant to Clause 39.3, the Purchaser (i.e. Country Garden) retains the right to compensation in respect of the compulsory acquisition of the land (whether before or after settlement) under the *Land Acquisition & Compensation Act (1986)*.

The balance owing to Phileo from Country Garden in relation to the subject property (lots 3 and 4) as set out in section 4.3, is not conditional on the outcome of any compensation claims made by Phileo or Country Garden in relation to the PAO.

Phileo engaged an independent third party valuer to prepare an assessment of compensation in respect to financial loss triggered by a Permit Refusal dated 27 November 2017 for land affected by the PAO equating to approximately 33.9 hectares. The valuation report dated 10 September 2018 assessed the compensation for the subject property on a Before and After basis at \$36.4 million (GST exclusive).

Phileo has submitted a claim for compensation for financial loss pursuant to the PAO, supported by the abovementioned valuation. As announced to the ASX on 12 October 2018:

- ▶ VicRoads has written to Phileo asserting that, in the absence of further supporting evidence, Phileo does not have a valid claim for compensation.
- ▶ Phileo disagrees with that assertion and is in the process of providing a formal response to VicRoads.

As a result of the above, there is uncertainty in relation to the success of any claim resulting from the PAO. There is also uncertainty as to the likely amount of compensation to be received by Phileo in the event the claim is successful.

²⁸ Source: VicRoads Annual Report 2016-2017

²⁹ Source: Contract of Sales Clause 39.1 (e) Definition of Public Acquisition Overlay

Appendix 1 - Independent Expert's Report (continued)



4.5 Financial information

4.5.1 Financial performance

A summary of Phileo's financial performance for the last three years ended 30 June (i.e. FY16A, FY17A and FY18A), as extracted from the financial statements, is presented below:

Phileo- Consolidated income statement summary ¹			
Currency: \$ 000	FY16A	FY17A	FY18A
Rental income	9,781	8,372	8,307
Sale of development property	-	35,000	122,222
Hotel operation	3,249	3,100	2,783
Other income			
Net change in the fair value of investment property	12,466	23,897	14,139
Net change in the fair value of financial instruments	-	1,711	1,264
Gain arising from other activities	2,110	31	70
Total revenue	27,606	72,111	148,785
Cost of development property sold	-	(31,307)	(7,265)
Rental operating expenses	(4,429)	(4,089)	(3,377)
Hotel operating expenses	(1,587)	(1,641)	(1,723)
Development property expenses	(1,455)	(1,934)	(2,759)
Employee benefits expense	(2,167)	(2,340)	(12,404)
Depreciation and amortisation expenses	(130)	(92)	(91)
Other expenses	(964)	(941)	(1,603)
Total expenses	(10,732)	(42,345)	(29,222)
EBIT	16,874	29,767	119,564
Finance costs	(3,208)	(3,073)	(2,849)
Interest income	14	284	2,035
Profit before income tax	13,680	26,977	118,749
Income tax expense	(4,143)	(3,583)	(33,651)
Profit after income tax	9,538	23,393	85,099

Source: Phileo 2017 and 2018 Consolidated Financial Statements

Notes:

¹ May not add due to rounding

In relation to the historical financial performance we note:

- ▶ Revenue from rental income is currently derived from 303 Collins Street, however rental income has previously also been derived from the Rocklea Homemaker Centre. Rental income has decreased each year from FY16 to FY18 due to the loss of rental income following the sale of the Rocklea Homemaker Centre in October 2016. Rental income from 303 Collins Street decreased from \$7.5 million in FY16 to \$7.2 million in FY17, increasing to \$8.0 million in FY18. Rental income is driven by occupancy rates, which increased at 303 Collins Street from 65% at 30 June 2016 to 77% at 30 June 2018.
- ▶ The FY18 proceeds from the sale of development property of \$122.2 million relates to the \$12.2 million deposit and \$110.0 million balance received for settlement of Wyndham Vale Contract 1 in February 2018. Phileo has received the deposits for the remaining Wyndham Vale Lots contracts, Contracts 2 (\$5.6 million) and 3 (\$22.2 million), however as settlement has not occurred these amounts have not been recognised as income and instead are recognised as liabilities on the balance sheet.

- ▶ Revenue from hotel operations at the Ramada Hotel comprises the revenue derived from Phileo's management of the hotel accommodation, food and beverage revenue generated from the ground floor restaurant and functions and conferences held on site. Rental income has previously been received from the two retail tenancies on the ground floor, however as noted in section 4.2.2.2 the tenant has entered into administration and accordingly advised it is unable to continue with the lease. Revenue has decreased over the past three years from \$3.2 million in FY16 to \$2.8 million in FY18, reflecting an average annual decline of 7.4%, due to a decrease in the occupancy rate from 73% at 30 June 2016 to 60% at 30 June 2018.
- ▶ The FY18 fair value increase of investment property of \$14.1 million relates to the increase in the fair value of 303 Collins Street from \$132.5 million at 30 June 2017 to \$148.6 million at 30 June 2018, excluding the capitalised expenditure of \$2.0 million.
- ▶ Total expenses declined by \$13.1 million, or 31.0%, from FY17 to FY18, primarily driven by a \$24.0 million decrease in cost of development property sold, and partially offset by a \$10.1 million increase in employee benefits expenses. We further note:
 - ▶ One of the most significant expense items in the last two years has been cost of development property sold. This relates to the cost of sales recognised upon the settlement of Wyndham Vale Lots Contract 1 (\$7.3 million in FY18) and the sale of the Rocklea Homemaker Centre (\$31.3 million in FY17).
 - ▶ Rental expenses declined by \$0.7 million, or 17.4%, from FY17 to FY18 driven by the disposal of the Rocklea Homemaker Centre, decreased 303 Collins Street rental expenses and a reduction in lease incentives (a combination of rent free periods and rebates).³⁰
 - ▶ Hotel operating expenses increased by \$0.1 million from FY17 to FY18, or 5.0%.
 - ▶ Development expenses relate to the holding costs associated with the Wyndham Vale land and the Box Hill Site.
 - ▶ In FY18, employee benefit expenses increased by \$10.1 million from FY17, driven by the payment of \$5.0 million one-off discretionary bonuses to each of Executive Directors Rudy Koh and Alfred Sung.
 - ▶ Other expenses is predominantly comprised of administrative expenses and impairment of inventories. The \$0.7 million increase in other expenses from FY17 to FY18 is primarily driven by the \$0.5 million consequential payroll tax impact of the one-off discretionary bonuses paid in FY18, discussed above.
- ▶ Interest income increased from FY17 to FY18 by \$1.8 million, related to the cash received from the sale of Wyndham Vale Lots.
- ▶ Phileo did not declare a dividend in relation to FY18 due to the Proposed Transaction. Phileo paid dividends reflecting \$0.02 per Share in FY17 (relating to FY16) and \$0.05 per Share in FY18 (relating to FY17).

³⁰ Source: Knight Frank 27 June 2018 Valuation Report of 303 Collins Street, page 29

Appendix 1 - Independent Expert's Report (continued)



4.5.2 Financial position

Provided below is a summary of Phileo's financial position as at 30 June 2016, 2017 and 2018.

Phileo – Consolidated financial position summary ¹			
Currency: \$ 000, year ended 30 June	FY16A	FY17A	FY18A
Current assets			
Cash and cash equivalents	924	19,331	152,687
Trade and other receivables	138	11	29
Inventories	-	4,863	-
Other current assets	646	624	1,604
Total current assets	1,708	24,829	154,320
Non-current assets			
Inventories	65,828	32,527	33,380
Investment properties	108,000	132,500	148,600
Plant and equipment	795	735	655
Deferred tax assets	7,276	5,254	1,194
Other non-current assets	2,813	1,948	2,425
Total non-current assets	184,713	172,964	186,254
Total assets	186,420	197,793	340,574
Current liabilities			
Trade and other payables	1,230	1,496	5,273
Borrowings	-	-	45,000
Income tax payable	129	392	25,888
Current provisions	287	332	386
Total current liabilities	1,646	2,220	76,547
Non-current liabilities			
Trade and other payables	610	489	28,101
Borrowings	56,500	45,000	-
Derivatives	5,201	3,490	2,226
Deferred tax liabilities	21,050	22,349	25,795
Non-current provisions	47	64	73
Total non-current liabilities	83,409	71,392	56,194
Total liabilities	85,055	73,612	132,741
Net assets	101,366	124,181	207,833
Equity			
Issued shares	19,911	19,911	19,911
Reserves	14	14	14
Retained earnings	81,441	104,256	187,909
Total equity	101,366	124,181	207,833

Source: Phileo 2017 and 2018 Consolidated Financial Statements

Notes:

¹ May not add due to rounding

In relation to the historical financial position we note:

- ▶ Total assets increased by \$142.8 million to \$340.6 million in FY18 driven predominantly by the \$150.0 million of cash received from the sale of the Wyndham Vale Lots. This comprised \$122.2 million relating to the settlement of Wyndham Vale Contract 1 (which was previously held on the balance sheet at \$4.7 million) and \$27.8 million relating to the deposits received for Wyndham Vale Contracts 2 (\$5.6 million) and 3 (\$22.2 million). The increase in total assets was also driven by a gross upwards revaluation of \$14.1 million and capitalisation of costs of \$2.0 million relating to the 303 Collins Street investment property.
 - ▶ The cash balance of \$152.7 million at 30 June 2018 is comprised of:
 - ▶ \$145.3 million held by Daleston Pty Ltd relating to the deposit and settlement funds received for the Wyndham Vale Lots; and
 - ▶ \$7.4 million cash at bank held across the other subsidiaries of Phileo.
 - ▶ The other current assets balance at 30 June 2018 of \$1.6 million primarily comprised \$1.2 million of prepayments and \$0.4 million of other debtors.
 - ▶ The non-current inventories balance at 30 June 2018 of \$33.4 million is largely comprised of land and buildings either held for sale or in the process of improvement for sale. This includes the carrying amount of the land at the Wyndham Vale Lots of \$12.2 million, the Ramada Hotel of \$8.4 million and the Box Hill Site development and Bendigo Site land (combined \$12.7 million). These items are measured at the lower of cost and net realisable value.
 - ▶ The investment properties balance at 30 June 2018 of \$148.6 million relates to the fair value of 303 Collins Street, as concluded by Knight Frank at 27 June 2018.
 - ▶ The plant and equipment balance at 30 June 2018 of \$0.7 million predominantly comprised \$0.5 million of leasehold improvements and \$0.2 million of furniture and fittings
 - ▶ The deferred tax assets balance at 30 June 2018 of \$1.2 million primarily relates to unused tax losses of the controlled entities in the Phileo tax consolidated group. The \$4.1 million decrease from FY17 to FY18 was primarily due to the utilisation of unused tax losses in FY18.
 - ▶ The other non-current assets balance at 30 June 2018 of \$2.4 million comprised \$1.0 million of lease incentives and \$1.4 million of other debtors.
- ▶ Total liabilities (excluding borrowings) increased by \$59.1 million, from \$28.6 million in FY17 to \$87.7 million in FY18, relating primarily to the sale of the Wyndham Vale Lots. The primary constituents at FY18 were:
 - ▶ \$27.8 million of revenue received in advance comprising the deposits received for the Wyndham Vale Contracts 2 and 3 (classified as non-current trade payables).
 - ▶ \$25.9 million of income tax payable.
 - ▶ \$25.8 million of deferred tax liabilities ("DTL"), which primarily relate to fair value adjustments to investment properties.
 - ▶ \$2.2 million of derivatives relating to an interest rate swap for hedging the commercial bills.
- ▶ \$45.0 million of bank debt was reclassified as current borrowings during FY18 as the expiry date for the interest only loan with NAB was originally 30 September 2018. Phileo signed an agreement with NAB on 3 August 2018 to extend the facility for two years to 30 September 2020. This facility is described in detail in section 4.5.4.

Appendix 1 - Independent Expert's Report (continued)



- In the aggregate, net assets increased \$83.7 million, or 67.4%, in the 12 months to 30 June 2018.

4.5.3 Cash flow statement

Provided below is a summary of Phileo's cash flow statement for FY16A, FY17A and FY18A, as extracted from Phileo's audited financial statements.

Phileo- Consolidated cash flow summary ¹			
Currency: \$ '000	FY16A	FY17A	FY18A
Cash-flow from operations:			
Proceeds from sale of property	-	35,000	150,000
Receipts from ordinary activities	14,258	13,651	11,449
Payment to suppliers & employees	(12,050)	(13,805)	(22,066)
Payment for property development	(908)	(936)	(1,145)
Income tax paid	-	-	(649)
Operating cash flow	1,301	33,910	137,589
Cash-flow from investing activities:			
Payment for purchase of plant & equipment	(55)	(32)	(11)
Payment for improvement to investment properties	(534)	(603)	(1,961)
Cash from investing	(590)	(635)	(1,972)
Cash-flow from financing activities:			
Interest paid	(3,208)	(3,073)	(2,849)
Interest received	14	284	2,035
Dividend paid	(579)	(579)	(1,446)
Proceeds from borrowing	2,992	2,000	-
Repayment of borrowings	-	(13,500)	-
Cash from financing	(779)	(14,868)	(2,260)
Net change in cash	(68)	18,406	133,356
Opening cash balance	993	924	19,331
Net change in cash	(68)	18,406	133,356
Closing cash balance	924	19,331	152,687

Source: Phileo 2017 and 2018 Consolidated Financial Statements

Notes:

¹ May not add due to rounding

In relation to the cash flow statement we note:

- The closing cash balance at 30 June 2018 increased by \$133.4 million from 30 June 2017, primarily related to the Wyndham Vale Lots sale.
- Operating cash flows increased \$103.7 million, in the 12 months to 30 June 2018 driven largely by the Wyndham Vale Lots sale. Specifically, we note:
 - The FY18 proceeds from sale of property of \$150.0 million comprises the \$122.2 million settlement of Wyndham Vale Contract 1 plus the deposit received for Wyndham Vale Contracts 2 and 3 of \$27.8 million.
 - Receipts from ordinary activities have decreased each year from FY16 to FY18 driven by declining hotel occupancy rates at the Ramada Hotel as well as the cessation of Rocklea Homemaker Centre revenue following its sale in October 2016.

- ▶ The FY18 payments to suppliers and employees amount of \$22.1 million includes \$10.0 million of one-off discretionary bonuses paid to Executive Directors Rudy Koh and Alfred Sung. We note that no similar bonuses were paid to any of Phileo's directors in FY16 or FY17.
- ▶ Cash outflows from investing increased from FY17 to FY18 by \$1.3 million, related primarily to expenditure on improvements at the 303 Collins Street investment property.
- ▶ Financing cash outflows were \$2.3 million in FY18, noting the following:
 - ▶ Interest paid of \$2.8 million relates to the fully drawn \$45.0 million bank facility with NAB.
 - ▶ Interest received increased by \$1.8 million from \$0.3 million in FY17 to \$2.0 million in FY18 related to the Wyndham Vale Lots proceeds.
 - ▶ Dividends paid increased from \$0.6 million in FY17 to \$1.4 million in FY18, reflecting an increase from the \$0.02 per share dividend paid in FY17 (relating to FY16) to \$0.05 per share in FY18 (relating to FY17).
 - ▶ Nil repayment of borrowings in FY18, noting the FY17 net repayment of \$11.5 million held by the Phileo parent entity.

4.5.4 Debt

As at 30 June 2018, Phileo had the following debt obligations:

- ▶ Current bank debt of \$45 million, relating to a fully-drawn interest-only corporate market loan facility provided by NAB to Phileo's wholly-owned subsidiary Phileo 303 Collins Pty Ltd. This facility is secured against the 303 Collins Street building asset, subject to a property valuation of at least \$132.5 million. This facility is classified in the 30 June 2018 audited financial statements as current borrowings with a termination date of 30 September 2018. However, we note that the Company and NAB have signed an amendment and restatement deed on 3 August 2018 ("NAB Amendment and Restatement deed"), extending the facility for an additional two years to 30 September 2020. The key terms of the NAB Amendment and Restatement deed facility remain unchanged from the original facility, such that the principal amount of \$45.0 million is payable at the facility termination date.
- ▶ We note that Phileo has advised that it can source an additional \$27.2 million of debt from NAB for the purposes of funding the selective capital reduction component of the Proposed Transaction, if that is required or otherwise considered appropriate.

Phileo had total debt as at 30 June 2018 of \$45.0 million, and a net cash position of \$107.7 million given the significant cash holdings relating to the settlement of the Wyndham Vale Contract 1 proceeds.

Appendix 1 - Independent Expert's Report (continued)



4.6 Shareholders

Phileo is a listed public company with 281 shareholders. The share capital is comprised of one class of share, being ordinary shares. A breakdown of the major holders of Phileo Shares are set out below:

Phileo – Beneficial major shareholders			
Shareholder	Number of shares	% of total shares outstanding	Current intentions ⁴
Rudy Koh ¹	10,348,814	35.8%	Opt-out in full
Michael Loke (held via Puico Enterprises Corporation)	2,750,000	9.5%	Opt-out in full
Michael Loke (via HSBC Custody Nominees)	595,500	2.1%	Participate in full
Andrew Hang	2,590,196	9.0%	Participate in full
Alfred Sung	1,896,849	6.6%	Participate in full
Graham Homes	59,116	0.2%	Participate in full
Total shares held by Directors of Phileo	18,240,475	63.1%	
Other substantial shareholders:			
Belandas Group Limited ²	2,750,000	9.5%	Opt-out in full
Sovielle Holdings Ltd ³	2,750,000	9.5%	Opt-out in full
Radiance Group Trading Ltd	1,470,824	5.1%	Participate in full
Total shares held by other substantial shareholders	6,970,824	24.1%	
Other shareholders with >=10,000 shares (32 shareholders)	3,135,023	10.8%	n/a
Other shareholders with <10,000 shares (234 shareholders)	580,694	2.0%	n/a
Total shares	28,927,016	100.0%	
Total Shares of those with current intentions to opt-out	18,598,814	64.3%	
Total shares remaining	10,328,202	35.7%	

Source: Phileo Holdings Report as at 31 July 2018, ASX

Notes:

¹Held by five entities owned or controlled by Mr Koh

²Held by nominee J P Morgan Nominees Australia

³Held by nominee HSBC Nominees (Australia) Limited

⁴ Per ASX announcement, Proposed Capital Return and Delisting, 5 October 2018

In recent years, a number of Phileo's shareholders have requested a mechanism to allow them to exit their Shares should they wish, noting the historical illiquidity of Phileo Shares as discussed in section 4.8. On 23 November 2017, Phileo announced that it would investigate its options to return capital to its shareholders in the most effective manner following the receipt of the balance owing on the Wyndham Vale Contract 1 of \$110 million.

4.7 Distributions

The table below presents Phileo's historical distributions for the last three years (FY16-18), which comprised only final dividends (i.e. no interim dividends were paid).

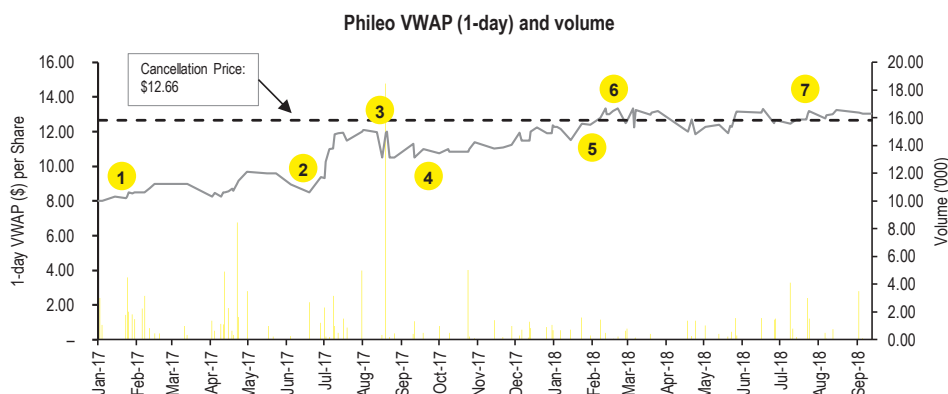
Historical distributions			
Relevant financial year ended	Distribution (\$ per Phileo share)	Franking %	Payment date
30 June 2018	-	not applicable	not applicable
30 June 2017	0.05	100%	23 October 2017
30 June 2016	0.02	100%	24 October 2016

Source: Phileo annual reports, ASX

4.8 Share price performance

The following chart shows the daily volume weighted average price ("VWAP") and trading volumes of Phileo Shares on the ASX between 1 January 2017 and 4 October 2018. Over this period, the Phileo Share price

traded at a high of \$13.35 on 20 February 2018, and a low of \$8.00 on 10 January 2017. The Phileo Share price on 4 October 2018, being the last trading day prior to the Announcement Date, was \$13.05 and the VWAP over the one month prior to the Announcement Date was \$13.24.



Source: ASX, EY Transaction Advisory Services analysis

In addition to the regular interim and annual reporting announcements, other announcements made by Phileo between 1 January 2017 and 4 October 2018, annotated in the chart above, that may have had an impact on Phileo's price per share are summarised below. We also point to the subsequent charts in this section which show market index movements over the same period.

1. **23 February 2017.** Announcement of half year earnings to 31 December 2016.
2. **10 July 2017.** Announcement of the sale of Black Forest Road, Wyndham Vale, to Country Garden in three separate contracts payable over four years for a total of \$400 million. See section 4.3 for a detailed description of these transactions.
3. **24 August 2017.** Sharp decline in share price the day following announcement of FY17 earnings.
28 August 2017. 18,475 shares traded on that day.
4. **25 September 2017.** Announcement of full year earnings to 30 June 2017.
5. **15 February 2018.** Announcement that the first of the three contracts of sale relating the Wyndham Vale Lots had settled, with receipt of the full balance owing of \$110 million.
6. **27 February 2018.** Announcement of half year earnings to 31 December 2017.
7. **28 August 2018.** Announcement of full year earnings to 30 June 2018.

Appendix 1 - Independent Expert's Report (continued)



The following table summarises the monthly trading prices of Phileo's Shares on the ASX over the period 1 January 2017 and 4 October 2018, one day prior to the Announcement Date.

Monthly trading volumes analysis – Phileo						
Month	High (\$/share)	Low (\$/share)	Close (\$/share)	Monthly VWAP (\$/share)	Monthly vol. ('000)	Liquidity (%)
Jan-17	8.25	8.00	8.25	8.03	9.05	0.03%
Feb-17	9.00	8.15	9.00	8.44	18.74	0.06%
Mar-17	9.00	8.98	8.98	8.98	1.35	0.00%
Apr-17	8.70	8.25	8.60	8.49	12.43	0.04%
May-17	10.20	9.00	9.60	9.35	14.76	0.05%
Jun-17	9.60	8.50	8.50	8.54	2.97	0.01%
Jul-17	12.00	9.30	11.50	10.75	10.94	0.04%
Aug-17	12.10	10.50	10.50	11.99	24.01	0.08%
Sep-17	11.30	10.50	11.00	10.72	2.68	0.01%
Oct-17	11.00	10.75	10.85	10.78	1.50	0.01%
Nov-17	11.40	10.99	11.10	11.02	6.98	0.02%
Dec-17	12.25	11.40	12.25	11.64	4.29	0.01%
Jan-18	12.30	11.52	11.52	11.96	4.13	0.01%
Feb-18	13.35	12.40	13.20	12.92	3.93	0.01%
Mar-18	13.33	12.49	13.10	12.94	2.36	0.01%
Apr-18	13.20	12.00	12.65	12.13	1.66	0.01%
May-18	12.40	11.51	12.25	11.90	3.08	0.01%
Jun-18	13.28	12.28	13.28	13.02	3.96	0.01%
Jul-18	13.25	12.24	12.70	12.52	8.01	0.03%
Aug-18	13.25	12.75	13.25	13.13	5.84	0.02%
Sep-18	13.25	13.05	13.05	13.24	3.60	0.01%
Oct-18	na*	na*	na*	na*	-	0.00%

Source: S&P CapitalIQ and EY Transaction Advisory Services analysis

*Note: No Shares were traded during October 2018 up to 4 October 2018

Phileo Shares are highly illiquid, with annual volumes representing only a small proportion of the free float (that is, the number of shares readily available in the market, which excludes locked-in shares and those held by management and directors). This illiquidity results in observed share prices being a less reliable indicator of the underlying value of the business than the shares in companies with greater liquidity.

Having regard to the period from 4 October 2017 to 4 October 2018, Phileo's daily closing share price has ranged from \$10.75 (10 October 2017) to \$13.35 (20 February 2018). The monthly liquidity of Phileo Shares over the same period ranged from 0.005% to 0.028% (measured as total volume traded divided by total shares on issue) with the average monthly volume of shares (in thousands) traded of 4.1, implying annual turnover of around 0.17% of Shares outstanding. Over the same period, Phileo Shares did not trade at all (nil volume traded) for 79.1% of possible trading days, and the daily volume was below 10,000 Phileo Shares for 98.1% of the days Phileo Shares actually traded.

We have specifically considered the pricing of a Phileo Share in the period leading up to the Announcement Date. The table below summarises the VWAP of Phileo Shares prior to the Announcement Date.

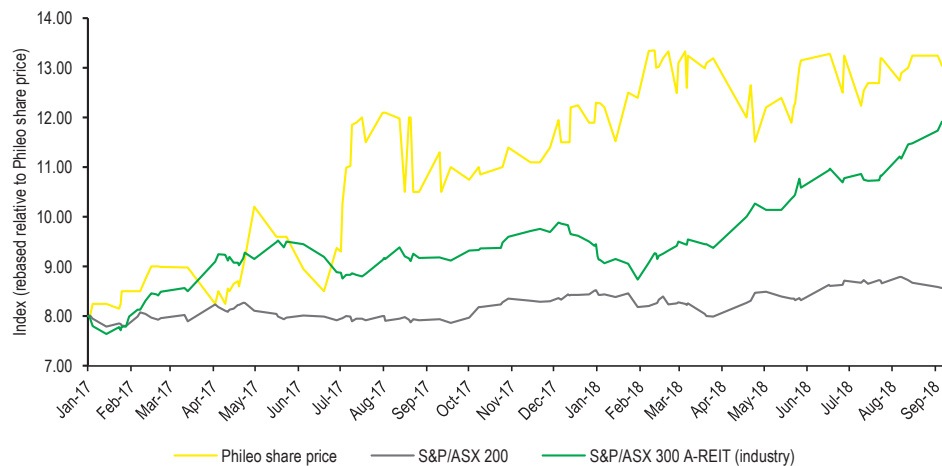
Price of Phileo Shares prior to the Announcement Date		
Period	Share price (\$/Share)	VWAP (\$/Share)
1 day prior to the Announcement Date ¹	13.05	13.05
1 week prior to the Announcement Date ¹	13.05	13.05
1 month prior to the Announcement Date	13.25	13.24
3 months prior to the Announcement Date	12.50	12.87

Source: S&P CapitalIQ and EY Transaction Advisory Services analysis

¹Note: The final day which Shares were traded prior to the Announcement Date was 21 September 2018

The chart below illustrates the correlation between movements in the price per Phileo Share with the S&P/ASX 200 index and the S&P/ASX 300 REIT index over the period 1 January 2017 to 4 October 2018.

Phileo share price vs. S&P200 and S&P A-REIT (rebased to Phileo share price)



Source: ASX, EY Transaction Advisory Services analysis

This shows the clear outperformance of Phileo over the period since January 2017, with the primary divergence occurring at the time of the announcement of the Wyndham Vale transaction in July 2017.



5. Valuation approach

As noted in section 2, we consider whether the selective capital reduction is fair by comparing our assessed value of a Phileo Share, on a controlling interest basis prior to the Proposed Transaction, with the Cancellation Price of \$12.66 per Phileo Share.

This approach is explained further below.

5.1 Overview of valuation methodology adopted

The most commonly adopted valuation approach for property investment companies, such as Phileo, is to assess the value of the company based on the value of its underlying net assets, on an orderly realisation basis. This basis of valuation estimates the realisable value of the assets in an orderly sales process, after allowing for the expected costs associated with that sales process. This is the primary approach we have taken when considering the value of shares in Phileo.

We have arrived at our assessment using a net tangible assets ("NTA") methodology. We consider this approach appropriate as:

- ▶ A NTA based approach is a widely used methodology in valuing property investment companies.
- ▶ The values of properties held by property investment companies are generally revalued on a regular basis and in the case of Phileo, third party property valuations were recently commissioned such that a valuation for each property is available as at dates no earlier than 18 March 2018.

In assessing the fair value of a Phileo Share we have:

- ▶ Reviewed independent valuations of the properties prepared by external valuation specialists.
- ▶ Considered any adjustments to the value of the underlying properties held by Phileo.
- ▶ Considered whether to apply any portfolio premium based on the aggregate of the assessed gross property values relative to the standalone value of the properties.
- ▶ Considered the value of the balance owing to Phileo in relation to the yet to be settled Wyndham Vale Contracts 2 and 3.
- ▶ Considered the potential value to Phileo of compensation currently being sought from VicRoads in relation to the PAO on Lot 3 of the Wyndham Vale Lots.
- ▶ Considered any adjustments to the deferred tax liability balance at 30 June 2018 to reflect the adjustments to asset values considered above.
- ▶ Incorporated other assets and liabilities and net debt based on the audited 30 June 2018 balance sheet of Phileo taking into account any pro forma adjustments where relevant.
- ▶ Considered the value of corporate overhead costs of Phileo.
- ▶ Considered whether any premium for control or minority discount is appropriate.
- ▶ Deducted any transaction costs, which are estimated to be incurred whether or not the Proposed Transaction proceeds.
- ▶ Calculated the fair value per Phileo Share based on the number of shares on issue prior to the Proposed Transaction.

We cross checked our fair value derived based on the above methodology by considering the implied premium or discount to the price at which shares in Phileo have recently traded and by comparing the implied premium over Phileo's NTA to the premium of the price over NTA observed for similar trading companies and transactions.

5.2 Property assets (including development assets)

We considered the latest view of the market value of the underlying property assets having regard to the most recent independent valuations for the properties in the Phileo portfolio. The valuations of 303 Collins Street and the Ramada Hotel were commissioned by Phileo for the purpose of financial reporting at 30 June 2018. The third party valuations of the Box Hill Site and the Bendigo Site were commissioned by PAL Investments (Australia) Pty Ltd, an entity owned by Mr Koh. We have concluded that the valuations commissioned indirectly by Mr Koh reflect independent valuations of the Box Hill Site and the Bendigo Site based on the following:

- ▶ The third party valuation firms that undertook the valuations are considered to be reputable and the individual Valuers themselves are considered to hold the appropriate qualifications, expertise and experience to prepare valuations of this nature.
- ▶ The methodology adopted by the Valuers is considered reasonable and in line with best practice for assets such as the subject.
- ▶ In undertaking our review procedures outlined throughout this section and in Section 6.2 we have concluded that we consider the valuations to be appropriate.

Where appropriate, we have considered whether any adjustments are required to reflect the latest view of the market value of the underlying property assets. Our approach to considering the value of the properties is detailed below.

5.2.1 Investment property assets

For Phileo's completed and operational properties (303 Collins Street and the Ramada Hotel), we have performed a review of the most recent independent property valuations commissioned by Phileo and, to the extent necessary, have discussed these with the management of Phileo. In undertaking this review, we have considered the property valuation reports and the underlying key assumptions including, where relevant:

- ▶ The existing lease profile and assumptions at lease expiry.
- ▶ Vacancy and incentive allowances.
- ▶ Capitalisation rates.
- ▶ Capital expenditure budgets.

It should be noted that consistent with the most recent independent property valuation reports, we have considered the value of each property on an "as is" basis (in the case of 303 Collins Street) and a "going concern" basis (in the case of the Ramada Hotel) and as an individual standalone property, which is best practice in the industry for the subject assets. There are a number of examples of sales of portfolios of properties where a portfolio premium has been realised for the reasons set out in Section 5.8. We have considered the applicability of such a premium in our analysis in Section 6.8.

Based on the preceding review, we have then considered whether any adjustments are required to the resultant property values to reflect differences based on our review of the property valuation reports and the market for each of the assets.



5.2.2 Development assets

As set out earlier in section 4.2, Phileo's property portfolio comprises the following three development properties:

- ▶ The Box Hill Site, comprising land earmarked for medium density residential and mixed use development with an area of approximately 70,040sqm. Phileo has been progressing the rehabilitation of the site, a former landfill, in accordance with a Rehabilitation Plan approved by the Environment Protection Authority ("EPA"), however a Certificate of Environmental Audit for the land has not yet been issued. Part of the site, zoned 'General Residential 1 Zone', has planning permit approval for approximately 79 dwellings, which expires in December 2018. The balance of the site requires further environmental investigation and EPA approval to allow development.
- ▶ The Bendigo Site, comprising a vacant land parcel of 19,340sqm in the suburb of Kangaroo Flat, zoned 'General Residential Zone' under the Greater Bendigo Planning Scheme. The highest and best use for this land is considered to be a residential development site, although we note that Phileo has identified that an industrial development has been proposed for this site (however no such use is currently permitted). A planning permit or planning scheme amendment would be required to develop industrial uses on this site under the current residential zoning.
- ▶ The Wyndham Vale Lots, comprising three adjoining parcels of residential englobo development land with a gross title area of approximately 258.5 hectares, developable area of approximately 175.0 hectares earmarked for residential, mixed use, transport, education, community, and open space uses pursuant to the Black Forest PSP.

As discussed in section 4.2, the above development properties are classified as inventory for the purpose of Phileo's financial reporting, and accordingly the book values of the respective properties are stated at the lower of cost and net realisable value. The book values do not reflect the values assessed from recent external valuations of the properties and hence it has been necessary to adjust these book values to reflect fair value.

The sale of the Wyndham Vale Lots to Country Garden has been contracted, with staged settlement occurring out to February 2022. As such, we have considered the value of the receivable owing to Phileo by Country Garden under these contracts in section 5.3 as opposed to the value of the underlying property assets. Phileo has received and is holding the cash deposits from the respective contracts for the Wyndham Vale Lots.

We have performed a review of the most recent third party property valuations for the Box Hill Site and the Bendigo Site commissioned by PAL Investments (Australia) Pty Ltd and have discussed these with the management of Phileo. In undertaking this review, we have considered the property valuation reports and their underlying key assumptions including, where relevant:

- ▶ The experience of the Valuer and valuation firm in undertaking valuations for this asset class.
- ▶ The valuation approach and methodology adopted by the Valuers.
- ▶ Development potential of the assets and where available any third party consultant advice that has been considered in the valuations.
- ▶ Risk factors relevant to development assets, including zoning status, planning permit approvals, land use impacts including contamination, ecological / biodiversity or cultural heritage constraints.
- ▶ The market for development assets in both a micro and macro context noting the regional location of the Bendigo asset.

Consistent with the most recent property valuation reports, we have considered the freehold market value of each property on an "as is" basis, assuming vacant possession, which is industry best practice for this asset class.

We have then considered whether any adjustments are required to the reported property values to reflect differences based on our review of the third party property valuation reports.

The aggregated assessed values of the investment and development properties determine a gross value of the Phileo property portfolio.

5.3 Country Garden receivable

As discussed above, we have considered and ascribed a value to the receivable from Country Garden in relation to the Wyndham Vale Lots, described in section 4.3. We have assessed the value of the receivable by applying a discount factor to the contracted balance owing at each of the respective settlement dates, which takes into account the time and risk associated with settlement. In considering the risk associated with settlement we have had regard to the following factors:

- ▶ Phileo has received and is holding a cash deposit of 10% of the purchase price for each contract (\$27.8 million in aggregate). This is reflected in Phileo's cash balance.
- ▶ Our assessment of the credit risk or risk in settlement associated with Country Garden, noting that Country Garden is a wholly owned subsidiary of Hong Kong listed Country Garden Holdings Company Limited, which has a market capitalisation in excess of \$30 billion. Further there are guarantees for both contracts from both the Country Garden Australian entity and the Hong Kong parent entity.³¹
- ▶ The interdependency of the two contracts such that if Country Garden defaults on Wyndham Vale Contract 2, it automatically defaults on Wyndham Vale Contract 3 at the same time.³²
- ▶ Phileo retains title of the subject land until settlement, such that any risk associated with settlement is mitigated by Phileo's ability to sell the land to another party at market value. We have thus also considered the current market for englobo development land, and appetite for developers to source land that is zoned for development.

We have separately determined the present value of the operating expenses (or holding costs) expected to be incurred by Phileo (such as council rates and land tax) up until settlement of each contract.

We have removed the value of the Wyndham Vale Lots land from the value of Phileo's property portfolio, as discussed in section 5.2.2, in our assessment of the value of Phileo's property portfolio so as to not double count the value of this land, and the deposit and receivable to which this corresponds.

5.4 VicRoads compensation

We have considered the value of compensation currently being sought by Phileo from VicRoads in relation to the PAO on Lot 3 of the Wyndham Vale Lots. We have reviewed the compensation valuation assessment prepared by an external valuer on behalf of Phileo and considered the appropriateness of any adjustments to this value based on the current status of the Phileo claim for compensation and background as set out in section 4.4.

5.5 Deferred tax liability

We have assessed the value of Phileo's deferred tax liability as the book value as at 30 June 2018, adjusted to reflect the incremental tax liabilities associated with any uplifts which we have made to the book values of relevant assets of Phileo, including the value of the property portfolio, the Country Garden receivable and the VicRoads compensation. For each asset, we have calculated the additional deferred tax liability based on our

³¹ Clause 16 in the Contracts of Sale for Lots 3 & 4, and Lot 5

³² Clause 40 in the Contracts of Sale for Lots 3 & 4, and Lot 5

Appendix 1 - Independent Expert's Report (continued)



assessed value of the asset, the tax cost base of the asset (being commensurate with the book value as advised by the management of Phileo), and the Australian corporate tax rate.

5.6 Net debt

We have added Phileo's net cash balance as at 30 June 2018 as discussed further in section 6.6.

5.7 Other assets and liabilities

We have initially assessed the value of Phileo's other assets and liabilities as being commensurate with their book value as at 30 June 2018. We have then considered whether any adjustments are required in order to be consistent with our treatment of other Phileo assets and to reflect fair value.

5.8 Portfolio premium

Given that Phileo has a number of properties in its portfolio, we have considered whether a premium over the value of the standalone properties is warranted to reflect the value of a combined portfolio of properties.

There are a number of reasons as to why such a premium to gross property asset value may exist, such as:

- ▶ Property portfolios of a substantial size may attract a premium due to the limited availability of such portfolios on the open market and the time it would otherwise take to acquire the assets individually. The relatively low risk and long term nature of cash flows generated by these portfolios have become increasingly attractive to large financial investors.
- ▶ Property portfolios with both passive and development properties may attract a premium due to the diversity of income potentially mitigating the risk by sharing exposure across alternate market segments. As a result, investors may be prepared to accept a lower rate of return.
- ▶ Property businesses with an established platform and a management team that has proven capability in sourcing and realising value in respect of development opportunities may attract a premium in relation to their ability to generate enhanced value from both existing and future growth opportunities.
- ▶ A specific acquirer may attribute value to the acquisition of a portfolio whereby if they were to combine it with an existing property investment platform they may achieve strategic or synergistic benefits (both revenue and cost), or if they were to leverage their own internal expertise or intellectual property in working through development issues to lower the risk associated with development properties they may achieve greater value upside or expertise to offset risk.

Equally, there are reasons as to why no premium, or potentially even a discount, may be observed, which include:

- ▶ The lack of sufficient scale in the portfolio.
- ▶ The stage of the property cycle and market expectations of more modest growth or declining property valuations in the future.
- ▶ The nature of the investment where passive investments typically result in lower premiums given limited opportunities for synergies and/or to influence the future prospects or strategy.
- ▶ The quality and diversity of the portfolio with weaker, less attractive assets (e.g. subject to greater risks around key factors such as re-leasing and tenancy risk) less likely to warrant a premium.
- ▶ The asset class within which investments are held with less complex property assets providing more limited opportunities for efficiencies or growth. Further, the asset class may be misaligned with buyer investment objectives and asset requirements.

In order to understand the potential quantum of any such premium, we have considered the above and performed analysis to determine the typical premia to NTA for listed comparable companies and as evidenced

by recent transactions involving similar entities to Phileo, i.e. those businesses with established property portfolios.

5.9 Corporate and transaction costs

5.9.1 Corporate overheads

Most of Phileo's activities are passive, as there are managers in place for the commercial properties and the development assets are not yet under development, and so would be expected to require a low level of additional management, if any. However, based on Phileo's current operating structure it incurs the following types of incremental corporate overhead costs, which are not reflected in the value of Phileo's property portfolio:

- ▶ Salaries, comprising the costs associated with the head office employees (comprising the two executive directors Mr Koh and Alfred Sung, the financial controller, a receptionist and a book keeper) and the non-executive directors of Phileo.
- ▶ Listed entity costs such as listing fees, compliance and registry costs and audit fees.
- ▶ Other administrative costs such as legal and consultancy fees, IT costs and other expenses.

As such, in assessing the value of Phileo we have considered whether we need to make a deduction to account for corporate overhead costs.

Our valuation of Phileo's property portfolio reflects an "orderly realisation" value and hence reflects the value of the properties if they were to be sold now at their current status of development.

5.9.2 One off transaction costs

Consistent with our approach above, we have included one off transaction costs expected to be incurred by Phileo in relation to the Proposed Transaction.

5.10 Control premium / minority discount

As noted previously, we have considered the value of Phileo on a control basis and hence not made any adjustment for minority interest discounts.

A market valuation of the underlying investment properties provides a controlling interest value of each asset on a standalone basis. As such, no adjustment has been made to our valuations to add a control premium. We do however consider whether an adequate portfolio premium is reflected in the Cancellation Price for the fact that Phileo owns an established, albeit small, portfolio of investment assets. This is discussed in section 5.8.

5.11 Other valuation factors considered

In arriving at our assessment of the fair value of Phileo, we also had regard to the following.

5.11.1 Franking credits

As at 30 June 2018 Phileo had a franking credit balance of \$19.2 million.

As discussed in section 1.2, it is expected that a portion of the cash consideration payable under the selective capital reduction will be characterised as a franked dividend such that eligible shareholders will have access to a refundable tax offset.

Appendix 1 - Independent Expert's Report (continued)



Given the ATO class ruling confirming this treatment has not been received, and that the value of any franking credits will depend upon the profile of each Phileo Shareholder, we have not taken the franking credits into account when assessing whether the selective capital reduction is fair to Phileo Shareholders. The ability to access and realise value from these franking credits needs to be borne in mind by each Phileo Shareholder in weighing up the merits of the selective capital reduction. Phileo Shareholders should consider the information contained in section 9 of the Explanatory Memorandum.

6. Valuation of Phileo

6.1 Summary of values

We have assessed the fair value of a Phileo Share prior to the selective capital reduction based on the sum of the fair values of its underlying net assets and liabilities on an “orderly realisation” basis, with certain adjustments. This is summarised in the following table with further details provided thereafter.

Phileo valuation summary ¹						
		Book value	EY adjustments		EY fair values	
\$ million	Ref	30-Jun-18	Low	High	Low	High
Property valuations including development assets	6.2	182.0	12.3	13.4	194.3	195.4
Plus: Country Garden receivable	6.3	-	178.4	178.4	178.4	178.4
Plus: VicRoads compensation claim	6.4	-	-	18.0	-	18.0
Less: Deferred tax liability	6.5	(25.8)	(68.0)	(73.7)	(93.8)	(99.5)
Add: Net cash	6.6	107.7	-	-	107.7	107.7
Plus: Other assets and liabilities (excl. DTL)	6.7	(56.0)	27.8	27.8	(28.3)	(28.3)
NTA of Phileo		207.8	150.5	163.9	358.3	371.7
Plus: Portfolio premium	6.8				-	9.8
Less: Corporate and transaction costs	6.9				(2.0)	(3.0)
Fair value of Phileo					356.3	378.5
Number of shares on issue (millions)	6.10				28.93	28.93
Fair value per Phileo Share (\$/share)					12.32	13.08

Source: EY Transaction Advisory Services Limited analysis

Notes:

¹ Numbers may not add due to rounding

6.2 Property assets (including development assets)

6.2.1 Summary

We have assessed the fair value of Phileo’s property portfolio to be in the range of \$194.3 million to \$195.4 million. This is summarised in the below table, along with the book values of the properties as at 30 June 2018 and the third party valuations as at dates ranging from 18 March 2018 to 27 June 2018.

Phileo property portfolio valuation summary ¹						
	Book value	Independent valuations	EY adjustments to the independent valuations		EY fair values	
\$ million	30-Jun-18 ²	Single point	Low	High	Low	High
303 Collins Street	148.6	148.6	-	-	148.6	148.6
Ramada Hotel	8.4	8.6	-	1.1	8.6	9.7
Box Hill Site	11.7	36.4	-	-	36.4	36.4
Bendigo Site	1.0	0.7	-	-	0.7	0.7
Wyndham Vale Lots ³	12.2	177.0	(177.0)	(177.0)	-	-
Gross value	182.0	371.3	(177.0)	(175.9)	194.3	195.4

Source: Phileo 2018 consolidated financial statements, property valuation reports, EY Transaction Advisory Services Limited analysis

Notes:

¹ Numbers may not add due to rounding

² Only 303 Collins Street property is stated at fair value. The remainder of Phileo’s property portfolio are treated as inventory and accordingly the book values of the respective properties are stated at the lower of cost and net realisable value. The book value of Ramada Hotel property is stated at net realisable value, which reflects the fair value assessed by the independent valuer of \$8.6 million less provisional selling costs of \$0.2 million

³ We have made an adjustment to exclude the value of the Wyndham Vale Lots from our assessment of the value of Phileo’s property portfolio as this is considered separately in the cash balance and the Country Garden receivable value

Appendix 1 - Independent Expert's Report (continued)



In arriving at our valuation conclusion, we have reviewed the independent valuation reports prepared for each of the properties in Phileo's portfolio. The low end of the range reflects the aggregate of the independent property valuations. The high end of the range reflects an adjustment to the Ramada Hotel valuation as detailed in section 6.2.2. Our review of each of the investment properties (303 Collins Street and Ramada Hotel) and the development properties (Box Hill Site and Bendigo Site) is set out below. Our consideration of the applicability of a portfolio premium is set out in section 6.8.

6.2.2 Investment properties

Phileo's 303 Collins Street and Ramada Hotel properties have been independently valued as at 27 June 2018 and 20 June 2018 respectively. These valuations, along with the book values of the properties as at 30 June 2018, are summarised below.

Phileo investment property portfolio – book values at 30 June 2018 and independent valuations		
\$ million	Book value as at 30 June 2018	Independent valuation as at June 2018
303 Collins Street	148.6	148.6
Ramada Hotel	8.4	8.6

Source: Phileo 2018 consolidated financial statements, independent property valuation reports

We have relied on the independent valuations for the purpose of this Independent Expert's Report and have not undertaken our own valuations of the properties. As detailed in section 5.2, we have however undertaken a review of the independent property valuation reports. We note the following in relation to our review:

- ▶ The external valuers were engaged by Phileo. We note that the instructing individual was Mr Koh, the proponent of the Proposed Transaction. Whilst we have had regard to this in undertaking our review, it is within the expected remit of Mr Koh's position of Managing Director and Chief Executive Officer of Phileo to be the instructing individual for the engagement of external valuers.
- ▶ The external valuers have cited suitable qualifications to support their ability to undertake the valuations.
- ▶ The scope of the valuations was appropriate, with no restrictions that we consider would have materially impacted the quality of the valuations.
- ▶ The external valuers have each applied an appropriate basis of valuation and definition of value.
- ▶ The external valuers have confirmed that their valuations have been prepared in accordance with the standards of the Australian Property Institute.
- ▶ The external valuers have adopted standard approaches and methodologies for the subject properties in arriving at their valuations, specifically:
 - 303 Collins Street: The valuation of 303 Collins Street has been prepared adopting the standard approaches for an investment office property, being the capitalisation of net income approach, discounted cash flow approach ("DCF"), and the direct comparison approach. These methodologies are appropriate.
 - Ramada Hotel: The valuation of the Ramada Hotel has been undertaken on a going concern (i.e. walk-in, walk-out) basis, with the primary approach being the capitalisation of the adjusted net operating profit before interest, depreciation, taxation and amortisation (with the overriding assumption that the business operation remains profitable under "good average management" and that transfers are obtainable for all licences and permits). This methodology is appropriate.
- ▶ The external valuers have adopted reasonable assumptions for the subject properties in arriving at their valuations, specifically:

- 303 Collins Street, Melbourne: The valuation shows reasonable approaches and inputs that have been validated through use of reasonable comparable evidence. The WALE has increased from 2.0 years at April 2018 to 2.5 years at June 2018 following the letting of a number of vacant office suites to tenants. It is clear from the evidence and commentary provided that the central location is benefitting from the current level of demand and low vacancy rates in Melbourne's CBD. The envisaged office supply to 2020/21 poses an obvious future risk albeit this risk appears remote.

The Valuer has provided five primary transactions as evidence to support the adopted valuation rationale, analysing the sales prices, core market yields, internal rates of return and capital value rates. The valuer as at 27 June 2018 has adopted a capitalisation rate of 5.75% which falls within the observed range.

- Ramada Hotel, McCrae Street, Dandenong: The Valuer comments that the hotel is subject to an internal Lease Agreement between Phileo Australia Limited as the Landlord and Sequoia Management Pty Ltd as the Tenant. These entities/companies share common directors and as such the Valuer has disregarded the lease agreement for valuation purposes.

The valuer has highlighted that the tenancy was vacated approximately two years ago (as at the date of valuation). The lessee has continued to pay the rent since vacating and the tenancies are on the market for sublease (as at the date of valuation). The asking rental has been reduced to \$100,000 per annum net plus GST or \$185 per sqm per annum (excluding GST). In October 2018 the ground floor Tenant advised it cannot continue to pay rent and has pulled out of the lease for the ground floor space. This area was already being marketed for lease at \$100,000 per annum which is less than the previous passing rent. The lease has just over 12 months until expiry. The Lessor is holding a security / guarantee of approximately \$57,000, which may offset any vacancy and re-letting fees for the space. We do not consider this to have a material impact on the valuation.

The valuation states that the licence agreement under which the Ramada brand is licenced is unclear as to the expiry date, although the valuer is informed by the instructing party that the licence agreement extends for 10 years from the commencement date. EY has separately reviewed the executed management agreement, which states that the term begins on the 'effective date' and expires at the end of the 10th licence year. The 'effective date' is stated to be 1 July 2013. Neither party has renewal rights or options. The licence agreement can be terminated by the licensor (Ramada) if a number of criteria are not met. Significant termination fees apply if the licence agreement is terminated by Ramada. The licence agreement can be terminated by the licensee (Phileo). Fees and costs apply to any such termination. Phileo management has confirmed that the licence agreement will not be terminated during the licence period and also that a transfer (i.e. privatisation) will not result in a termination of the existing licence agreement for the Dandenong property.

The cornerstone of valuing a hotel as freehold as a going concern is the assumption that the business is operated under good average management and that all licences and registrations are transferrable.

The assumptions adopted by the Valuer for Ramada are considered appropriate and reasonable.

Based on the above, we have considered whether any adjustments are required to the resultant property values to reflect differences based on our review of the property valuation reports. We note the following:

- ▶ 303 Collins Street: We did not identify any differences and as such we have not made any adjustments to the independent property valuation.
- ▶ Ramada Hotel: We consider the adopted \$ per room key rate to be at the lower end of the market range, given the evidence considered in the valuation report for suburban motels in Melbourne and

Appendix 1 - Independent Expert's Report (continued)



regional Victoria. Given the scale of the asset, the available evidence and current occupancy levels in the market, we consider that the valuation reflects the low end of the range on a \$ per room key basis and based on recent occupancy levels. To reflect this, we have created a range by including an upwards adjustment at the high end of the range in the order of \$1.1 million to result in an implied valuation range of \$80,000 per room key to \$90,000 per room key. We did not identify any other differences.

Given the date of the valuations, we have also considered whether any adjustments are required to update the current market value of the properties, for instance as a result of any capital expenditure incurred since the valuation and for changes in yields in the context of the current market environment and recent transactions. We have not made any such adjustment to either of the property values.

6.2.3 Development properties

Phileo's Box Hill Site and Bendigo Site development properties have been externally valued as at 18 March 2018 and 6 April 2018 respectively. These valuations, along with the book values of the properties as at 30 June 2018 (which reflect historical cost rather than fair value), are summarised below.

Phileo development property portfolio – book values at 30 June 2018 and external valuations		
\$ million	Book value as at 30 June 2018	Independent valuation ¹
Box Hill Site	11.7	36.4
Bendigo Site	1.0	0.7

Source: Phileo 2018 consolidated financial statements, independent property valuation reports

Notes:

¹ Box Hill Site as at 18 March 2018 and Bendigo Site as at 6 April 2018

We have relied on the independent valuations for the purpose of this Independent Expert's Report and have not undertaken our own valuations of the properties. As detailed in section 5.2, we have undertaken a review of the property valuation reports. We note the following in relation to our review:

- ▶ The external valuers were engaged by an entity controlled by Mr Koh. Given the valuations were commissioned by Mr Koh, the proponent of the Proposed Transaction, rather than Phileo we considered and ultimately remain comfortable with the independence of the valuer. This is discussed in section 5.2.
- ▶ The external valuers have cited suitable qualifications to support their ability to undertake the valuations.
- ▶ The scope of the valuations was appropriate, with no restrictions that we consider would have materially impacted the quality of the valuations.
- ▶ The external valuers have each applied an appropriate basis of valuation and definition of value.
- ▶ The external valuers have confirmed that their valuations have been prepared in accordance with the standards of the Australian Property Institute.
- ▶ The external valuers have adopted standard approaches and methodologies for the subject properties in arriving at their valuations, specifically:
 - Box Hill Site: The valuation of Box Hill has been carried out on a direct comparison basis. The direct comparison approach compares the characteristics of the subject property against the comparable sales on a rate per square metre basis. This methodology is appropriate.

- Bendigo Site: The valuation of the Bendigo Site has been undertaken based on the highest and best use for the property as a development site for residential use and the Valuer has adopted the direct comparison approach in assessing the value of the property.

Typically, we would expect the valuer to adopt two valuation approaches, however given the property does not have planning for subdivision, a secondary hypothetical development approach cannot have been undertaken. The use of the direct comparison as the primary methodology is considered to be appropriate for this type of asset.

- The external valuers have adopted reasonable assumptions for the subject properties in arriving at their valuations, specifically:

- The Box Hill site was valued on an “as is” basis, reflecting the current General Residential zone and Special Use zone applicable to the former landfill.

The Valuer had regard to existing heritage listed buildings on site that required retention in any development, in addition to the existing environmental status of the land. Whilst there is a current planning permit in place for part of the site, the Valuer noted that the permit expires in December 2018 due to conditions of the permit around development commencement and completion not being met. However, whilst the Valuer has assumed the permit has expired for the purpose of the valuation, which is reasonable, they did note that the likelihood of an extension is reasonable given the previous history with permit extensions by Council for the site.

The Valuer had regard to market evidence of infill development sites throughout suburban Melbourne and in particular the eastern suburbs. The Valuer relied upon geotechnical advice prepared by Golder Associates, third party consultants, for part of the site, and made an assumption regarding ongoing groundwater management obligations for the site. The Valuer’s assumptions are considered reasonable. The approach is considered reasonable.

- The Bendigo site was valued on an “as is” basis, having regard to the existing General Residential zoning. Whilst Phileo has commented that it is proposing an industrial development on the site, this would require rezoning or planning approvals that are not in place. It is reasonable therefore to value the site on the basis of its existing zoning.

Based on the above, we have considered whether any adjustments are required to the resultant property values to reflect differences based on our review of the property valuation reports. We note the following:

- Box Hill Site: we did not identify any differences and as such we have not made any adjustments to the external property valuation.
- Bendigo Site: we did not identify any differences and as such we have not made any adjustments to the external property valuation.

Given the date of the valuations, we have also considered whether any adjustments are required to update the current market value of the properties, for instance as a result of any changes in the context of the current market and recent transactions, or capital expenditure incurred or works undertaken since the valuation and for changes in the status of the land (i.e. approvals, zoning). We have not made any such adjustment to either of the property values.

6.3 Country Garden receivable

We have assessed the net present value of the Country Garden receivable to be \$178.4 million, reflecting the assessed value of the receivable less any holding costs expected to be incurred by Phileo until settlement. This is summarised in the table on the following page with further details provided thereafter, noting that a receivable was not recognised on Phileo’s balance sheet at 30 June 2018 and as such our value reflects an increase from the book value of nil.

Appendix 1 - Independent Expert's Report (continued)



Value of the Country Garden receivable		
\$ million	Ref	
Contract 2 (Lot 5) settlement	6.3.1	44.2
Contract 3 (Lots 3-4) settlement	6.3.1	146.2
Rates	6.3.2	(1.0)
Land taxes	6.3.2	(11.0)
Total net present value		178.4

Source: EY Transaction Advisory Services Limited analysis

6.3.1 Contract settlement

We have assessed the present value of the settlement proceeds from Contract 2 and Contract 3 to total \$190.4 million as summarised in the table below.

Value of the Country Garden receivable – contract settlement value ¹		
\$ million	Contract 2	Contract 3
Balance owing	50.0	200.0
Settlement date	20-Feb-20	20-Feb-22
Discount factor	12%	27%
Present value	44.2	146.2

Source: EY Transaction Advisory Services Limited analysis

Notes:

¹ Numbers may not add due to rounding

The present value was calculated by discounting the balances owed at the respective settlement dates back to 2 November 2018, being a date close to the date of this Independent Expert's Report. We utilised a discount rate of 10%, which, based on the two settlement dates, implies a discount factor of 12% applied to the \$50 million owing on Contract 2 and 27% applied to the \$200 million owing on Contract 3. The discount rate applied takes into account the time and risk associated with settlement as discussed in section 5.3. In this regard we consider the risk of default by Country Garden to be low given the contracts are guaranteed by the large public Hong Kong parent. In the unlikely event of default by Country Garden, Phileo retains the 10% deposit and the title of the subject land, which we expect could be realised in the market at a similar value to the balance owing, albeit after a selling period.

6.3.2 Operating expenses

We have assessed the present value of direct operating expenses expected to be incurred by Phileo up until settlement of each contract to be \$12.0 million. This is summarised in the below table.

Value of the Country Garden receivable – operating expenses value ¹			
\$ million	Contract 2	Contract 3	Total
Present value of annual rates expenses to settlement	0.1	0.9	1.0
Present value of annual land tax expenses to settlement	1.4	9.6	11.0
Total present value of operating expenses to settlement	1.6	10.5	12.0

Source: EY Transaction Advisory Services Limited analysis

Notes:

¹ Numbers may not add due to rounding

The present value was calculated by discounting the expected operating expenses, net of corporate tax, from holding the land until settlement back to 2 November 2018, being a date close to the date of this Independent Expert's Report. Given the land is currently undeveloped and not currently connected to services and that Phileo is not required to incur material costs maintaining or improving the land, we consider the only material costs to Phileo associated with holding the land until settlement to comprise rates payable to the council and land tax payable to the State Revenues Office. We have forecast the expected rates and land tax expenses as follows:

- ▶ **Rates:** We estimated the expected annual rates payments based on the charges (fixed and variable) in the FY19 rates notice received by Phileo and our estimated capital improved value of the subject land. Our estimate of the capital improved value reflects a cash equivalent of the purchase price, escalated at 2.5% per annum.
- ▶ **Land tax:** We estimated the expected annual tax payments based on the land tax rate in the 2018 land tax assessment notice received by Phileo and our estimated taxable value of the subject land. Our estimate of the taxable value is commensurate with the abovementioned capital improved value, which reflects a cash equivalent of the purchase price, escalated at 2.5% per annum.

We have applied a post-tax discount rate of 5% to the operating expenses expected to be incurred up until settlement of each contract to derive a present value.

6.4 VicRoads compensation

We have assessed the potential value of the compensation claim that Phileo is in the process of pursuing with VicRoads by considering the independent external valuation of \$36.4 million and then developed our views on the likelihood and timing of Phileo receiving such compensation. In this regard we note that:

- ▶ In September 2018 Phileo submitted a claim to VicRoads for compensation for financial loss pursuant to the PAO, supported by the abovementioned valuation plus costs incurred by Phileo as a result of the PAO (i.e. valuation, legal and consultant and management time).
- ▶ In October 2018 VicRoads rejected Phileo's compensation claim, asserting that, in the absence of further supporting evidence, Phileo does not have a valid claim for compensation.
- ▶ Phileo has considered the response from VicRoads and disagrees with VicRoads' assertion.³³
- ▶ Phileo is in the process of providing a formal response to VicRoads and has reiterated its previous guidance that the final outcome of the application or the amount of compensation cannot be reliably estimated at the present time.³⁴

We note that at the time Mr Koh submitted his proposal in relation to the Proposed Transaction, these developments had not occurred and the risks relating to this compensation were less well understood. In making the proposal, Mr Koh is likely to have attributed more value to this than EY, reflective of these differences. We are advised that the above developments do not result in any contractual right to adjust the Cancellation Price under the Implementation Deed.

We highlight that VicRoads asserted in its response of October 2018 that VicRoads is seeking to ascertain whether Phileo holds any right to compensation pursuant to the Planning & Environment Act (1987). VicRoads asserts that the public exhibition of the Planning Assessment Report for the OMR/E6 corridor was put on public display on 17 June 2009, which according to VicRoads was prior to the date that Phileo was registered as proprietor of the Wyndham Vale land, dated 11 March 2010. VicRoads made explicit reference to case law; in the judgement of Batt J in *Halwood v Roads Corporation (1995) 18 LGERA 280 and the Court of Appeal in Halwood Corporation Ltd. v Roads Corporation (1998) 2 VR 439*; where the claimant was not entitled to compensation as it purchased the land in the knowledge of the proposed reservation. This case, which went all the way to the Court of Appeal, found in favour of VicRoads.³⁵

Phileo disputes these assertions. Based on the above we consider there to be significant uncertainty in relation to whether or not Phileo may be entitled to compensation for the PAO. Even if Phileo is successful in any claim for compensation, there is then significant uncertainty associated with the quantum of compensation which ultimately may be paid, including that relating to the costs incurred by Phileo in relation to the claim. As

³³ Source: Company announcement, 12 October 2018

³⁴ Source: Company announcement, 12 October 2018

³⁵ Source: Letter from VicRoads to Phileo's legal adviser in relation to Phileo's claim

Appendix 1 - Independent Expert's Report (continued)



such, we have assessed the appropriate value of the VicRoads compensation to be in a wide range, reflecting significant uncertainty, with a value of nil at the low end.

At the high end of our assessed range of values for the VicRoads compensation we have considered the potential compensation that Phileo could receive in the event it is successful in its claim for financial loss. In doing so, we have considered the external valuer's assessment of \$36.4 million and applied a discount of 50% to reflect the risks and time likely to achieve any settlement. We understand that VicRoads is likely to continue contesting the claim and that as such we consider there to be uncertainty regarding Phileo's ability to be awarded the full compensation contemplated by the external valuer. Based on this, we have adopted a value of \$18.0 million at the high end of our valuation range, which incorporates an adjustment for both risk and the time value of money.

We have cross checked this against an analysis of market evidence based on value per developable hectare. We note that in the event that Phileo is successful in its claim, VicRoads would be responsible for all of the costs reasonably incurred by Phileo in pursuing the claim.

We have summarised our concluded wide valuation range, reflecting the significant uncertainty, in the below table.

Value of the VicRoads compensation claim outstanding		
\$ million	Low	High
External compensation assessment as at 27 November 2017	36.4	36.4
EY discount applied	100%	50%
Expected value (rounded)	0.0	18.0

Source: External compensation assessment report, EY Transaction Advisory Services Limited analysis

6.5 Deferred tax liability

As at 30 June 2018, Phileo had recognised a deferred tax liability in its accounts of \$25.8 million, which primarily relates to the fair value adjustments to investment properties. We have adjusted this balance to reflect the future tax implications of the upwards asset revisions we have assessed in our adjusted NTA. This is summarised in the table below.

Adjusted Phileo deferred tax liability		
\$ million	Low	High
Deferred tax liability as at 30 June 2018	25.8	25.8
Plus: Property revaluation adjustment	7.4	7.7
Plus: Country Garden receivable adjustment	60.6	60.6
Plus: VicRoads compensation adjustment	0.0	5.4
Adjusted deferred tax liability balance	93.8	99.5

Source: Phileo 2018 Consolidated Financial Statements, EY Transaction Advisory Services Limited analysis

6.6 Net cash

As at 30 June 2018, Phileo's net cash of \$107.7 million consisted of \$152.7 million of cash less \$45.0 million in interest bearing debt as set out in section 4.5. The cash balance is largely the result of the settlement of Wyndham Vale Contract 1 in February 2018 and the deposits on Wyndham Vale Contracts 2 and 3 received in July 2017.

6.7 Other assets and liabilities

As at 30 June 2018, Phileo had net liabilities of \$56.0 million in addition to the property investments, deferred tax liability and net cash described above. This net liability balance comprises the following:

- ▶ Trade payables of \$33.4 million, which includes \$27.8 million relating to the deposits received for the Wyndham Vale Contracts 2 and 3 that are treated as customer advances for accounting purposes.
- ▶ Income tax payable of \$25.9 million
- ▶ An interest rate swap of \$2.2 million
- ▶ Provisions of \$0.5 million
- ▶ Other debtors and an unwinding rental asset of \$1.5 million
- ▶ Prepayments of \$1.2 million
- ▶ Deferred tax assets of \$1.2 million
- ▶ A lease incentive asset of \$1.0 million
- ▶ Plant and equipment of \$0.7 million
- ▶ Other assets totaling \$0.5 million

We have adjusted the trade payables balance to exclude the \$27.8 million relating to the deposits received for the Wyndham Vale Contracts 2 and 3. Its inclusion on Phileo's balance sheet reflects the revenue recognition requirements under the accounting standards, rather than a true liability of Phileo. The associated cash received is reflected in the net cash balance of Phileo.

We note that the tax associated with these deposits is captured in the income tax payable, as tax is calculated at the time the cash is received rather than in accordance with the accounting revenue recognition timing.

6.8 Portfolio premium

In assessing the appropriate portfolio premium that may be applicable, we have considered the factors discussed in section 5.8, and the premium to NTA observed for companies and transactions that may be considered comparable to Phileo as set out in Appendix D. This analysis is summarised below, followed by our selection of an appropriate portfolio premium.

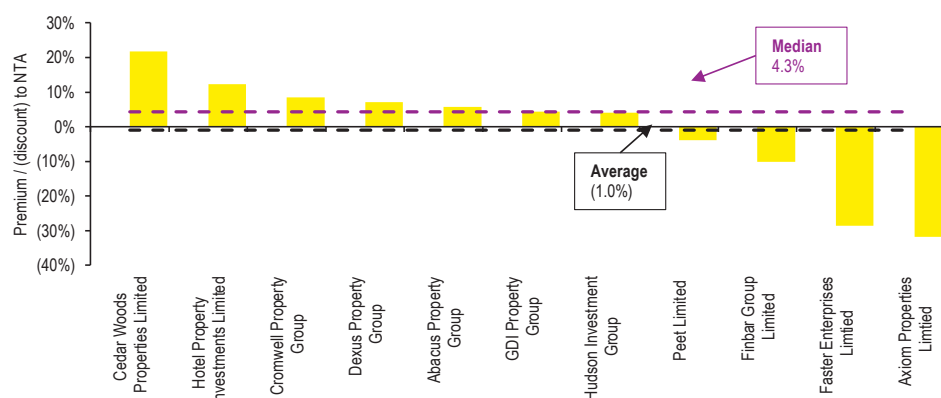
6.8.1 Trading evidence

Often trading in securities which hold of portfolios of properties realise a premium above the aggregated value of the properties. This is evidenced by analysis of the price and NTA of listed property investment and development peers. The chart on the following page presents analysis of Australian listed property investment peers.

Appendix 1 - Independent Expert's Report (continued)



**Australian Listed property investment and development companies –
Trading Premium/(discount) to 30 June 2018 Reported NTA**



Source: EY Transaction Advisory Services Limited analysis, S&P Capital IQ, company websites

Notes:

¹ As at 13 November 2018, being the day prior to the date of this Independent Expert's Report

Based on our analysis of the market value (as at 13 November 2018) and NTA as at 30 June 2018 of listed property development and investment companies, we note that the diversified property investment and development companies are currently generally trading at a premium to NTA. In aggregate, the average discount to NTA is 1.0% and the medium premium to NTA is 4.3%.³⁶ We note, however, the comparable company set consists of a number of companies that are more diversified and significantly larger in terms of size and scale of operations and development pipeline, when compared to Phileo. We consider Hudson Investment Group Limited ("Hudson") to be the most comparable company in terms of type and scale of operations. Hudson is involved in the investment, development and administration of industrial and commercial properties in Australia, with a current portfolio of three properties, involving commercial and industrial leasing³⁷. As at the date of this Independent Expert's Report, Hudson was trading at a premium of 4.0% above NTA.

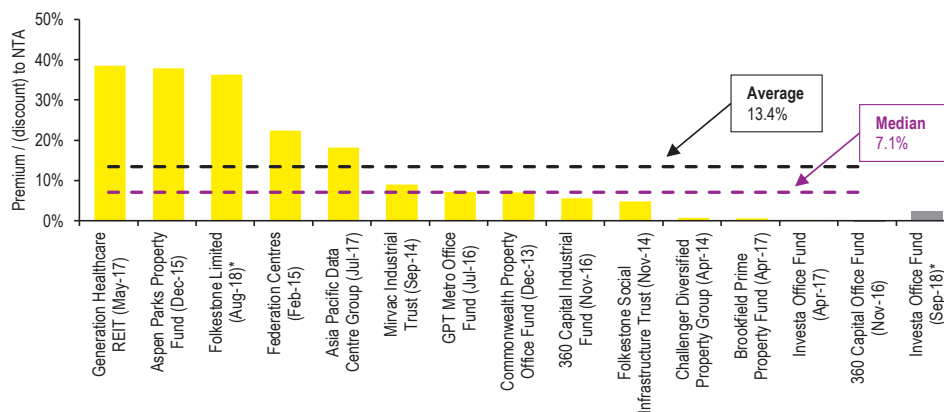
6.8.2 Transaction evidence

Similarly, our analysis of recent transactions involving listed Australian REITs (noting that we have not identified any recent relevant transactions of property investment and development companies in Australia with publicly available data) indicates that recent portfolios of property assets have transacted at a premium to NTA.

³⁶ Average and median excludes Phileo

³⁷ Sourced from <https://www.higl.com.au/warnervale-property>. Accessed on 2 October 2018

Recent transactions in Australian REITs - Premium/(discount) to Reported NTA



Source: EY Transaction Advisory Services Limited analysis, Mergermarket, company announcements

Notes:

¹ Challenger Diversified Property Group (Apr-14), 360 Capital Office Fund (Nov-16), Investa Office Fund (Apr-17) and Brookfield Fund (Apr-17) were transacted at less than a 1% premium to the last reported NTA

*Transaction announced but not completed, it has not been included in the calculated average or median

6.8.3 Selected portfolio premium

In assessing an appropriate premium to the gross property asset value of Phileo, we had regard to the following:

- ▶ All of the valuations of Phileo's properties were performed in the last nine months and have been prepared on a control basis.
- ▶ Phileo's property portfolio is small relative to the peers considered, with only four properties such that there are limited efficiencies gained from the management of the properties on a portfolio basis.
- ▶ Phileo's property portfolio is diverse and as such the pool of potential acquirers of the portfolio is limited to those with interest in and/or capability across a diverse mix of commercial, hotel and development properties.
- ▶ Phileo has no other non-passive business or operations. However, the senior management of Phileo has demonstrated capability in sourcing and realising value on speculative development opportunities. This is evidenced by the sale of the five Wyndham Vale lots for \$400.0 million compared to a total book value of \$16.9 million, as well as the premium of the fair value of the Box Hill Site (\$36.4 million) over its book value (\$11.7 million).
- ▶ An acquirer with expertise and/or recent experience in working through and resolving similar development issues to those associated with the Box Hill Site may associate a lower risk rating to the development and thus attribute a premium over the fair value of the property.
- ▶ The trading prices, presented on a minority basis, of potentially comparable Australian property investment and development companies imply an average discount and median premium to reported NTA of 1.0% and 4.3% respectively, suggesting a small premium may be warranted.

Appendix 1 - Independent Expert's Report (continued)



- As stated earlier, we do not consider there to be any recent relevant transactions of property investment and development companies in Australia for which premium to NTA data is available.

On balance, we have incorporated a portfolio premium of nil at the low end of our valuation range and 5.0% at the high end of our valuation range. The 5% premium primarily relates to the potential value upside from Phileo's management and/or an acquirer's management leveraging their capability and intellectual property to realise value above that reflected in the independent property values conducted on an "as is" basis. We have applied this premium to the high end of our gross property asset value range of \$195.4 million, rather than to NTA, given Phileo's NTA contains a substantial receivable to which it is not appropriate to apply such a premium. Assuming a gearing of 30% (debt to enterprise value), our premium of 5% applied to gross property asset value would equate to a premium of approximately 7% if applied to this adjusted NTA. This is summarised in the table below.

Portfolio premium		
\$ million	Low	High
Gross property asset value	194.3	195.4
Portfolio premium applied	0%	5%
Assessed portfolio premium	0.0	9.8

Source: EY Transaction Advisory Services Limited analysis

6.9 Corporate and transaction costs

6.9.1 Corporate costs

We have deducted the value attributable to the ongoing corporate costs of the business during an assumed orderly period of realisation.

Phileo has incurred corporate overhead costs of c.\$2 million per annum over each of the past three years, excluding the special bonuses paid out in FY18 and other non-recurring items.

Taking into consideration the assets requiring realisation and the existing overhead costs, we have deducted a value attributable to corporate costs in the range of \$1 million to \$2 million.

6.9.2 One off transaction costs

Phileo has agreed, as set out in the Implementation Deed and summarised in section 2.5(d) of the Explanatory Memorandum, that it will be responsible for the costs it has and will incur in preparing the Implementation Deed and the materials it is submitting to shareholders to consider the Proposed Transaction, as well as the costs of implementing the Proposed Transaction if duly approved. Phileo estimates that these costs will be in the range of \$0.95 million to \$1.0 million. A significant proportion of these transaction costs will be payable by Phileo regardless of whether the selective capital reduction is approved and implemented. Accordingly, we have included one off transaction costs in the order of \$1.0 million within the Adjusted NTA.

6.10 Number of Shares on issue

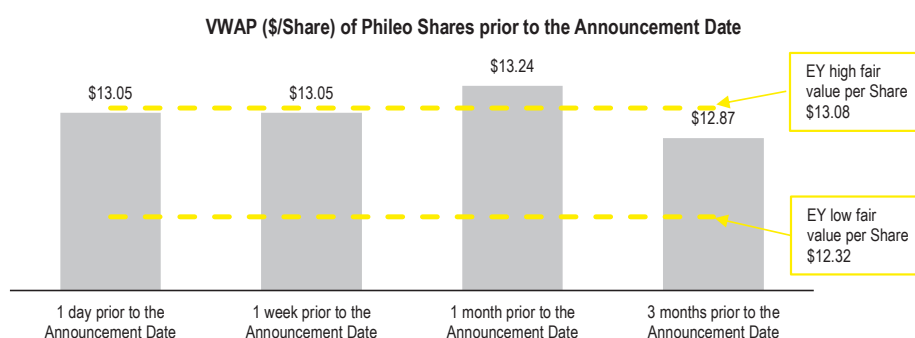
In order to determine a value per Phileo Share, we have divided the fair value of Phileo by the total number of Phileo Shares on issue prior to the Proposed Transaction being 28,927,016³⁸. This results in a fair value per Phileo Share in the range of \$12.32 to \$13.08.

³⁸ Source: Management holdings report at 31 July 2018, verified by company announcements

6.11 Cross checks

6.11.1 Cross check to Phileo share price

We have compared our fair value per Phileo Share to Phileo's price per Share prior to the Announcement Date.



Source: S&P Capital IQ and EY Transaction Advisory Services Limited analysis

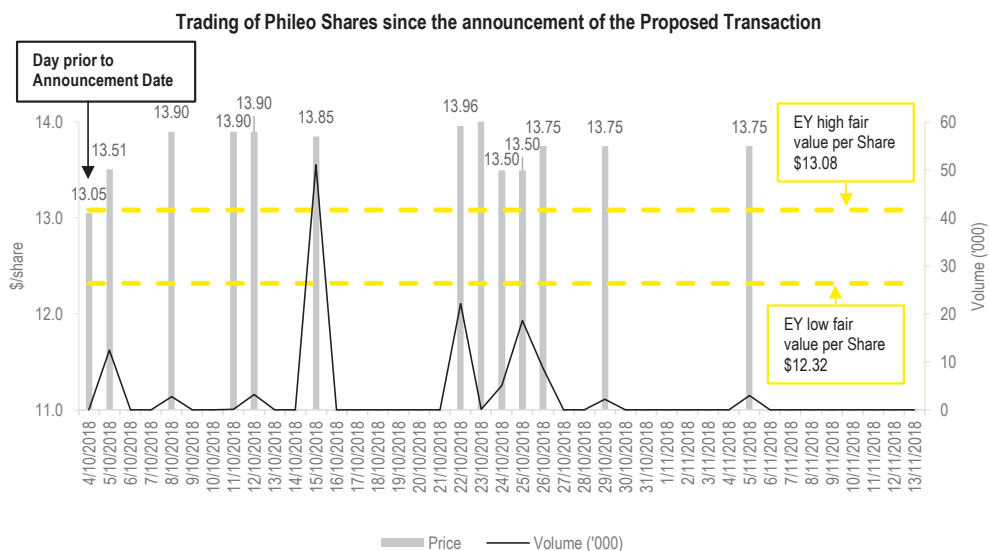
In relation to the chart above, we note that Phileo's price per Share the day and one week prior to the Announcement Date, as well as the VWAP three months prior to the Announcement Date, are within our assessed valuation range, whilst Phileo's price per Share one month prior to the Announcement Date is above the high end of our assessed valuation range.

Whilst we have had regard to the Phileo Share price, we consider it to have limitations in its reflection of the fair value of Phileo due to:

- ▶ The highly illiquid nature of Phileo Shares. As discussed in section 4.8, in the last 12 months to 4 October 2018 Phileo had an implied annual turnover of just 0.17% of total Shares outstanding. The vast majority of shares are held by a small number of shareholders, with those shares not being traded. The top ten shareholders on the register own in excess of 90% of the shares on issue. By comparison, Phileo's peers show an average turnover of 23.3% of shares outstanding over the same period. This illiquidity results in observed share prices being a less reliable indicator of the underlying value of the business than the shares in companies with greater liquidity.
- ▶ The reported NTA of Phileo not reflecting the full fair value of its assets. Phileo's reported NTA does not reflect the fair value of its properties (other than 303 Collins Street), as these properties are accounted for as inventory rather than investment properties and thus required to be carried at the lower of cost and net realisable value on Phileo's balance sheet, nor the Country Garden receivable. In its last three annual reports Phileo has provided its shareholders with the notional NTA per share implied after taking into consideration the latest market valuations of Phileo's properties and the Country Garden receivable. However, it does not disclose the value of each of the properties nor the basis for how it has valued the Country Garden receivable. By comparison, most of Phileo's peers disclose to the market the fair value of their properties. Further, in its last two annual reports Phileo has communicated to shareholders that it is in the process of lodging an application for compensation from VicRoads, however it has not provided any indication on the potential quantum of such compensation as it cannot be reliably estimated.
- ▶ The lack of analyst coverage of Phileo. There have been no known, reputable analysts covering Phileo and releasing research and views in relation to the Phileo share price.

We have also compared our fair value per Phileo Share to Phileo's price per Share since the announcement of the Proposed Transaction.

Appendix 1 - Independent Expert's Report (continued)



Source: S&P Capital IQ and EY Transaction Advisory Services Limited analysis

In relation to the chart above, we note that the prices at which Phileo's Shares have traded since the announcement of the Proposed Transaction are above our assessed valuation range, noting a VWAP of \$13.76 per Phileo Share from 5 October 2018 to 13 November 2018. However, the number of shares traded has been very low and large volumes of shares may not be able to trade at these prices. Further, notwithstanding the uncertainty as a result of the ATO class ruling, we consider that the price observed since the announcement may reflect the desire of particular buyers to take advantage of the potential franking credits and capital return treatment (based on their individual circumstances) and the desire of sellers who based on their circumstances may not be able to take advantage of these factors, or who consider these potential sources of value upside unlikely.

As such, we do not consider the discount of our assessed fair value of Phileo Shares to the recent share price of Phileo to be unreasonable.

6.11.2 Cross check to NTA

Our assessed valuation range of Phileo is based on an equity value range of \$356.3 million to \$378.5 million. Given Phileo only carries one of its properties at fair value on its balance sheet and the \$250 million settlement proceeds from the sale of the Wyndham Vale Lots is not reflected on Phileo's balance sheet, Phileo's reported NTA as at 30 June 2018 significantly undervalues Phileo. As such, we have cross-checked our assessed fair value of Phileo to our adjusted NTA of Phileo. Our assessed valuation range of Phileo's NTA is in the range of \$358.3 million to \$371.7 million ("Adjusted NTA").

Comparison of value of Phileo to Adjusted NTA		
\$ million	Low	High
Fair value of equity in Phileo	356.3	378.5
Adjusted NTA of Phileo	358.3	371.7
Premium/(discount) of fair value to Adjusted NTA	(0.6%)	1.8%

Source: EY Transaction Advisory Services Limited analysis

Our fair value of Phileo implies a premium/(discount) over our assessed Adjusted NTA of Phileo in the range of a discount of 0.6% to a premium of 1.8%. We have compared this range to the premiums over reported NTA implied by recent comparable trading and transaction evidence as set out in section 6.8, which showed a median premium of 4.0% and 7.1% respectively above reported NTA. Having regard to the considerations set out in section 6.8.3 and that over 75% of our Adjusted NTA of Phileo relates to cash, both the \$107.7 million



of net cash and the \$178.4 million of value attributed to the future cash receipt from the Country Garden receivable, to which a premium would not be expected, we consider the premium to the Adjusted NTA implied by our valuation to be consistent with market benchmarks and supportive of our valuation.



7. Evaluation of the selective capital reduction

7.1 Overview

In order to evaluate whether the selective capital reduction is fair and reasonable to shareholders *as a whole*, we have considered the perspectives of:

- ▶ Exiting shareholders – those shareholders who, if the selective capital reduction proceeds, will either be required to participate or elect to participate in the selective capital reduction;
- ▶ Continuing shareholders – those shareholders who, if the selective capital reduction proceeds, elect to not participate (or where permitted under the terms of the selective capital reduction, to only partially participate) in the selective capital reduction.

Shareholders who hold above 10,000 shares have the option to partially participate in the selective capital reduction, provided they retain a minimum of 10,000 shares in Phileo. This option is voluntary as no shareholder will be forced to only partially participate based on current voting intentions as outlined in section 1.14 of the Explanatory Memorandum. On this basis, we have not separately considered the perspective of Partially Exiting Shareholders. The impact for those shareholders can be considered by reference to both the Exiting Shareholder and Continuing Shareholder perspectives as outlined below, in proportion to the number of Phileo Shares that will be cancelled relative to those that will be retained.

In forming our opinion as to whether the selective capital reduction is fair and reasonable for Phileo Shareholders as a whole, we have considered matters including:

- ▶ A comparison of the Cancellation Price to our assessment of the value of a Phileo Share prior to the selective capital reduction (on a control basis).
- ▶ The advantages and disadvantages of the selective capital reduction to Phileo Shareholders.
- ▶ The prices at which Phileo Shares have traded on the ASX relative to the Cancellation Price, and other relevant valuation metrics.
- ▶ The likelihood of an alternative superior proposal being received.
- ▶ The likely market price of Phileo Shares in the event that the Proposed Transaction does not proceed.
- ▶ Other matters relevant to the consideration of this selective capital reduction.

In balancing the relative importance of the different shareholder perspectives, we have also considered the following:

- ▶ The objectives put forward by Mr Koh, are for him to become the majority owner in Phileo, to delist it from the ASX and to provide an opportunity for the majority of other investors to exit their investment;
- ▶ Three substantial shareholders have already had the opportunity to consider this proposal and have provided an indication of their current intention to opt-out of the selective capital reduction (two fully and one partially);
- ▶ Given the objectives of Mr Koh and the current intent of the three substantial shareholders, it is open for all other shareholders to take the opportunity to exit, should they so choose;

In addition, we note that for shareholders who do not make an election as to whether or not they will participate in the selective capital reduction, the default is for these shareholders to receive the cash consideration.

7.2 Fairness

We have determined whether the selective capital reduction is fair by comparing the assessed fair value of a Phileo Share, on a controlling interest basis, to the Cancellation Price that will be received by Exiting Shareholders in the event that the selective capital reduction is approved. The following table summarises this comparison:

Evaluation of the fairness of the selective capital reduction			
\$/Share	Ref	Low	High
Cancellation Price	Section 1.2	12.66	12.66
Assessed fair value of a Phileo Share	Section 6.1	12.32	13.08
Premium of the Cancellation Price to the assessed fair value per Phileo Share		0.34	(0.42)
% Premium		2.8%	(3.2%)

Source: EY Transaction Advisory Services Limited analysis

The assessed fair value of a Phileo Share on a controlling interest basis is between \$12.32 and \$13.08 per Phileo Share. The Cancellation Price is \$12.66 per Phileo Share.

We conclude that, as the Cancellation Price falls within our assessed fair value range of a Phileo Share, the selective capital reduction is fair to Exiting Shareholders.

Given the Cancellation Price sits within our assessed fair value range we consider the selective capital reduction is also fair to Continuing Shareholders. However, for reasons we explain in section 7.3.2 below, we also consider that, in the absence of a future control transaction, the future price that may be realised by a Continuing Shareholder in the event that Phileo Shareholders also approve the delisting may be lower than our assessed fair value range.

7.3 Reasonableness

In order to form our conclusion on whether the selective capital reduction is reasonable to Phileo Shareholders as a whole, we have separately considered below the perspectives of Exiting Shareholders and Continuing Shareholders. We have summarised below considerations that are potentially relevant to shareholders. Individual shareholders may interpret these factors differently depending on their own circumstances.

7.3.1 Exiting Shareholders

Advantages of the selective capital reduction to Exiting Shareholders

7.3.1.1 The selective capital reduction provides an immediate liquidity opportunity

The selective capital reduction represents an opportunity for Exiting Shareholders to achieve an immediate sale of their Phileo Shares at a known price and without incurring brokerage costs. The historically low volumes of trading in Phileo Shares means that it may otherwise be difficult for Phileo Shareholders to realise a fair value in the open market for large volumes of Phileo Shares. In recent years, a number of Phileo's shareholders have requested a mechanism to allow them to exit their Shares should they wish. This Proposed Transaction follows Phileo's announcement on 23 November 2017 that it would investigate its options to return capital to its shareholders in the most effective manner following the announcement of the staged sale of the Wyndham Vale land to Country Garden in July 2017.

Further, in the absence of the selective capital reduction there is no guarantee of future dividends. In section 2.4 of the Explanatory Memorandum the Independent Directors noted that an alternative method to return

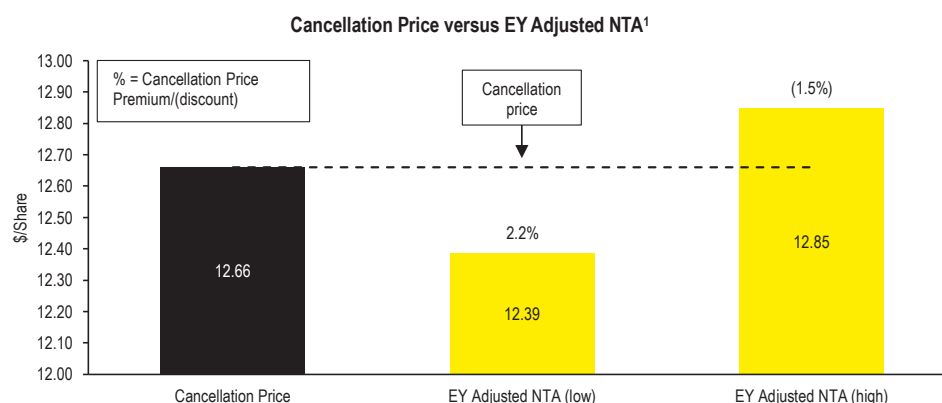
Appendix 1 - Independent Expert's Report (continued)



capital to shareholders was to pay a dividend to all shareholders, however the dividend would be limited to \$4.00 to \$4.50 per Share and so was considered to be inferior.

7.3.1.2 The selective capital reduction is within the range of the Adjusted NTA

As at 30 June 2018, the reported audited NTA of Phileo was \$207.8 million. We have identified a number of adjustments, primarily in relation to the Country Garden sale proceeds and related tax consequences (which are not recorded on the balance sheet), to assess an Adjusted NTA of Phileo in the range of \$358.3 million to \$371.7 million. Based on the number of shares outstanding as at the Announcement Date, this is equivalent to an Adjusted NTA in the range of \$12.39 to \$12.85 per Phileo Share. The Cancellation Price represents between a 1.5% discount and a 2.2% premium to our assessed Adjusted NTA range per Phileo Share.



Source: EY Transaction Advisory Services Limited analysis, Company Announcements

¹ EY Adjusted NTA differs to our assessed fair value range. It excludes portfolio premium and deductions for corporate costs and one off transaction costs as a result of the selective capital reduction as set out in section 6.1.

7.3.1.3 Immediate access to share of future Wyndham Vale settlement proceeds

We have assessed the net value of the proceeds from the settlement of the remaining two contracts with Country Garden to account for approximately 50% of our assessed value of a Phileo Share. Whilst we consider there to be a low risk of default, there is inherent risk associated with the settlement and thus receipt of funds by Phileo in relation to these contracts. We have assessed the value of those receivables after applying an appropriate discount based on both the time value of money and the perceived default risk. Whilst default would mean that Phileo would continue to own those parcels of land, realisation of any value for these would inevitably be further delayed. Settlement is not due until February 2020 and February 2022 and as such the proceeds will not be received by Phileo and available for potential distribution to shareholders for a number of years. As such, the selective capital reduction effectively represents an opportunity for Exiting Shareholders to receive value for their share of the expected future proceeds now.

7.3.1.4 Immediate and certain access to some value from the VicRoads compensation claim

As discussed in section 6.4, there is uncertainty in relation to the success of any claim resulting from the PAO in relation to a portion of the Wyndham Vale site. There is also uncertainty as to the likely amount of compensation to be received by Phileo in the event the claim is successful. In assessing our value of a Phileo Share we assessed nil value to the compensation at the low end of our range and \$0.62 per Share at the high end. The selective capital reduction represents an opportunity for Exiting Shareholders to avoid the uncertainty associated with this matter.

7.3.1.5 Removal of exposure to development risk associated with the Box Hill Site

Phileo is currently progressing the rehabilitation of the site, which is a precursor to any development. However, a Certificate of Environmental Audit for the land has not yet been issued, and getting this issued

will involve a lengthy process requiring ongoing monitoring and management of environmental issues. As such, the selective capital reduction provides Exiting Shareholders with a certain price now for the Box Hill Site, removing their exposure to risks associated with the ongoing development of the site, particularly in relation to the cost and timing of the rehabilitation.

7.3.1.6 Tax consequences

We have not considered the specific taxation implications that may be relevant for individual Exiting Shareholders in connection with the selective capital reduction. Shareholders should seek advice from their tax advisors in relation to this matter. However, for those shareholders to whom it is relevant, there is potentially material additional benefit above the Cancellation Price, as a result of tax consequences that may flow from the selective capital reduction. We also note that these tax consequences depend on a class ruling from the ATO, which is yet to be provided.

Franking Credits

We note that, as discussed in section 1.2, it is proposed that a material portion of the cash consideration payable under the selective capital reduction will be characterised as a dividend, which is expected to be partially franked, such that for those shareholders for whom this is relevant, they will have access to a refundable tax offset. Should the ATO class ruling support this, this refundable tax offset has the potential to be a significant additional source of value for those shareholders who are able to take advantage of this based on their individual circumstances. Thus the selective capital reduction may make the decision to participate in the selective capital reduction substantially more attractive for those shareholders able to access this refundable tax offset. Phileo Shareholders should consider the information contained in sections 2.2(b) and 9 of the Explanatory Memorandum in weighing up the relevance of this matter to them.

Capital Gains / Losses

We also note that the selective capital reduction may generate capital losses or gains for individual Shareholders. Again, this will depend on their own individual circumstances and on the ATO class ruling, and has the potential to make the selective capital reduction more or less attractive.

The above, together with other tax consequences which may be relevant to individual shareholders, should be considered by shareholders in weighing up the merits of the selective capital reduction.

Disadvantages of the selective capital reduction to Exiting Shareholders

7.3.1.7 Phileo Shareholders are receiving a discount to the price of Phileo Shares prior to the announcement of the Proposed Transaction

The last traded price of Phileo Shares on 4 October 2018, the day prior to the Announcement Date, was \$13.05 per Phileo Share. In the period since the Proposed Transaction was made public, shares have traded in the range of \$13.50 to \$14.10. The Cancellation Price represents a 3.0% discount to the price of a Phileo Share on the day prior to the Announcement Date, a 1.7% discount to the previous three month's VWAP of \$12.87 per Phileo Share prior to the Announcement Date and a 10.2% discount to the highest price since the Announcement Date.

Whilst we have had regard to the Phileo Share price in weighing up the merits of the selective capital reduction, we consider it to have limitations in its reflection of the fair value of Phileo due its lack of liquidity. In addition, and notwithstanding the uncertainty as a result of the ATO class ruling, we consider that the price observed since the Announcement Date may reflect the desire of buyers to take advantage of the potential franking credits and capital return treatment (based on their individual circumstances) and the desire of sellers who based on their circumstances may not be able to take advantage of these factors, or who consider these potential sources of value upside unlikely.

Finally, until the release of this Explanatory Memorandum and this Independent Expert's Report, certain aspects of the value of Phileo (for example in relation to the fair value of Box Hill) were perhaps not well understood by Phileo Shareholders.

Appendix 1 - Independent Expert's Report (continued)



Given the above, we do not consider the recent observed traded prices for small parcels of shares to be the best indication of the fair value of Phileo Shares.

7.3.1.8 No participation in the future of Phileo's business

Phileo has achieved significant capital appreciation over recent years – most significantly because of the Country Garden transaction. By approving the selective capital reduction, Exiting Shareholders will receive the Cancellation Price, but as a result will not receive the benefit of any future dividends and any future increases in the value of the portfolio as a result of operational and development success or market movements. For example, whilst our assessed value of a share in Phileo reflects the fair value of the Box Hill development based on its current status, any future enhancement to value of this site will not be available to shareholders who choose to exit now.

7.3.2 Continuing Shareholders

In considering whether the terms of the selective capital reduction are reasonable to Continuing Shareholders, we have separately considered Mr Koh to the remaining shareholders (including the three shareholders who have provided opt-out commitments).

Mr Koh (proponent of the Proposed Transaction)

We have had regard to the following in forming our view as to whether the selective capital reduction is reasonable to Mr Koh:

- ▶ Mr Koh is the proponent of the Proposed Transaction, and given he is voluntarily undertaking the Proposed Transaction, as such is considered to be willing to transact based on the terms of the selective capital reduction.
- ▶ Mr Koh is the Managing Director and Chief Executive Officer of Phileo, a position that he has held for over 17 years (and he has been on the Phileo board since its listing in 1995), and accordingly it is appropriate to expect that he has full knowledge of the historical financial performance and position and the future prospects of Phileo. It is also appropriate to expect that Mr Koh has detailed knowledge of the property portfolio, the contracts of sale to Country Garden and the VicRoads compensation claim, based on the facts known at the time the Proposed Transaction was submitted.
- ▶ Mr Koh has significant experience in the property market in Australia and it is reasonable to expect that he is aware of the issues currently facing the office, hotel and residential property markets and their future prospects.

Given Mr Koh submitted the Proposed Transaction voluntarily and with the benefit of his extensive knowledge of Phileo and the industry in which it operates, we consider that the selective capital reduction must therefore be reasonable to Mr Koh.

Remaining minority shareholders (including the three shareholders³⁹ who have provided opt-out commitments)

Advantages

7.3.2.1 Increased ownership interest in Phileo

In the event that the selective capital reduction is approved and implemented, the shareholding of Continuing Shareholders in Phileo will each increase in line with their current shareholding relative to the reduced capital base post the selective capital reduction.

³⁹ Includes one Partially Exiting Shareholder, Michael Loke

7.3.2.2 Participation in the future of Phileo's business

By opting out of the selective capital reduction, Continuing Shareholders will continue to be exposed to the benefit of any future dividends and any future increases in value of the portfolio or business as a result of operational and development success or market movements. This may include any future increases in the value of the Box Hill Site in the event of any favourable outcomes in relation to the development and/or market appetite. This may also include the value uplift from the avoidance of costs associated with the operation of an ASX listed company, including listing fees, compliance and registry costs and the cost of time devoted by Phileo in managing its listing, in the event that Phileo is delisted from the ASX as is the intention of Mr Koh.

7.3.2.3 No trigger for tax consequences of the Proposed Transaction

Depending on their individual circumstances, shareholders may not wish to trigger the tax consequences that may flow from a realisation of their investment in Phileo but rather, to defer this to a later date.

Disadvantages

7.3.2.4 Reduced Liquidity and reduced shareholder rights

It is the intention of Mr Koh to delist Phileo from the ASX in the event the Proposed Transaction proceeds. The ASX has given its in-principle confirmation to the Independent Committee that it will support the delisting of Phileo. In this circumstance, and notwithstanding current share liquidity is already poor, other Continuing Shareholders would have a reduced capacity to sell their shares in the future, as there would be no ready mechanism through which to trade these shares, which at that stage, would represent investments in a private, unlisted company. The most likely avenue for a future liquidity event would be to sell to the other shareholders (if they wished to buy) or to tag along with other shareholders in the event they decide to sell. However, whether that occurs, and at what future date, is unknown, and would be outside the control of those continuing minority shareholders.

The rights of minority shareholders in a smaller, unlisted, privately owned Phileo would also be diminished, relative to those conferred on shareholders in a listed entity, including that they will no longer have the protections of the ASX Listing Rules, continuous disclosure regime and ASX corporate governance requirements. The circumstances that Continuing Shareholders would face are likely to include the following, having regard to the draft Constitution provided by Mr Koh, which we understand he intends for Phileo to adopt (once finalised) if the Proposed Transaction proceeds:

- ▶ **Access to information:** A privately owned Phileo will not be required to meet the higher public company information requirements set out in the Corporations Act and the ASX. This includes the right to attend an annual general meeting and receive the annual report comprising the financial statements, director's report and auditor's report, as well as the right to timely significant announcements that could affect a company's share price or as required in accordance with the ASX continuous disclosure requirements. If Phileo has more than 100 shareholders following the Proposed Transaction, then the shares may be classified as unlisted enhanced disclosure securities such that Phileo would be required to disclose material information to shareholders.⁴⁰ However, the draft Constitution includes a requirement for the number of shareholders to not exceed 50 (excluding employees).
- ▶ **Voting influence:** In the event the Proposed Transaction proceeds, Mr Koh's shareholding will increase from 35.8% to a maximum of 56.2%, and the other three substantial shareholders will each hold up to 14.8%. Whilst certain voting rights would be available to continuing shareholders, it is likely that their influence, in the context of Mr Koh and three other shareholders collectively holding the majority of shares, will be diminished relative to the position now. This is likely to further limit Continuing Shareholders' ability to influence the future decisions (including payment of dividends, granting of bonuses to directors / management and deciding on the attractiveness of future sale opportunities).

Based on the above observations regarding reduced liquidity and reduced shareholder rights, we consider that the value of a minority interest in Phileo post the selective capital reduction may be substantially diminished relative to both the value of that share now and the Cancellation Price. We consider it likely that

⁴⁰ Source: ASIC Regulatory Guide 198, Unlisted disclosing entities: Continuous disclosure obligations, June 2009

Appendix 1 - Independent Expert's Report (continued)



the value of a share on a minority basis, post the selective capital reduction may attract a significant discount relative to the Cancellation Price in the absence of any other control transaction.

7.3.2.5 Reduced access to capital to fund future growth

The Proposed Transaction includes the proposed delisting of Phileo from the ASX, which would remove the ability for Phileo to raise capital from the ASX. As a result, any future need for additional capital, if required, would need to be sourced from a new or existing shareholder, its existing cash reserves (noting these will likely be substantially diminished if the selective capital reduction proceeds), or from the debt markets.

7.3.2.6 Exposure to ongoing business risk

As set out in section 7.3.1 there is risk associated with a number of factors that may impact the future value of Phileo. This includes the risk associated with the settlement of the remaining two contracts with Country Garden, the success and quantum of any claim with VicRoads resulting from the PAO and the development of the Box Hill Site. By choosing not to participate in the selective capital reduction and remain a shareholder in Phileo, Continuing Shareholders will remain exposed to the future risks of the business and be an investor in a business with a significantly lower cash balance.

7.3.2.7 Increased debt

In order to complete the selective capital reduction it is anticipated that Phileo may draw down additional debt of up to \$27.2 million. Continuing Shareholders will therefore be exposed to a more highly geared company with lower earnings after interest payments.

7.3.2.8 Tax consequences

We have not considered the specific taxation implications that may be relevant for individual Continuing Shareholders in connection with the selective capital reduction. However, we note that sections 2.3(e) and 9 of the Explanatory Memorandum states that Continuing Shareholders will not be able to access their proportionate share of the franking credits Phileo has accumulated to date, as these are intended to be distributed in full to Exiting Shareholders and Partially Exiting Shareholders. As such, Continuing Shareholders may be foregoing their ability to receive the full benefit from franking credits in the future.

The exact nature and impact of any tax consequences are uncertain and will depend upon the profile of each Continuing Shareholder. These specific consequences need to be borne in mind by each Continuing Shareholder in weighing up the merits of the selective capital reduction. Continuing Shareholders should consider the information contained in section 9 of the Explanatory Memorandum.

7.4 Other factors applicable to all Phileo Shareholders

7.4.1 Costs associated with the selective capital reduction

Phileo has agreed, as set out in the Implementation Deed, that it will be responsible for the costs it has and will incur in preparing the Implementation Deed and the materials it is submitting to shareholders to consider the Proposed Transaction, as well as the costs of implementing the Proposed Transaction if duly approved. Phileo estimates that these costs will be in the range of \$0.95 million to \$1.0 million. A significant proportion of these transaction costs will be payable by Phileo regardless of whether the selective capital reduction is approved and implemented.

7.4.2 Uncertainty as to intentions of the three shareholders who have expressed a current intention to opt-out

We note that three substantial shareholders have each declared their current intention to opt out of the selective capital reduction (two fully and one partially) for a total of 8.25 million shares. As a result, the selective capital reduction terms are sufficient to allow all other shareholders to participate in full should they wish to do so. We note that the selective capital reduction is conditional on a minimum opt-out by shareholders of 8.08 million shares. Consequently, whilst it is assumed that these shareholders will maintain their current

intentions to opt-out (two fully and one partially), uncertainty exists for other shareholders as to whether or not this proposal will proceed.

7.4.3 Potential for alternative superior proposals to emerge

Taking into consideration the existing shareholdings of Mr Koh and other board members we consider it unlikely for a competing proposal to be forthcoming. We also note that the Proposed Transaction has resulted from an extensive period of negotiation between Mr Koh and the Independent Committee. This negotiation process resulted in an improved proposal relative to that initially tabled by Mr Koh. Given the above, the most likely alternate in the event the Proposed Transaction does not proceed will be for a continuation of the business on its current basis (refer below).

7.4.4 If Proposed Transaction does not proceed

If the Proposed Transaction does not proceed, Phileo will likely remain on the ASX, barring an alternate proposal coming from either Mr Koh or an alternate party. Liquidity in Phileo shares would likely continue at low levels, providing limited opportunity for shareholders to exit at a price equivalent to the Cancellation Price. Mr Koh would remain the largest individual shareholder. The ability for shareholders to receive proceeds from the previous Country Garden sale or from future events would depend on the voting intentions of shareholders – over which Mr Koh and other substantial shareholders would continue to have significant influence. As such, we consider the price of a Phileo share in this circumstance would likely be below the Cancellation Price in the near term.

7.4.5 Intentions of the directors and major shareholders

The participation intentions of the Independent Directors of Phileo (holding 27.3% of Phileo Shares in aggregate) and the other major shareholders⁴¹ of Phileo other than Mr Koh (holding 30.9% of Phileo Shares in aggregate) are set out in section 1 of the Explanatory Memorandum. Of this shareholder group, which holds 58.2% of Phileo Shares in aggregate, 49% of Phileo Shares are intended to be retained and 51% cancelled should the selective capital reduction be implemented. We consider this to suggest that there are no significant inequities in the terms of the selective capital reduction to Exiting Shareholders relative to Continuing Shareholders, as there is a broadly equal split between those shareholders who, based on their understanding of the terms of the Proposed Transaction, are minded to opt-out and retain their Phileo Shares relative to those minded to participate and have their Phileo Shares cancelled.

7.5 Conclusion

As outlined in section 7.2 we consider the selective capital reduction to be Fair.

As outlined in Sections 7.3 to 7.4 we have also considered whether the selective capital reduction is reasonable to shareholders as a whole, by reference to an assessment of the advantages and disadvantages to both Exiting and Continuing Shareholders.

Taking into consideration the matters detailed in this Independent Expert's Report, in our opinion, in the absence of a superior proposal, the selective capital reduction is fair and reasonable to Phileo Shareholders as a whole.

As outlined in section 2.2, whilst we ultimately considered "fair and reasonable" as two separate tests, we did also consider whether our opinion would have been impacted had we alternatively considered this as a single compound phrase. In this regard, in our opinion the selective capital reduction is fair and reasonable to Phileo Shareholders as a whole.

This Independent Expert's Report has been prepared to assist Phileo Shareholders in assessing the merits of the selective capital reduction. In doing so, the Independent Expert's Report provides general information

⁴¹ Defined as shareholders with over 1 million Phileo Shares who aren't independent directors or Mr Koh

Appendix 1 - Independent Expert's Report (continued)



only and does not consider the individual situation, objectives and needs of each Phileo Shareholder. On this basis, Phileo Shareholders should consider whether this Independent Expert's Report is appropriate for their circumstances, having regard to their own situation, objectives and needs before relying on or taking action based on this Independent Expert's Report. If there is any doubt, Phileo Shareholders should seek their own professional advice.

Appendix A Statement of qualifications and declarations

Ernst & Young Transaction Advisory Services Limited, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this Independent Expert's Report. The directors and representatives of Ernst & Young Transaction Advisory Services Limited responsible for this Independent Expert's Report have not provided financial advice to Phileo.

Prior to accepting this engagement, we considered our independence with respect to Phileo with reference to Regulatory Guide 112: *Independence of experts*. Ernst & Young, and global affiliates, has not previously provided professional services to Phileo or its subsidiaries.

This Independent Expert's Report has been prepared specifically for the shareholders of Phileo in relation to the Proposed Transaction. Neither Ernst & Young Transaction Advisory Services Limited, Ernst & Young, nor any member or employee thereof, undertakes responsibility to any person, other than the shareholders of Phileo, in respect of this Independent Expert's Report, including any errors or omissions howsoever caused.

The statements and opinions given in this Independent Expert's Report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this Independent Expert's Report we have relied upon and considered information believed after due inquiry to be reliable and accurate. We have no reason to believe that any information supplied to us was false or that any material information has been withheld from us. We have evaluated the information provided to us by Phileo and its advisors through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our Independent Expert's Report. We do not imply and it should not be construed that we have audited or in any way verified any of the information provided to us, or that our inquiries could have verified any matter which a more extensive examination might disclose. Specifically, our review of the property valuation reports does not, however, imply that the valuations reviewed have been subject to any form of audit or due diligence.

Phileo has provided an indemnity to us for any claims arising out of any misstatement or omission in any material or information provided to us by them in the preparation of this Independent Expert's Report.

We provided draft copies of this Independent Expert's Report to the directors and management of Phileo, including Mr Koh, for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Changes made to this Independent Expert's Report as a result of this review by the directors and management of Phileo have not changed the methodology or conclusions reached by us.

We will receive a professional fee based on time spent in the preparation of this Independent Expert's Report estimated at approximately \$220,000 (inclusive of GST). We will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the preparation of this Independent Expert's Report.

This Independent Expert's Report has been jointly prepared by Mr Tim Hatherley and Ms Julie Wolstenholme, both being directors and representatives of Ernst & Young Transaction Advisory Services Limited and partners of Ernst & Young. Both have the necessary experience and professional qualifications appropriate to the advice being offered. Real estate input was provided by Mr Marcus Willison, a partner of Ernst & Young, who is a Fellow of the Australian Property Institute and a registered property valuer in Australia. Marcus has the necessary experience and professional qualifications appropriate to the advice being offered.

The preparation of this Independent Expert's Report has had regard to ASIC Regulatory Guides and APES 225 *Valuation Services* issued by the Accounting Professional and Ethical Standards Board Limited in July 2012. It is not intended that the Independent Expert's Report should be used for any other purpose other than to accompany the Notice of Meeting and Explanatory Memorandum to be sent to Phileo Shareholders. In particular, it is not intended that this Independent Expert's Report should be used for any other purpose other than as an expression of our opinion as to whether or not the Proposed Transaction is fair and reasonable to the shareholders of Phileo as a whole.

Appendix 1 - Independent Expert's Report (continued)



Any forward looking information prepared by Phileo and used as a basis for the preparation of this Independent Expert's Report reflects the judgement of Phileo management based on the present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the relevant future period will almost always differ from the forward looking information and such differences may be material. To the extent that our conclusions are based on such forward looking information, we express no opinion on the achievability of that information.

We consent to the issue of this Independent Expert's Report in the form and context in which it is included in the Explanatory Memorandum.

Appendix B Valuation methodologies

RG 111 provides guidance on the valuation methods that an independent expert should consider when valuing a company. These methods include the:

- ▶ Discounted cash flow method and the estimated realisable value of any surplus assets.
- ▶ Application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets.
- ▶ Amount that would be available for distribution to security holders on an orderly realisation of assets.
- ▶ Quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale.
- ▶ Recent genuine offers, if any, received by the target for any business units or assets as a basis for valuation of those business units or assets.
- ▶ Amount that any alternative acquirer might be willing to offer if all the securities in the target were available for purchase.

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the asset being valued, the methodology most commonly adopted in valuing such an asset and the availability of appropriate information.

The DCF methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a discount rate that reflects the time value of money and the risk inherent in the cash flows. This methodology is particularly appropriate in valuing projects, businesses and companies that are in a start-up phase and are expecting considerable volatility and/or growth in earnings during the growth phase, as well as businesses with a finite life (such as oil and gas projects). The utilisation of this methodology generally requires that the asset be sufficiently advanced to enable management to provide long term cash flows with some degree of robustness.

The capitalisation of earnings methodology involves capitalising the earnings of a project, a business or a company at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects. This methodology is theoretically most appropriate where a company or business is expected to generate a relatively stable level of earnings but in practice, is also frequently used in a range of other circumstances.

The net asset backing methodology involves consideration of the net realisable value of the assets of a business or company on a going concern basis, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking the realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair value.

Market based assessments relate to the valuation of companies, the shares of which are traded on a stock exchange. While the relevant share price would, prima facie, constitute the market value of the shares, such market prices usually reflect the prices paid for small parcels of shares and as such do not include a control premium relevant to a significant parcel of shares.

Appendix 1 - Independent Expert's Report (continued)



Appendix C Recent transaction multiples

The table on the following page summarises the multiples implied in recent transactions involving companies with operations broadly comparable to those of Phileo. While ideally we would consider acquisitions of property investment and development companies with a similar property portfolio size and mix to be the most comparable to Phileo's, there are no recent transactions in this sector with sufficient publicly available information. As such, our listing of comparable transactions comprises those relating to the broader Australian REIT sector.

A brief overview of recent transactions is provided below:

- ▶ In April 2015, Blackstone Group announced an offer to acquire IOF for a cash price of \$5.05 per IOF unit⁴². There have been various subsequent increased offers as both Blackstone Group and Oxford Properties Group have bid for IOF. On 13 September 2018, IOF announced that it had agreed to sell a 20% stake held by IOF's largest investor (Investa Commercial Property Fund) to Oxford Properties Group for \$5.60 per share with due diligence under way regarding the full takeover. The offer of \$5.60 per IOF unit implies a premium above the NTA of \$5.47 per unit of c.2% or a P/NTA multiple of 1.0x. We note that at the date of this report, this transaction was not completed.
- ▶ On 22 August 2018, Charter Hall Group and Folkestone Limited announced that they entered into a scheme implementation agreement for CHC to acquire FLK for a total consideration of \$205 million. Under the terms of the agreement, FLK shareholders are due to receive \$1.39 per FLK unit. The transaction implies a P/NTA multiple of 1.4x with the premium arguably reflecting, at least in part, that the transaction includes the acquisition of funds management activities. We note that at the date of this report, this transaction was not completed, however it has been approved by shareholders.
- ▶ In July 2017, 360 Capital Industrial Fund ("CIF") announced its revised offer to acquire the remaining 80.0% stake in Asia Pacific Data Centre Group ("AJD") for a total consideration of approximately \$180 million. The transaction implied a P/NTA multiple of 1.2x with the premium arguably reflecting, at least in part, that AJD is not a pure REIT.
- ▶ In May 2017, NWH Australia Asset Trust ("NWH") announced its revised offer to acquire a 77.3% stake in Generation Healthcare REIT ("GHC") for an offer price of \$2.30 per GHC unit⁴³. In June 2017, the acquisition closed for a total consideration of \$392.4 million. The transaction implied a P/NTA multiple of 1.4x.
- ▶ In April 2017, Brookfield BPPF Investments Trust ("BPA") announced its intention to implement a trust scheme to acquire Brookfield Prime Property Fund ("BPPF"). Under the terms of the agreement, BPPF unit holders received \$8.89 per BPPF unit. The transaction implied a total consideration of \$435.8 million at an implied P/NTA multiple of 1.0x.
- ▶ In April 2017, Cromwell Property Group ("CMW") announced its intention to acquire 50% of IOF to be operated as a joint venture. Under the terms of the agreement, IOF shareholders received \$4.50 per IOF unit⁴⁴. The transaction implied a P/NTA multiple of 1.0x.
- ▶ On 23 November 2016, Centuria Capital Limited announced that it had acquired a 15.6% stake in 360 Capital Industrial Fund for a total consideration of \$82.9 million. The transaction implied a P/NTA multiple of 1.1x.
- ▶ On 23 November 2016, Centuria Capital Limited entered into a share sale agreement to acquire a 28.8% stake in 360 Capital Office Fund for a total consideration of \$47.4 million. The transaction implied a P/NTA multiple of 1.0x.

⁴² Australian Financial Review, "Investa Office Fund board lets Oxford Properties in for due diligence" dated 14 September 2018

⁴³ Generation Healthcare REIT had a total of 170.6 million shares as at 19 May 2018

⁴⁴ Investa Office Fund had a total of 614.0 million units in issue as at 7 April 2018

- ▶ In July 2016, Growthpoint Properties Australia agreed to acquire GPT Metro Office Fund for a total consideration of \$321.3 million. The transaction implied a P/NTA multiple of 1.1x.
- ▶ In September 2015, Aspen Parks Property Fund ("APPF") and Discovery Holiday Parks Pty Limited ("Discovery") announced their intentions to form a merged entity via a cash and scrip transaction. Subsequent to this, Discovery made two unsolicited takeover offers to acquire Aspen Parks. The transaction closed in December 2015 when Discovery increased its offer to acquire a 42% in APPF for \$0.63 per APPF unit⁴⁵. The transaction implied a total consideration of \$60.2 million at an implied P/NTA multiple of 1.4x. We note that the higher implied multiple likely reflects the competitive bidding process and the development opportunities inherent in APPF's vacant land.
- ▶ In February 2015, Novion Property Group announced its intention to enter into a merger implementation agreement to acquire Federation Centres for a total consideration of \$7.8 billion. The transaction implied a P/NTA multiple of 1.2x.
- ▶ In November 2014, Folkestone Education Trust ("FET") announced its intention to enter into a merger implementation deed with Folkestone Social Infrastructure Trust ("FST"). Under the terms of the agreement, FST shareholders received \$2.47 per FST unit and \$0.675 in cash per FST unit⁴⁶. This implied a value of \$89 million and a P/NTA multiple of 1.0x.
- ▶ On 19 September 2014, AustFunding Pty Ltd entered into a scheme implementation agreement to acquire Mirvac Industrial Trust ("MIT") from a consortium of investors. The transaction consideration was share based, with AustFunding Pty Ltd acquiring all 362.5 million of MIT units for \$0.214 per MIT unit. This implied a value of \$78 million and a P/NTA multiple of 1.1x.
- ▶ In April 2014, Challenger Life Company Limited announced its intention to acquire an additional 41% stake in Challenger Diversified Property Group. The total transaction consideration was \$242.6 million at an implied P/NTA multiple of 1.0x.
- ▶ On 11 December 2013, Canada Pension Investment Board and Dexus agreed to acquire the remaining 85% stake in Commonwealth Property Office Fund. The total transaction consideration was \$2.5 billion at an implied P/NTA multiple of 1.1x.

⁴⁵ Under the terms of the Aspen Parks Property Fund transaction, Aspen Group agreed to terminate its management arrangements to APPF and provide certain services to Discovery in the transition period for a total consideration of \$5 million

⁴⁶ Folkestone Social Infrastructure Trust had a total of 28.45 million units in issue as at 13 November 2014

Appendix 1 - Independent Expert's Report (continued)



Comparable transactions – REITs

Date announced	Target	Stake	Buyer	Implied equity value (\$m)	Reported NTA (\$m)	Premium/ (Discount) to NTA	Implied equity value/NTA
Sep-18	Investa Office Fund	100%	Oxford Properties Group	3,351	3,274	2.4%	1.0x
Aug-18	Folkestone Limited	100%	Charter Hall Group	205	150	36.2%	1.4x
Jul-17	Asia Pacific Data Centre Group	80%	360 Capital Industrial Fund	224	190	18.2%	1.2x
May-17	Generation Healthcare REIT	77%	NWH Australia Asset Trust	508	366	38.6%	1.4x
Apr-17	Brookfield Prime Property Fund	100%	Brookfield BPPF Investments Trust	436	433	0.6%	1.0x
Apr-17	Investa Office Fund	50%	Cromwell Property Group	2,763	2,759	0.2%	1.0x
Nov-16	360 Capital Industrial Fund	16%	Centuria Capital Limited	530	502	5.6%	1.1x
Nov-16	360 Capital Office Fund	29%	Centuria Capital Limited	165	165	(0.1%)	1.0x
Jul-16	GPT Metro Office Fund	100%	Growthpoint Properties Australia	321	300	7.1%	1.1x
Dec-15	Aspen Parks Property Fund	42%	Discovery Holiday Parks Pty Limited	150	109	37.8%	1.4x
Feb-15	Federation Centres	100%	Novion Property Group	7,800	6,370	22.4%	1.2x
Nov-14	Folkestone Social Infrastructure Trust	100%	Folkestone Education Trust	89	85	4.8%	1.0x
Sep-14	Mirvac Industrial Trust	100%	AustFunding Pty Ltd	78	71	9.0%	1.1x
Apr-14	Challenger Diversified Property Group	41%	Challenger Life Company Limited	587	582	0.7%	1.0x
Dec-13	Commonwealth Property Office Fund	85%	Canada Pension Plan Investment Board & Dexus Property Group	2,894	2,703	7.0%	1.1x
Low						(0.1%)	1.0x
Median						7.1%	1.1x
Mean						13.4%	1.1x
High						38.6%	1.4x

Source: S&P Capital IQ, comparable company announcements, EY Transaction Advisory Services Limited analysis

Notes: At the date of this Independent Expert's Report, the Investa Office Fund and Folkestone Limited acquisitions were not completed. The Investa Office Fund acquisition has not been included in the summary metrics at the bottom of the table as it is yet to be approved by shareholders

Appendix D Comparable companies

D1. Comparable company descriptions

Comparable companies – Property investment and development				
Company	Description	Market cap (\$ million) ¹	NTA at 30 June 2018 (\$ million)	Premium / (discount) to NTA (%)
Abacus Property Group	Abacus Property Group is a diversified property group that specialises in investing in core plus property opportunities across Australia's commercial property markets.	1,942	1,838	5.7%
Axiom Properties Limited	Axiom Properties Limited engages in property investment, development, and rental activities in Australia.	19	27	(31.7%)
Cedar Woods Properties	Cedar Woods Properties Limited engages in property investment and development activities in Australia.	430	353	21.8%
Cromwell Property Group	Cromwell Property Group (ASX:CMW) is a Real Estate Investor and Manager with operations on three continents and a global investor base.	2,060	1,899	8.5%
Dexus Property Group	Dexus is one of Australia's leading real estate groups, proudly managing a high quality Australian property portfolio valued at \$27.2 billion.	10,426	9,733	7.1%
Faster Enterprises Limited	Faster Enterprises Limited, together with its subsidiaries, engages in the development and management of residential, commercial, and serviced apartments and hotels in Australia.	4	5	(28.6%)
Finbar Group	Finbar Group Limited, through its subsidiaries, develops and invests in properties in Australia.	227	252	(10.1%)
GDI Property Group	GDI Property Group (GDI) is an ASX listed property owner and fund manager.	701	672	4.3%
Hotel Property Investments	HPI owns a Portfolio of freehold pubs and associated specialty tenancies located throughout Queensland and South Australia.	457	407	12.3%
Hudson Investment Group	Hudson Investment Group Limited, together with its subsidiaries, engages in the investment, development, and administration of industrial and commercial properties in Australia.	11	11	4.0%
Peet Limited	Peet Limited acquires, develops, and markets residential land in Australia.	522	543	(3.8%)

Source: S&P Capital IQ, EY Transaction Advisory Services Limited analysis

Notes:

¹ Market capitalisation as at 13 November 2018

Appendix 1 - Independent Expert's Report (continued)



D2. Comparable company liquidity analysis

Liquidity analysis – average over 12 months prior to the Announcement Date		
Company	Liquidity (Outstanding shares) ¹	Liquidity (Free float shares) ²
Phileo Australia	0.2%	1.0%
Abacus Property Group	37.5%	37.8%
Axiom Properties Limited	6.4%	37.7%
Cedar Woods Properties	19.1%	28.6%
Cromwell Property Group	47.7%	66.5%
Dexus Property Group	63.4%	63.5%
Faster Enterprises Limited	1.7%	7.3%
Finbar Group	5.2%	16.7%
GDI Property Group	37.3%	47.8%
Hotel Property Investments	23.6%	24.1%
Hudson Investment Group	0.3%	1.1%
Peet Limited	14.0%	22.6%
Mean	23.3%	32.1%
Median	19.1%	28.6%

Source: S&P Capital IQ, EY Transaction Advisory Services Limited analysis

Notes:

¹ Liquidity (Outstanding shares) calculated based on volume of shares traded from 5 October 2017 to 4 October 2018 and the average shares outstanding during that period

² Liquidity (Free float) calculated based on volume of shares traded from 5 October 2017 to 4 October 2018 and the average free float shares outstanding during that period

Appendix E Sources of information

In the preparation of this Independent Expert's Report, we have had regard to the following sources of information:

- ▶ Phileo ASX announcement of proposed selective capital return and delisting 5 October 2018
- ▶ Implementation Deed
- ▶ Initial and revised non-binding indicative proposal
- ▶ Audited annual financial statements of Phileo
- ▶ Management accounts of Phileo for FY16, FY17, FY18 and the 2 months to 31 August 2018
- ▶ External Property Valuation Reports for each of the investment properties
- ▶ The three contracts of sale in relation to the sale of the Wyndham Vale development property to Country Garden
- ▶ The external valuation report relating to the VicRoads compensation claim, as well as the correspondence between Phileo (via its lawyers) and VicRoads in relation to this matter
- ▶ Phileo Group corporate structure and shareholdings report as at 31 July 2018
- ▶ Details of Phileo Shareholders as provided by Phileo management
- ▶ External loan arrangements
- ▶ Draft Constitution
- ▶ ASX announcements for Phileo and comparable companies
- ▶ Company websites for Phileo and comparable companies
- ▶ Market data obtained from sources including ThomsonOne, S&P Capital IQ, Mergermarket, Bloomberg, IRESS, Morningstar Datanalysis, Factiva and Australian Bureau of Statistics
- ▶ Reports on the Australian office, hotel and property development industries published by IBISWorld

In addition, we held discussions with Tejas Gandhi, Group Financial Controller of Phileo, and Michael Schoenfeld, Adviser to the Board and Independent Directors and the Chairman of the Independent Committee.

Appendix 1 - Independent Expert's Report (continued)



Appendix F Glossary

Glossary	
Abbreviation	Full Title / Description
\$ or AUD	Australian Dollars
303 Collins Street	303 Collins Street, Melbourne
ABS	Australian Bureau of Statistics
Adjusted NTA	Adjusted net tangible assets
ADR	Average Daily Rate
AGM	Annual general meeting
Announcement Date	5 October 2018
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
ATO class ruling	A ruling from the ATO confirming the ability for a portion of the consideration to be characterised as a frankable dividend such that eligible shareholders will have access to a refundable tax offset
Bendigo Site	A development site at Bendigo
Black Forest PSP	Urban Growth Zone – Schedule 7
Box Hill Site	A development site at Box Hill
Cancellation Price	\$12.66 per Share
CBD	
Continuing Shareholders	Shareholders who elect not to participate in the selective capital reduction
Contract 1	Wyndham Vale contract for Lots 1 and 2, settled on 15 February 2018
Contract 2	Wyndham Vale contract for Lot 5, scheduled to settle in February 2020
Contract 3	Wyndham Vale contract for Lots 3 and 4, scheduled to settle in February 2022
Corporations Act or the Act	<i>Corporations Act 2001 (Cth)</i>
Country Garden	Country Garden Mambourin Pty Ltd, subsidiary of Country Garden Holdings Co Ltd
Country Garden receivable	Two staged settlements for Wyndham Vale Contracts 2 and 3 totalling \$250 million in aggregate
DCF	Discounted Cash Flow
Deloitte	Deloitte Private Pty Ltd
DTL	Deferred tax liability
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPA	Environment Protection Authority
EV	Enterprise value
Exiting Shareholders	Shareholders who are neither Continuing Shareholders or Partially Exiting Shareholders
EY Transaction Advisory Services or we or us or our	Ernst & Young Transaction Advisory Services Limited
FIRB	The Foreign Investment Review Board
FSG	Financial Services Guide
FYXX, JunXX	Financial Year ended 30 June 20XX
GST	Goods and services tax
HMSA	Hotels, Motels and Serviced Apartments
Hudson	Hudson Investment Group Limited
Implementation Deed	The Implementation Deed, dated 5 October 2018
Independent Committee	A committee established to oversee and evaluate capital return opportunities to shareholders of Phileo, comprising Mr Michael Schoenfeld, Mr Graham Homes and Mr Tejas Gandhi.
Independent Directors	The Phileo Board, excluding Mr Koh
Independent Expert's Report	Independent Expert's Report
JLL	Jones Lang LaSalle Incorporated
Mr Koh	Mr Rudy Koh
n/a	Not applicable
NAB	National Australia Bank
NAB Amendment and Restatement deed	Amendment and Restatement deed signed 3 August 2018
NLA	Net lettable area
NTA	Net tangible assets
OMR	the Outer Metropolitan Ring road
PAO	Public Acquisition Overlay
Partially Exiting Shareholders	Shareholders who elect to participate in the selective capital reduction in respect of part of their shareholding

Glossary

PCA	Property Council of Australia
Phileo or the Company	Phileo Australia Limited
Phileo Share or Share	A share held in Phileo
Phileo Shareholders	All shareholders in Phileo
Proposed Transaction	The selective capital reduction of the Shares in Phileo and intention to subsequently privatise and delist Phileo from the ASX
PSP	Precinct Structure Plan
Ramada Hotel	Ramada Encore Hotel, Dandenong
Renak	Renak Holdings Limited
RevPAR	Revenue per available room
RG 111	ASIC Regulatory Guide 111: <i>Content of experts reports</i>
RG 112	ASIC Regulatory Guide 112: <i>Independence of experts</i>
sqm	Per square metre
The selective capital reduction	A selective capital reduction whereby all shareholders in Phileo, other than Mr Koh, will have the opportunity to participate in the reduction and receive cash consideration for the cancellation of their shares of \$12.66 per Share
UDIA	Urban Development Institute
VIC	Victoria
VicRoads	The Victorian statutory corporation responsible for maintenance and construction of road networks
VWAP	Volume Weighted Average Price
WALE	Weighted average lease expiry
Wyndham Vale Lots	Three lots of land at Black Forest Road, Wyndham Vale
XQYY	X quarter of 20YY

Appendix 1 - Independent Expert's Report (continued)



Part 2 – Financial Services Guide

THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT

14 November 2018

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("EY Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Independent Expert's Report") in connection with a financial product of another person. The Independent Expert's Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- ▶ financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- ▶ arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$220,000 (inclusive of GST).

{AFS 00290522}
A member firm of Ernst & Young Global Limited
Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585



Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services. Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the *Corporations Act 2001 (Cth)*.

Contacting Ernst & Young Transaction Advisory Services	Contacting the Independent Dispute Resolution Scheme:
AFS Compliance Manager	Financial Ombudsman Service Limited
Ernst & Young	PO Box 3
200 George Street	Melbourne VIC 3001 Telephone: 1300 78 08 08
Sydney NSW 2000	
Telephone: (02) 9248 5555	

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

{AFS 00290522}
A member firm of Ernst & Young Global Limited
Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585

This page has been intentionally left blank.

Appendix 2 -

Notice of General Meeting of all Shareholders

Appendix 2 - Notice of General Meeting of all Shareholders

PHILEO AUSTRALIA LIMITED
ABN 52 007 608 755

NOTICE OF MEETING OF GENERAL MEETING OF ALL SHAREHOLDERS

Notice is given that a meeting of the holders of fully paid ordinary shares of Phileo Australia Limited (**Phileo**) be held at MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria on Thursday, 20 December 2018 commencing at 10:00am.

PURPOSE OF THE MEETING

The purpose of the meeting is to consider and, if thought fit, to approve a proposed capital return as a selective reduction of the share capital of Phileo, defined as the **Capital Return** in the Explanatory Memorandum of which this notice forms part.

A copy of the explanatory statement required by section 256C(4) of the Corporations Act in relation to the Capital Return is contained in the Explanatory Memorandum of which this notice forms part.

SPECIAL RESOLUTION

The meeting will be asked to consider, and, if thought fit, to pass the following resolution which will be proposed as a **special resolution**:

"The Shareholders approve the following reduction of the share capital of Phileo:

Conditional on:

(a) the passing of the special resolution to approve the Capital Return set out in the Notice of Special Meeting of Exiting and Partially Exiting Shareholders dated 19 November 2018; and

(b) the number of Shares to be cancelled not exceeding 10,500,000 Shares,

under sections 256B and 256C(2) of the Corporations Act and for all other purposes, Phileo reduces its share capital by an amount equal to the number of Shares to be cancelled as determined below multiplied by \$12.66 and returning that amount to Shareholders in the manner specified below:

(c) in respect of each Exiting Shareholder:

(i) cancelling all of the Shares held by the Exiting Shareholder on the Capital Return Record Date; and

(ii) paying to the Exiting Shareholder, in the manner provided in the constitution of Phileo for the payment of dividends, the amount of \$12.66 for each Cancelled Share,

as soon as reasonably practicable on or after the Implementation Date as determined by or on behalf of the Independent Directors; and

(d) in respect of each Partially Exiting Shareholder:

(i) cancelling all Shares held by the Partially Exiting Shareholder on the Capital Return Record Date other than the number of Shares specified by the Partially Exiting Shareholder in the valid Opt-Out Election Form provided by the Partially Exiting Shareholder prior to the Opt-Out Election Cut-Off Date; and

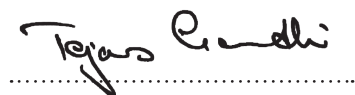
(ii) paying to the Partially Exiting Shareholder, in the manner provided in the constitution of Phileo for the payment of dividends, the amount of \$12.66 for each Cancelled Share,

as soon as reasonably practicable on or after the Implementation Date as determined by or on behalf of the Independent Directors.'

The above resolution is referred to in this notice of meeting as the **First Capital Return Resolution**.

DATED 19 November 2018

BY ORDER OF THE BOARD



Tejas Gandhi
Company Secretary

Explanatory notes for the General Meeting of all Shareholders

1. General

- (a) Capitalised words and phrases contained in this Notice of General Meeting of all Shareholders (including in the First Capital Return Resolution) have the same meaning as set out in the Glossary in Section 12 of the Explanatory Memorandum, of which this notice forms part.
- (b) This notice should be read in conjunction with the entire Explanatory Memorandum of which this notice forms part. The Explanatory Memorandum contains important information to assist you in determining how to vote on the First Capital Return Resolution. The Explanatory Memorandum includes a copy of the explanatory statement required by section 256C(4) of the Corporations Act in relation to the Capital Return (the explanatory statement being all Sections of this Explanatory Memorandum, other than this Appendix 2, Appendix 3 and Appendix 4).

2. Required voting majority

- (a) The First Capital Return Resolution must be approved by Shareholders whose Shares in aggregate account for at least 75% of the votes cast on the resolution (whether in person, by proxy, attorney or, in the case of a corporate Shareholder or proxy, by corporate representative).
- (b) The vote at the General Meeting of all Shareholders will be conducted by poll.

3. Voting restrictions

3.1 Corporations Act

Section 256B(1) of the Corporations Act requires that a share capital reduction be approved by Shareholders under section 256C of the Corporations Act.

Section 256C(2)(a) of the Corporations Act in turn requires that, if a capital reduction is a selective capital reduction, it must be approved by a special resolution passed at two meetings, being:

- (a) a general meeting of the company, with no votes cast in favour of proposed resolution from any person who is to receive consideration as part of the proposed capital reduction or any Associate of such person; and
- (b) a special meeting of those shareholders whose shares are to be cancelled.

3.2 General Meeting of all Shareholders

The General Meeting of all Shareholders is the first meeting referred to in paragraph 3.1(a) above and is the subject of the notice of meeting in this Appendix 2. The second meeting referred to in paragraph 3.1(b) is the subject of the separate notice of meeting in Appendix 3.

At the General Meeting of all Shareholders, no votes *in favour* of the First Capital Return Resolution may be cast by:

- (a) any Exiting Shareholder or Partially Exiting Shareholder (being a person who is to receive consideration as part of the proposed Capital Return); or
- (b) an Associate of any Shareholder referred to in paragraph (a) above.

Accordingly, Phileo will disregard a vote cast in *favour* of the First Capital Return Resolution by any Shareholder referred to in paragraphs (a) and (b) above.

Further, Phileo need not disregard a vote cast *against* the First Capital Return Resolution by any Shareholder referred to in paragraphs (a) and (b) above.

4. Voting entitlements

For the purposes of the General Meeting of all Shareholders, only those persons registered in the Share Register as a holder of Shares at 7:00pm (Melbourne time) on Tuesday, 18 December 2018 are entitled to attend and vote at the General Meeting of all Shareholders in respect of each Share held by them at that time, either in person, by proxy or attorney or, in the case of a corporate Shareholder or proxy, by corporate representative. Accordingly, Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

Voting restrictions and exclusions in respect of the resolution at this meeting are set out above in the Voting Restrictions section.

Phileo intends to make an announcement to ASX as soon as practicable after the Opt-Out Election Cut-Off Date containing material details (on an aggregated basis) of the Opt-Out Elections received.

Explanatory notes for the General Meeting of all Shareholders (continued)

5. How to vote

Shareholders who are entitled to vote at the General Meeting of all Shareholders may vote:

- (a) by attending the meeting and voting in person, or by appointing an attorney to attend the meeting and vote on their behalf or, in the case of corporate Shareholders or proxies, a corporate representative to attend the meeting and vote on its behalf; or
- (b) by appointing a proxy to attend and vote on their behalf, using the relevant Proxy Form accompanying this notice. A proxy may be an individual or a body corporate.

6. Jointly held Shares

If you hold Shares jointly with one or more other persons, only one of you may vote. If more than one of you attempts to vote in person at the General Meeting of all Shareholders, only the vote of the holder whose name appears first on the Share Register will be counted.

7. Voting in person (or by attorney or corporate representative)

- (a) Eligible Shareholders wishing to vote in person or their attorneys or, in the case of a corporate Shareholder or proxy, corporate representatives, should attend the General Meeting of all Shareholders and bring a form of personal identification (such as their passport or driver's licence).
- (b) The relevant parties who plan to attend the General Meeting of all Shareholders in person are asked to arrive at the venue 30 minutes prior to the time designated for the commencement of the General Meeting of all Shareholders, if possible, so that their shareholding may be checked against the Share Register and attendances noted.
- (c) The power of attorney appointing your attorney to attend and vote at the General Meeting of all Shareholders must be duly executed by you and specify your name, the company (that is, Phileo Australia Limited), and the attorney, and also specify the meeting at which the appointment may be used. The appointment may be a standing one.
- (d) To vote by attorney at this meeting, the original or a certified copy of the power of attorney or other authority (if any) under which the instrument is signed must be received by the Share Registry before 7.00pm (Melbourne time) on Tuesday, 18 December 2018 in any of the following ways:
 - (i) **By post** to the Share Registry at:
Boardroom Pty Limited
GPO Box 3993
Sydney, NSW, Australia 2000
 - (ii) **By hand delivery**¹⁴ to the Share Registry at:
Boardroom Pty Limited
Level 12, 225 George Street
Sydney, NSW, Australia 2000
- (e) Your appointment of an attorney does not preclude you from attending in person and voting at the General Meeting of all Shareholders. The appointment of your attorney is not revoked merely by your attendance and taking part in the General Meeting of all Shareholders, but if you vote on a resolution, the attorney is not entitled to vote, and must not vote, as your attorney on that resolution.
- (f) To vote in person, you or your attorney or, in the case of a corporate Shareholder or proxy, corporate representative must attend the General Meeting of all Shareholders to be held at MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria on Thursday, 20 December 2018 commencing at 10:00am.
- (g) A vote cast in accordance with the appointment of a power of attorney is valid even if before the vote was cast the appointor:
 - (i) died;
 - (ii) revoked the power; or
 - (iii) transferred the Shares in respect of which the vote was cast,unless Phileo received written notification of the death, revocation or transfer before the meeting or, if applicable, any adjourned meeting.

14. Please note that hand deliveries may only be made Monday to Friday between the hours of 9.00am to 5.00pm (Melbourne time).

- (h) To vote by corporate representative at the meeting, a corporate Shareholder or proxy should obtain an *Appointment of Corporate Representative Form* from the Share Registry, complete and sign the form in accordance with the instructions on it. The completed appointment form should be lodged at the registration desk on the day of the meeting.
- (i) The appointment of a representative may set out restrictions on the representative's powers.
- (j) The *Appointment of Corporate Representative Form*, a certified copy of the *Appointment of Corporate Representative Form*, or a certificate of the body corporate evidencing the appointment of a representative is prima facie evidence of a representative having been appointed.

8. Voting by proxy

Eligible Shareholders wishing to appoint a proxy to vote on their behalf at this meeting must:

- (a) complete and sign or validly authenticate the Proxy Form for the General Meeting of all Shareholders accompanying this Explanatory Memorandum; and
- (b) deliver the signed and completed Proxy Form to the Share Registry by 7.00pm (Melbourne time) on Tuesday, 18 December 2018,

both in accordance with the instructions below.

9. Submitting proxies

Eligible Shareholders wishing to appoint a proxy to attend and vote on their behalf at the General Meeting of all Shareholders must return the provided Proxy Form to the Share Registry in any of the following ways:

- (a) **By post** to the Share Registry at:

Boardroom Pty Limited
GPO Box 3993
Sydney, NSW, Australia 2000

- (b) **By hand delivery**¹⁵ to the Share Registry at:

Boardroom Pty Limited
Level 12, 225 George Street
Sydney, NSW, Australia 2000

- (c) **By fax** to the Share Registry at + 61 2 9290 9655

As the cut off date for receipt of proxies is 7.00pm (Melbourne time) on Tuesday, 18 December 2018, you should ensure that it is posted or delivered in sufficient time for it to be received by the Share Registry by that time.

10. Notes for proxy appointments

- (a) Your proxy must attend the General Meeting of all Shareholders to be held at MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria on Thursday, 20 December 2018 commencing at 10:00am and is asked to arrive at the venue 30 minutes prior to the time designated for the commencement of the General Meeting of all Shareholders, if possible, so that your shareholding may be checked against the Share Register and attendances noted.
- (b) A Shareholder entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote at the meeting on behalf of that Shareholder.
- (c) A proxy need not be a Shareholder.
- (d) You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy will be of no effect. Replacement Proxy Forms can also be obtained from the Share Registry.
- (e) If you hold Shares jointly with one or more other persons, in order for your proxy appointment to be valid, each of you must sign the Proxy Form.

15. Please note that hand deliveries may only be made Monday to Friday between the hours of 9.00am to 5.00pm (Melbourne time).

Explanatory notes for the General Meeting of all Shareholders (continued)

- (f) A proxy may vote or abstain as he or she chooses except where the appointment of the proxy directs the way the proxy is to vote on the resolution. If an appointment directs the way the proxy is to vote on the resolution:
 - (i) if the proxy is the Chairman - the proxy must vote on the poll and must vote in the way directed; and
 - (ii) if the proxy is not the Chairman - the proxy need not vote on the poll, but if the proxy does so, the proxy must vote in the way directed.
- (g) If a proxy appointment is signed or validly authenticated by a Shareholder but does not name the proxy or proxies in whose favour it is given, the Chairman may either:
 - (i) act as proxy in respect of the resolution to be considered at the General Meeting of all Shareholders; or
 - (ii) complete the proxy appointment by inserting the name or names of one or more Directors or the Company Secretary to act as proxy under the appointment, in respect of the resolution to be considered at the General Meeting of all Shareholders.
- (h) If:
 - (i) a Shareholder nominates the Chairman of the meeting as their proxy; or
 - (ii) the Chairman is otherwise appointed to act as proxy,then the person acting as Chairman in respect of an item of business at the meeting must act as proxy in respect of the resolution to be considered at the General Meeting of all Shareholders.
- (i) If the Chairman receives an undirected proxy from a Shareholder and that Shareholder is:
 - (i) a Continuing Shareholder, the Chairman intends to vote all undirected proxies of which he is appointed as proxy in *favour of the First Capital Return Resolution* (in the absence of a Superior Proposal from another party prior to the date of the General Meeting of all Shareholders); or
 - (ii) an Exiting Shareholder or a Partially Exiting Shareholder, the Chairman intends to abstain from voting on the First Capital Return Resolution.
- (j) A vote cast in accordance with the appointment of a proxy is valid even if before the vote was cast the appointor:
 - (i) died;
 - (ii) revoked the proxy; or
 - (iii) transferred the shares in respect of which the vote was cast,unless Phileo received written notification of the death, revocation or transfer before the meeting or, if applicable, any adjourned meeting.

Appendix 3 -

Notice of Special Meeting of Exiting and Partially Exiting Shareholders

Appendix 3 - Notice of Special Meeting of Exiting and Partially Exiting Shareholders

PHILEO AUSTRALIA LIMITED

ABN 52 007 608 755

NOTICE OF MEETING OF SPECIAL MEETING OF EXITING AND PARTIALLY EXITING SHAREHOLDERS

Notice is given that a meeting of the Exiting Shareholders and Partially Exiting Shareholders be held at MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria on Thursday, 20 December 2018 commencing at 10:30am or as soon as reasonably practicable after the General Meeting of all Shareholders has concluded or been adjourned (whichever time is later).

PURPOSE OF THE MEETING

The purpose of the meeting is to consider and, if thought fit, to approve a proposed capital return as a selective reduction of the share capital of Phileo, defined as the **Capital Return** in the Explanatory Memorandum of which this notice forms part.

A copy of the explanatory statement required by section 256C(4) of the Corporations Act in relation to the Capital Return is contained in the Explanatory Memorandum of which this notice forms part.

SPECIAL RESOLUTION

The meeting will be asked to consider, and, if thought fit, to pass the following resolution which will be proposed as a **special resolution**:

"The Exiting and Partially Exiting Shareholders approve the following reduction of the share capital of Phileo:

Conditional on:

(a) the passing of the special resolution to approve the Capital Return set out in the Notice of General Meeting of all Shareholders dated 19 November 2018; and

(b) the number of Shares to be cancelled not exceeding 10,500,000 Shares,

under sections 256B and 256C(2) of the Corporations Act and for all other purposes, Phileo reduces its share capital by an amount equal to the number of Shares to be cancelled as determined below multiplied by \$12.66 and returning that amount to Shareholders in the manner specified below:

(c) in respect of each Exiting Shareholder:

(i) cancelling all of the Shares held by the Exiting Shareholder on the Capital Return Record Date; and

(ii) paying to the Exiting Shareholder, in the manner provided in the constitution of Phileo for the payment of dividends, the amount of \$12.66 for each Cancelled Share,

as soon as reasonably practicable on or after the Implementation Date as determined by or on behalf of the Independent Directors; and

(d) in respect of each Partially Exiting Shareholder:

(i) cancelling all Shares held by the Partially Exiting Shareholder on the Capital Return Record Date other than the number of Shares specified by the Partially Exiting Shareholder in a valid Opt-Out Election Form provided by the Partially Exiting Shareholder prior to the Opt-Out Election Cut-Off Date; and

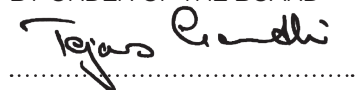
(ii) paying to the Partially Exiting Shareholder, in the manner provided in the constitution of Phileo for the payment of dividends, the amount of \$12.66 for each Cancelled Share,

as soon as reasonably practicable on or after the Implementation Date as determined by or on behalf of the Independent Directors."

The above resolution is referred to in this notice of meeting as the **Second Capital Return Resolution**.

DATED 19 November 2018

BY ORDER OF THE BOARD



Tejas Gandhi
Company Secretary

Explanatory notes for the Special Meeting of Exiting and Partially Exiting Shareholders

1. General

- (a) Capitalised words and phrases contained in this Notice of Special Meeting of Exiting and Partially Exiting Shareholders (including in the Second Capital Return Resolution) have the same meaning as set out in the Glossary in Section 12 of the Explanatory Memorandum, of which this notice forms part.
- (b) This notice should be read in conjunction with the entire Explanatory Memorandum of which this notice forms part. The Explanatory Memorandum contains important information to assist you in determining how to vote on the Second Capital Return Resolution. The Explanatory Memorandum includes a copy of the explanatory statement required by section 256C(4) of the Corporations Act in relation to the Capital Return (the explanatory statement being all Sections of this Explanatory Memorandum, other than this Appendix 3, Appendix 2 and Appendix 4).

2. Required voting majority

- (a) The Second Capital Return Resolution must be approved by Exiting Shareholders and Partially Exiting Shareholders whose Shares in aggregate account for at least 75% of the votes cast on the resolution (whether in person, by proxy, attorney or, in the case of a corporate Shareholder or proxy, by corporate representative).
- (b) The vote at the Special Meeting of Exiting and Partially Exiting Shareholders will be conducted by poll.

3. Voting restrictions

3.1 Corporations Act

Section 256B(1) of the Corporations Act requires that a share capital reduction be approved by Shareholders under section 256C of the Corporations Act.

Section 256C(2)(a) of the Corporations Act in turn requires that, if a capital reduction is a selective capital reduction, it must be approved by a special resolution passed at two meetings, being:

- (a) a general meeting of the company, with no votes cast in favour of proposed resolution from any person who is to receive consideration as part of the proposed capital reduction or any Associate of such person; and
- (b) a special meeting of those shareholders whose shares are to be cancelled.

3.2 Special Meeting of Exiting and Partially Exiting Shareholders

The Special Meeting of Exiting and Partially Exiting Shareholders is the second meeting referred to in paragraph 3.1(b) above and is the subject of the notice of meeting in this Appendix 3. The first meeting referred to in paragraph 3.1(a) above is the subject of the separate notice of meeting in Appendix 2.

At the Special Meeting of Exiting and Partially Exiting Shareholders, only the Exiting Shareholders and the Partially Exiting Shareholders can be present and vote on (either in favour of or against) the Second Capital Return Resolution.

Any votes cast for or on behalf of any other Shareholders on the Second Capital Return Resolution will be disregarded.

4. Voting entitlements

For the purposes of the Special Meeting of Exiting and Partially Exiting Shareholders, only those persons registered in the Share Register as either an Exiting Shareholder or a Partially Exiting Shareholder at 7:00pm (Melbourne time) on Tuesday, 18 December 2018 are entitled to be present and vote at the Special Meeting of Exiting and Partially Exiting Shareholders, either in person, by proxy or attorney or, in the case of a corporate Shareholder or proxy, by corporate representative. Exiting Shareholders and Partially Exiting Shareholders can only vote on the Second Capital Return Resolution in respect of the Shares held by them as at 7.00pm on Tuesday 18 December 2018 and, in the case of a Partially Exiting Shareholder, only those Shares that are not subject to an Opt-Out Election. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to vote at the meeting.

Partially Exiting Shareholders may only vote the number of their Shares that are not subject to an Opt-Out Election Form at this meeting and cannot vote on the Second Capital Return Resolution in respect of all of their Shares.

Restrictions and exclusions in respect of the resolution at this meeting are set out above in the Voting Restrictions section.

The Company intends to make an announcement to the ASX as soon as practicable after the Opt-Out Election Cut-Off Date containing material details (on an aggregated basis) of Opt-Out Elections received.

Continuing Shareholders and their representatives may, for convenience, be permitted to attend the Special Meeting of Exiting and Partially Exiting Shareholders but they will not be counted as present at the meeting and must not vote on the Second Capital Return Resolution or ask questions or otherwise participate in the meeting.

Explanatory notes for the Special Meeting of Exiting and Partially Exiting Shareholders (continued)

5. How to vote

Shareholders who are entitled to vote at the Special Meeting of Exiting and Partially Exiting Shareholders may vote:

- (a) by attending the meeting and voting in person, or by appointing an attorney to attend the meeting and vote on their behalf or, in the case of corporate Shareholders or proxies, a corporate representative to attend the meeting and vote on its behalf; or
- (b) by appointing a proxy to attend and vote on their behalf, using the relevant Proxy Form accompanying this notice. A proxy may be an individual or a body corporate.

6. Jointly held Shares

If you hold Shares jointly with one or more other persons, only one of you may vote. If more than one of you attempts to vote in person at the Special Meeting of Exiting and Partially Exiting Shareholders, only the vote of the holder whose name appears first on the Share Register will be counted.

7. Voting in person (or by attorney or corporate representative)

- (a) Eligible Shareholders wishing to vote in person or their attorneys or, in the case of a corporate Shareholder or proxy, corporate representatives, should attend the Special Meeting of Exiting and Partially Exiting Shareholders and bring a form of personal identification (such as their passport or driver's licence).
- (b) The relevant parties who plan to attend the Special Meeting of Exiting and Partially Exiting Shareholders in person are asked to arrive at the venue 30 minutes prior to the time designated for the commencement of the General Meeting of all Shareholders (being the first of the three Meetings on the day), if possible, so that their shareholding may be checked against the Share Register and attendances noted.
- (c) The power of attorney appointing your attorney to attend and vote at the Special Meeting of Exiting and Partially Exiting Shareholders must be duly executed by you and specify your name, the company (that is, Phileo Australia Limited), and the attorney, and also specify the meeting at which the appointment may be used. The appointment may be a standing one.
- (d) To vote by attorney at this meeting, the original or a certified copy of the power of attorney or other authority (if any) under which the instrument is signed must be received by the Share Registry before 7.00pm (Melbourne time) on Tuesday, 18 December 2018 in any of the following ways:
 - (i) **By post** to the Share Registry at:
Boardroom Pty Limited
GPO Box 3993
Sydney, NSW, Australia 2000
 - (ii) **By hand delivery**¹⁶ to the Share Registry at:
Boardroom Pty Limited
Level 12, 225 George Street
Sydney, NSW, Australia 2000
- (e) Your appointment of an attorney does not preclude you from attending in person and voting at the Special Meeting of Exiting and Partially Exiting Shareholders. The appointment of your attorney is not revoked merely by your attendance and taking part in the Special Meeting of Exiting and Partially Exiting Shareholders, but if you vote on a resolution, the attorney is not entitled to vote, and must not vote, as your attorney on that resolution.
- (f) To vote in person, you or your attorney or, in the case of a corporate Shareholder or proxy, corporate representative must attend the Special Meeting of Exiting and Partially Exiting Shareholders to be held at MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria on Thursday, 20 December 2018 commencing at 10:30am or as soon as reasonably practicable after the General Meeting of all Shareholders has concluded or been adjourned (whichever time is later).
- (g) A vote cast in accordance with the appointment of a power of attorney is valid even if before the vote was cast the appointor:
 - (i) died;
 - (ii) revoked the power; or
 - (iii) transferred the Shares in respect of which the vote was cast,unless Phileo received written notification of the death, revocation or transfer before the meeting or, if applicable, any adjourned meeting.

16. Please note that hand deliveries may only be made Monday to Friday between the hours of 9.00am to 5.00pm (Melbourne time).

- (h) To vote by corporate representative at the meeting, a corporate Shareholder or proxy should obtain an *Appointment of Corporate Representative Form* from the Share Registry, complete and sign the form in accordance with the instructions on it. The completed appointment form should be lodged at the registration desk on the day of the meeting.
- (i) The appointment of a representative may set out restrictions on the representative's powers.
- (j) The *Appointment of Corporate Representative Form*, a certified copy of the *Appointment of Corporate Representative Form*, or a certificate of the body corporate evidencing the appointment of a representative is prima facie evidence of a representative having been appointed.

8. Voting by proxy

Eligible Shareholders wishing to appoint a proxy to vote on their behalf at this meeting must:

- (a) complete and sign or validly authenticate the Proxy Form for the Special Meeting of Exiting and Partially Exiting Shareholders accompanying this Explanatory Memorandum; and
- (b) deliver the signed and completed Proxy Form to the Share Registry by 7.00pm (Melbourne time) on Tuesday, 18 December 2018,

both in accordance with the instructions below.

9. Submitting proxies

Eligible Shareholders wishing to appoint a proxy to attend and vote on their behalf at the Special Meeting of Exiting and Partially Exiting Shareholders must return the provided Proxy Form to the Share Registry in any of the following ways:

- (a) **By post** to the Share Registry at:

Boardroom Pty Limited
GPO Box 3993
Sydney, NSW, Australia 2000

- (b) **By hand delivery**¹⁷ to the Share Registry at:

Boardroom Pty Limited
Level 12, 225 George Street
Sydney, NSW, Australia 2000

- (c) **By fax** to the Share Registry at + 61 2 9290 9655

As the cut-off date for receipt of proxies is 7.00pm (Melbourne time) on Tuesday, 18 December 2018, you should ensure that it is posted or delivered in sufficient time for it to be received by the Share Registry by that time.

10. Notes for proxy appointments

- (a) Your proxy must attend the Special Meeting of Exiting and Partially Exiting Shareholders to be held at MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria on Thursday, 20 December 2018 commencing at 10:30am or as soon as reasonably practicable after the General Meeting of all Shareholders has concluded or been adjourned (whichever time is later) and is asked to arrive at the venue 30 minutes prior to the time designated for the commencement of the General Meeting of all Shareholders (being the first of the three Meetings on the day), if possible, so that your shareholding may be checked against the Share Register and attendances noted.
- (b) A Shareholder entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote at the meeting on behalf of that Shareholder.
- (c) A proxy need not be a Shareholder.
- (d) You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy will be of no effect. Replacement Proxy Forms can also be obtained from the Share Registry.
- (e) If you hold Shares jointly with one or more other persons, in order for your proxy appointment to be valid, each of you must sign the Proxy Form.

17. Please note that hand deliveries may only be made Monday to Friday between the hours of 9.00am to 5.00pm (Melbourne time).

Explanatory notes for the Special Meeting of Exiting and Partially Exiting Shareholders (continued)

- (f) A proxy may vote or abstain as he or she chooses except where the appointment of the proxy directs the way the proxy is to vote on the resolution. If an appointment directs the way the proxy is to vote on the resolution:
 - (i) if the proxy is the Chairman - the proxy must vote on the poll and must vote in the way directed; and
 - (ii) if the proxy is not the Chairman - the proxy need not vote on the poll, but if the proxy does so, the proxy must vote in the way directed.
- (g) If a proxy appointment is signed or validly authenticated by a Shareholder but does not name the proxy or proxies in whose favour it is given, the Chairman may either:
 - (i) act as proxy in respect of the resolution to be considered at the Special Meeting of Exiting and Partially Exiting Shareholders; or
 - (ii) complete the proxy appointment by inserting the name or names of one or more Directors or the Company Secretary to act as proxy under the appointment, in respect of the resolution to be considered at the Special Meeting of Exiting and Partially Exiting Shareholders.
- (h) If:
 - (i) a Shareholder nominates the Chairman of the meeting as their proxy; or
 - (ii) the Chairman is otherwise appointed to act as proxy,

then the person acting as Chairman in respect of an item of business at the meeting must act as proxy in respect of the resolution to be considered at the Special Meeting of Exiting and Partially Exiting Shareholders.

- (i) If the Chairman receives an undirected proxy, the Chairman intends to vote all undirected proxies of which he is appointed as proxy *in favour of* the Second Capital Return Resolution (in the absence of a Superior Proposal from another party prior to the date of the Special Meeting of Exiting and Partially Exiting Shareholders).
- (j) A vote cast in accordance with the appointment of a proxy is valid even if before the vote was cast the appointor:
 - (i) died;
 - (ii) revoked the proxy; or
 - (iii) transferred the shares in respect of which the vote was cast,unless Phileo received written notification of the death, revocation or transfer before the meeting or, if applicable, any adjourned meeting.

Appendix 4 -

Notice of Annual General Meeting

Appendix 4 - Notice of Annual General Meeting

PHILEO AUSTRALIA LIMITED

ABN 52 007 608 755

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that a meeting of the holders of fully paid ordinary shares of Phileo Australia Limited (**Phileo**) be held at MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria on Thursday, 20 December 2018 commencing at 11:00am or as soon as reasonably practicable after the Special Meeting of Exiting and Partially Exiting Shareholders has concluded or been adjourned (whichever time is later).

PURPOSE OF THE MEETING

SPECIAL BUSINESS

If and only if the Capital Return is approved by the passing of the special resolutions set out in Notice of General Meeting of all Shareholders and the Notice of Special Meeting of Exiting Shareholders, to consider and if thought fit to pass the following resolution as an item of special business and as an **ordinary resolution**:

Resolution 1

"That, for the purposes of ASX Listing Rule 17.11 and all other purposes, Shareholders approve the removal of Phileo from the official list of ASX on a date to be decided by ASX (being a date no earlier than one month after the date this resolution is passed), and that the directors of Phileo be authorised to do all things reasonably necessary or convenient to give effect to the delisting of Phileo from the official list of ASX".

Note: Resolution 1 will be withdrawn and not proposed if the Capital Return is not approved.

ORDINARY BUSINESS

Directors' Report, Auditor's Report and Financial Report

As an item of ordinary business, to receive and consider the Directors' Report, Auditor's Report and Financial Report for the financial year ended 30 June 2018 (**Annual Financial Statements**).

Resolution 2

As an item of ordinary business and as an **ordinary resolution**:

"That Phileo adopt the Remuneration Report for the financial year ended 30 June 2018 in accordance with section 250R(2) of the Corporations Act 2001 (Cth)"

Resolution 3

As an item of ordinary business and as an **ordinary resolution**:

"That Mr Andrew Hang, who retires by rotation in accordance with Phileo's constitution and Listing Rule 14.4 being eligible for re-election, be re-elected as a Director"

Resolution 4

As an item of ordinary business and as an **ordinary resolution**:

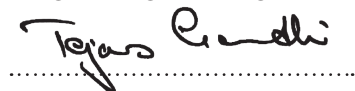
"That Mr Michael Loke, who retires by rotation in accordance with Phileo's constitution and Listing Rule 14.4 and being eligible for re-election, be re-elected as a Director"

Other business

To deal with any other business which may be lawfully brought forward in accordance with Phileo's constitution and the Corporations Act.

DATED 19 November 2018

BY ORDER OF THE BOARD



Tejas Gandhi
Company Secretary

Explanatory notes for the Annual General Meeting

1. General

- (a) Capitalised words and phrases contained in this Notice of Annual General Meeting have the same meaning as set out in the Glossary in Section 12 of the Explanatory Memorandum, of which this notice forms part.
- (b) This notice should be read in conjunction with the entire Explanatory Memorandum of which this notice forms part. The Explanatory Memorandum contains important information to assist you in determining how to vote on the proposed resolutions.

2. Resolution 1 (Delisting)

- (a) Resolution 1 is approval of Shareholders to remove Phileo from the official list of ASX.
- (b) Resolution 1 will only be proposed to Shareholders if Shareholders pass the two special resolutions approving the Capital Return and required for Phileo to undertake the Capital Return.¹⁸
- (c) If either of the two resolutions required for Phileo to undertake the Capital Return is not passed by the requisite majorities, Resolution 1 will not be put to Shareholders for a vote.
- (d) Phileo has submitted an application for in-principle confirmation from ASX in relation to its proposed Delisting.
- (e) In response, ASX advised that based solely on the information provided, on receipt of an application to remove Phileo from the official list of ASX under Listing Rule 17.11, ASX would be likely to remove Phileo from the official list, on a date to be decided by ASX, subject to compliance with the following conditions:
 - (i) the request for removal of Phileo from the official list of ASX be approved by an ordinary resolution of Shareholders;
 - (ii) the notice of meeting seeking shareholder approval to request removal from the official list of ASX must include a statement to the effect that the removal will take place no earlier than one month after the approval is granted; and
 - (iii) Phileo releases the full terms of the in-principle confirmation from ASX to the market immediately on Phileo's formal request for removal of Phileo from the official list of ASX.
- (f) ASX's in-principle confirmation applies until 27 December 2018 and is subject to any amendments to the Listing Rules or change in the interpretation or administration of the Listing Rules and policies of ASX.
- (g) In accordance with the conditions as stated above, Resolution 1 seeks Shareholder approval for the Delisting as an ordinary resolution.
- (h) The rationale for the Delisting, together with the advantages and disadvantages of the Delisting and the effect of the Delisting are set out in Sections 2.2 and 2.3 of this Explanatory Memorandum of which this notice of meeting forms part.
- (i) The proposed Delisting is considered by the Independent Directors to be in the best interests of Phileo and the Independent Directors unanimously recommend that the Shareholders vote in favour of the Delisting.

3. Annual Financial Statements

- (a) The Annual Financial Statements, comprising the Directors' Report, Auditor's Report and Financial Report for the financial year ended 30 June 2018 will be laid before Shareholders at the meeting. There is no requirement for Shareholders to approve the Annual Financial Statements. However, Shareholders will have the opportunity to ask questions about or make comments on the Annual Financial Statements and the management of Phileo. A representative of Phileo's auditor, Moore Stephens Audit (Vic), will be invited to attend to answer questions about the audit of the Annual Financial Statements.
- (b) The Annual Financial Statements are set out in the Phileo's 2018 Annual Report which can be obtained from Phileo's website, www.palltd.com.au or on request to Company Secretary of Phileo Australia Limited, Level 14, 303 Collins Street, Melbourne 3000, by fax to (03) 9663 8038, or by email to tejas@palltd.com.au.

18. Those two resolutions are the subject of the Notice of General Meeting of all Shareholders (see Appendix 2) and the Notice of Special Meeting of Exiting and Partially Exiting Shareholders (see Appendix 3) respectively.

Explanatory notes for the Annual General Meeting (continued)

4. Resolution 2 (Remuneration Report)

- (a) The vote on Resolution 2 is advisory only and does not bind the Board or Phileo. However, subject to Phileo remaining a listed entity, the Board will take the outcome of the vote into consideration for the future when reviewing the remuneration practices and policies of Phileo.
- (b) Shareholders attending the Annual General Meeting will have an opportunity to discuss and put questions in respect of the Remuneration Report. In addition, Shareholders will be asked to vote on the Remuneration Report.
- (c) If at least 25% of the votes cast on Resolution 2 to adopt the Remuneration Report are against adoption of the Remuneration Report, then, subject to Phileo remaining a listed entity:
 - (i) if comments are made on the Remuneration Report at the Annual General Meeting, Phileo's Remuneration Report for the financial year ending 30 June 2019 will be required to include an explanation of the Board's proposed action in response or, if no action is proposed, the Board's reasons for this; and
 - (ii) if, at Phileo's 2019 Annual General Meeting, at least 25% of the votes cast on the resolution for adoption of the Remuneration Report for the relevant financial year are against its adoption, Phileo will be required to put to shareholders a resolution proposing that a general meeting (**Spill Meeting**) be called to consider the election of Directors of Phileo (**Spill Resolution**). The Spill Meeting must be held within 90 days of the date of the 2019 Annual General Meeting. For any Spill Resolution to be passed, more than 50% of the votes cast on the resolution must be in favour of it. If a Spill Resolution is passed, all the Directors (other than the Managing Director) will cease to hold office immediately before the end of the Spill Meeting unless re-elected at that meeting.
- (d) Noting that each Director has a personal interest in their remuneration from Phileo, as described in the Remuneration Report, the Board unanimously recommends that the Shareholders vote in favour of adopting the Remuneration Report.
- (e) The matters set out in paragraph (c) above will not be relevant if Resolution 1 (Delisting) is approved and Phileo is subsequently delisted.

5. Resolution 3 (Re-election of Mr Andrew Hang as director)

- (a) Under Rule 56 of Phileo's constitution, one-third of the company's directors other than the Managing Director, or the whole number nearest to one-third must retire by rotation unless re-elected. Under Listing Rule 14.4, a director must not hold office without re-election past the third annual general meeting following the director's appointment or three years, whichever is longer. Mr Andrew Hang was last re-elected as a director at Phileo's 2015 annual general meeting. Mr Andrew Hang retires under the rotation provision in Phileo's constitution and Listing Rule 14.4 and, being eligible, offers himself for re-election.
- (b) Each Director (excluding Mr Andrew Hang) unanimously recommends that Shareholders vote in favour of this resolution.

6. Resolution 4 (Re-election of Mr Michael Loke as director)

- (a) Under Rule 56 of Phileo's constitution, one-third of the company's directors other than the Managing Director, or the whole number nearest to one-third must retire by rotation unless re-elected. Under Listing Rule 14.4, a director must not hold office without re-election past the third annual general meeting following the director's appointment or three years, whichever is longer. Mr Michael Loke was last re-elected as a director at Phileo's 2014 annual general meeting. Mr Michael Loke retires under the rotation provision in Phileo's constitution and Listing Rule 14.4 and, being eligible, offers himself for re-election.
- (b) Each Director (excluding Mr Michael Loke) unanimously recommends that Shareholders vote in favour of this resolution.

7. Required voting majority

- (a) Resolution 1 (Delisting), Resolution 2 (Remuneration Report), Resolution 3 (Re-election of Mr Andrew Hang) and Resolution 4 (Re-election of Mr Michael Loke) must be approved by Shareholders whose Shares in aggregate account for at least 50% of the votes cast on the resolution (whether in person, by proxy, attorney or, in the case of a corporate Shareholder or proxy, by corporate representative).
- (b) The vote at the Annual General Meeting on each of these resolutions will be conducted by poll.

8. Voting restrictions

8.1 Resolutions 1, 3 and 4

- (a) All Shareholders can vote either in favour or against Resolution 1 (Delisting), Resolution 3 (Re-election of Mr Andrew Hang) and Resolution 4 (Re-election of Mr Michael Loke).

8.2 Resolution 2

- (a) Phileo will disregard any votes cast on Resolution 2 (Remuneration Report) by or on behalf of the key management personnel of the company (**KMP**) disclosed in the Remuneration Report, or by or on behalf of a closely related party of the KMP or the KMP's proxy.
- (b) However, Phileo will not disregard a vote cast by the Chairman or a KMP or a related party of a KMP if:
- (i) it is cast as a proxy;
 - (ii) the proxy appointment is the Chairman and it expressly authorises the Chairman to exercise the proxy and how the proxy is to vote on the resolution even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP; and
 - (iii) it is not cast on behalf of a KMP or a closely related party of a KMP.
- (c) Phileo's KMP are those people with authority and responsibility for planning, directing and controlling the company's activities or its controlled entities directly or indirectly. For Phileo, the KMP comprises members of the Board of Directors. Their closely related parties are defined in the Corporations Act and include certain of their family members, dependents and companies they control.

9. Voting entitlements

For the purposes of the Annual General Meeting, only those persons registered in the Share Register as a Shareholder at 7:00pm (Melbourne time) on Tuesday, 18 December 2018 are entitled to attend and vote at the Annual General Meeting in respect of each Share held by them at that time, either in person, by proxy or attorney or, in the case of a corporate Shareholder or proxy, by corporate representative. Accordingly, Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

Voting restrictions and exclusions in respect of the resolution at this meeting are set out above in the Voting Restrictions section.

10. How to vote

Shareholders who are entitled to vote at the Annual General Meeting may vote:

- (a) by attending the meeting and voting in person, or by appointing an attorney to attend the meeting and vote on their behalf or, in the case of corporate Shareholders or proxies, a corporate representative to attend the meeting and vote on its behalf; or
- (b) by appointing a proxy to attend and vote on their behalf, using the Proxy Form accompanying this notice. A proxy may be an individual or a body corporate.

11. Jointly held Shares

If you hold Shares jointly with one or more other persons, only one of you may vote. If more than one of you attempts to vote in person at the Annual General Meeting, only the vote of the holder whose name appears first on the Share Register will be counted.

Explanatory notes for the Annual General Meeting (continued)

12. Voting in person (or by attorney or corporate representative)

- (a) Eligible Shareholders wishing to vote in person or their attorneys or, in the case of a corporate Shareholder or proxy, corporate representatives should attend the Annual General Meeting and bring a form of personal identification (such as their driver's licence).
- (b) The relevant parties who plan to attend the Annual General Meeting in person are asked to arrive at the venue 30 minutes prior to the time designated for the commencement of the General Meeting of all Shareholders (being the first of the three Meetings on the day), if possible, so that their shareholding may be checked against the Share Register and attendances noted.
- (c) The power of attorney appointing your attorney to attend and vote at the Annual General Meeting must be duly executed by you and specify your name, the company (that is, Phileo Australia Limited), and the attorney, and also specify the meeting at which the appointment may be used. The appointment may be a standing one.
- (d) To vote by attorney at this meeting, the original or a certified copy of the power of attorney or other authority (if any) under which the instrument is signed must be received by the Share Registry before 7.00pm (Melbourne time) on Tuesday, 18 December 2018 in any of the following ways:
 - (i) **By post** to the Share Registry at:
Boardroom Pty Limited
GPO Box 3993
Sydney, NSW, Australia 2000
 - (ii) **By hand delivery**¹⁹ to the Share Registry at:
Boardroom Pty Limited
Level 12, 225 George Street
Sydney, NSW, Australia 2000
- (e) Your appointment of an attorney does not preclude you from attending in person and voting at the Annual General Meeting. The appointment of your attorney is not revoked merely by your attendance and taking part in the Annual General Meeting, but if you vote on a resolution, the attorney is not entitled to vote, and must not vote, as your attorney on that resolution.
- (f) To vote in person, you or your attorney or, in the case of a corporate Shareholder or proxy, corporate representative must attend the Annual General Meeting to be held at MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria on Thursday, 20 December 2018 commencing at 11.00am or as soon as reasonably practicable after the Special Meeting of Exiting and Partially Exiting Shareholders has concluded or been adjourned (whichever time is later).
- (g) A vote cast in accordance with the appointment of a power of attorney is valid even if before the vote was cast the appointor:
 - (i) died;
 - (ii) revoked the power; or
 - (iii) transferred the Shares in respect of which the vote was cast,unless Phileo received written notification of the death, revocation or transfer before the meeting or, if applicable, any adjourned meeting.
- (h) To vote by corporate representative at the meeting, a corporate Shareholder or proxy should obtain an *Appointment of Corporate Representative Form* from the Share Registry, complete and sign the form in accordance with the instructions on it. The completed appointment form should be lodged at the registration desk on the day of the meeting.
- (i) The appointment of a representative may set out restrictions on the representative's powers.
- (j) The *Appointment of Corporate Representative Form*, a certified copy of the *Appointment of Corporate Representative Form*, or a certificate of the body corporate evidencing the appointment of a representative is prima facie evidence of a representative having been appointed.

19. Please note that hand deliveries may only be made Monday to Friday between the hours of 9.00am to 5.00pm (Melbourne time).

13. Voting by proxy

Eligible Shareholders wishing to appoint a proxy to vote on their behalf at this meeting must:

- (a) complete and sign or validly authenticate the Proxy Form for the Annual General Meeting accompanying this Explanatory Memorandum; and
 - (b) deliver the signed and completed Proxy Form to the Share Registry by 7.00pm (Melbourne time) on Tuesday, 18 December 2018,
- both in accordance with the instructions below.

14. Submitting proxies

Eligible Shareholders wishing to appoint a proxy to attend and vote on their behalf at the Annual General Meeting must return the provided proxy form to the Share Registry in any of the following ways:

- (a) **By post** to the Share Registry:

Boardroom Pty Limited
GPO Box 3993
Sydney, NSW, Australia 2000

- (b) **By hand delivery**²⁰ to the Share Registry at:

Boardroom Pty Limited
Level 12, 225 George Street
Sydney, NSW, Australia 2000

- (c) **By fax** to the Share Registry at + 61 2 9290 9655

As the cut off date for receipt of proxies is 7.00pm (Melbourne time) on Tuesday, 18 December 2018, you should ensure that it is posted or delivered in sufficient time for it to be received by the Share Registry by that time.

15. Notes for proxy appointments

- (a) Your proxy must attend the Annual General Meeting to be held at MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne, Victoria on Thursday, 20 December 2018 commencing at 11.00am or as soon as reasonably practicable after the Special Meeting of Exiting and Partially Exiting Shareholders has concluded or been adjourned (whichever time is later) and is asked to arrive at the venue 30 minutes prior to the time designated for the commencement of the General Meeting of all Shareholders (being the first of the three Meetings on the day), if possible, so that your shareholding may be checked against the Share Register and attendances noted.
- (b) A Shareholder entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote at the meeting on behalf of that Shareholder.
- (c) A proxy need not be a Shareholder.
- (d) You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy will be of no effect. Replacement Proxy Forms can also be obtained from the Share Registry.
- (e) If you hold Shares jointly with one or more other persons, in order for your proxy appointment to be valid, each of you must sign the Proxy Form.
- (f) A proxy may vote or abstain as he or she chooses except where the appointment of the proxy directs the way the proxy is to vote on the resolution. If an appointment directs the way the proxy is to vote on the resolution:
 - (i) if the proxy is the chair - the proxy must vote on the poll and must vote in the way directed; and
 - (ii) if the proxy is not the chair - the proxy need not vote on the poll, but if the proxy does so, the proxy must vote in the way directed.

20. Please note that hand deliveries may only be made Monday to Friday between the hours of 9.00am to 5.00pm (Melbourne time).

Explanatory notes for the Annual General Meeting (continued)

- (g) If a proxy appointment is signed or validly authenticated by a Shareholder but does not name the proxy or proxies in whose favour it is given, the Chairman may either:
- (i) act as proxy in respect of the resolution to be considered at the Annual General Meeting; or
 - (ii) complete the proxy appointment by inserting the name or names of one or more Directors or the Company Secretary to act as proxy under the appointment, in respect of the resolution to be considered at the Annual General Meeting.
- (h) If:
- (i) a Shareholder nominates the Chairman of the meeting as their proxy; or
 - (ii) the Chairman is otherwise appointed to act as proxy,
- then the person acting as Chairman in respect of an item of business at the meeting must act as proxy in respect of the resolution to be considered at the Annual General Meeting.
- (i) If the Chairman receives an undirected proxy, the Chairman intends to vote all undirected proxies of which he is appointed as proxy in *favour of* Resolutions 1 (Delisting), 2 (Remuneration Report) and 3 (Re-election of Mr Andrew Hang), including Resolution 2 (Remuneration Report) despite that Resolution 2 (Remuneration Report) is connected with the remuneration of KMP.
- (j) In relation to Resolution 2 (Remuneration Report), if you have not marked the 'For', 'Against' or 'Abstain' boxes, you will be deemed to have expressly authorised the Chairman to vote in favour of Resolution 2 (Remuneration Report). If you do not wish to give the Chairman such express authorisation, you should ensure that a box is clearly marked.
- (k) A vote cast in accordance with the appointment of a proxy is valid even if before the vote was cast the appointor:
- (i) died;
 - (ii) revoked the proxy; or
 - (iii) transferred the Shares in respect of which the vote was cast,
- unless Phileo received written notification of the death, revocation or transfer before the meeting or, if applicable, any adjourned meeting.

Appendix 5 -

Summary of proposed replacement constitution of Phileo

Appendix 5 - Summary of proposed replacement constitution of Phileo

1. Introduction

Set out below is a summary of the significant rights, liabilities and obligations that would attach to the Shares and other material provisions under the new constitution of Phileo which Mr Koh proposes be adopted following implementation of the Proposed Transaction.

This is a summary only and is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Continuing Shareholders and Partially Exiting Shareholders (in respect of their Shares subject to an Opt-Out Election Form) under the proposed constitution. The summary assumes that Phileo will convert into a proprietary limited company following implementation of the Proposed Transaction.

2. General meetings

Each Shareholder has the right to attend, vote at and receive notice of meetings.

Subject to the Corporations Act, each Shareholder must be given at least 21 days' notice of a general meeting.

3. Voting at general meetings

At a general meeting of Phileo every Shareholder who is present at the meeting in person or by proxy, attorney or, if the Shareholder is a body corporate, by corporate representative, has one vote on a show of hands and one vote for each Share held on a poll. A Shareholder however is not entitled to vote at a general meeting unless all calls and other sums payable by that Shareholder in respect of its Shares have been paid to Phileo.

If an equal number of votes are cast for and against a resolution the chairperson does not have a casting vote in addition to any deliberative vote.

Resolutions are decided on a show of hands unless a poll is demanded by:

- (a) the chairperson;
- (b) at least five Shareholders entitled to vote on the resolution; or
- (c) Shareholders with at least 5% of the votes that may be cast on the resolution on a poll.

4. Transfer of Shares

Shares may be transferred:

- (a) if the transfer is from a Shareholder who holds the Share as the trustee of a trust to the new trustee(s) of that trust;
- (b) by a Shareholder holding a Share as a bare trustee or nominee to the person beneficially entitled to that Share;
- (c) if the transfer is in accordance with the pre-emptive rights procedure under the Constitution;
- (d) if expressly permitted under the Constitution; or
- (e) all other Shareholders agree in writing to the transfer.

The Board may refuse to register a transfer without giving any reasons or specifying any grounds for the decision.

5. Pre-emptive rights

Unless otherwise permitted under the Constitution, any Shareholder wishing to transfer their Shares will need to comply with a pre-emptive rights procedure. This requires the Shareholder to give Phileo a notice specifying the number and class of Shares to be transferred and the price at which that Shareholder wants to transfer those Shares. Phileo must then offer those Shares on the proposed terms to each other Shareholder. If the relevant Shares are not all taken up by existing Shareholders, then the Shareholder wishing to transfer their Shares can sell them to any person on no more favourable terms than what was offered to other Shareholders.

6. Issue of further Shares

Subject to the terms of the Constitution and the Corporations Act, the Board may issue or dispose of Shares to persons on the terms, at the issue price and at the times it determines.

7. Dividends

The Board may decide to pay an interim, final or bonus dividend as it sees fit and fix the amount, method and time for payment of the dividend. The Board can also determine that a dividend is payable to the holders of one class of Shares to the exclusion of any other class on issue at that time.

8. Calls on Shares

Subject to the Corporations Act, Phileo's Constitution and the terms of issue of Shares in a particular class, Phileo may, at any time, make calls on Shareholders for all or some of the money unpaid on their Shares. If a Shareholder fails to pay a call or an instalment of a call then the Board may resolve to forfeit their Shares, including all dividends, interest and other money payable but not yet paid in respect of those Shares.

9. Winding up

Subject to Phileo's Constitution, the terms of issue of Shares and any amount unpaid on Shares, each Shareholder has the right to participate in the distribution of Phileo's assets (both capital and surplus).

Subject to the Corporations Act and the terms of issue of Shares, if Phileo is wound up then with the sanction of a special resolution of Shareholders, the liquidator may divide Phileo's surplus assets following payment of Phileo's debts among Shareholders in proportion to the number of Shares held by them as at that date.

10. Variation of class rights

At present, the only class of Shares on issue is ordinary shares. Subject to the terms of issue of a class of Shares, if there are different classes of Shares on issue, the rights attaching to a class may be varied or cancelled:

- (a) with the written consent of Shareholders holding at least 75% of the issued Shares of the relevant class; or
- (b) by a special resolution passed at a separate general meeting of the Shareholders holding Shares of that class.

11. Directors

Directors can be appointed either by resolution passed at a general meeting of Shareholders or by the Board to fill a casual vacancy or as an addition to the existing members of the Board.

The remuneration of Directors will be determined by the Board.

This page has been intentionally left blank.

Corporate Directory

Phileo Australia Limited

ABN 52 007 608 755

Level 14, 303 Collins Street
Melbourne VIC 3000

Telephone: +61 3 9663 8018

Fax: +61 3 9663 8038

Website: www.palltd.com.au

Email: phileo@palltd.com.au

Directors

Mr Graham Homes, Chairman

Mr Rudy Eng Wah Koh, Managing Director

Mr Alfred Sung, Executive Director

Mr Michael Tan Chung Loke, Non-Executive Director

Mr Andrew Chooi Seng Hang, Non-Executive Director

Company Secretary

Mr Tejas Gandhi

Auditor

Moore Stephens Audit (Vic)

18/530 Collins Street

Melbourne VIC 3000

Telephone: +61 3 9608 0100

Share Registry

Boardroom Pty Ltd

Level 12, 225 George Street

Sydney NSW 2001

Telephone: +61 2 9290 9600

Fax: +61 2 9279 0664

Legal adviser

MinterEllison

Rialto Towers, 525 Collins Street

Melbourne VIC 3000

Telephone: +61 3 8608 2000

Fax: +61 3 8608 1000

Independent Expert

Ernst & Young Transaction Advisory Services Pty Ltd

8 Exhibition Street

Melbourne VIC 3000

Telephone: +61 2 9322 7000

Fax: +61 2 9322 7001

N1_7092_000012

MRS SAM SAMPLE
1 SAMPLE STREET
SYDNEY NSW 2000**All Correspondence to:**

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001 Australia

📠 **By Fax:** +61 2 9290 9655

☎ **By Phone:** (within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

GENERAL MEETING OF ALL SHAREHOLDERS

YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded **before 7:00pm (AEDT) on Tuesday, 18 December 2018**. You should ensure that your Proxy Form is posted or delivered in sufficient time for it to be received by the Share Registry by that time.

Defined terms used in this Proxy Form have the same meaning set out in the Notice of Meeting of General Meeting of all Shareholders dated 19 November 2018

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chair of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chair of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chair of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your securities your vote on that item will be invalid.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders should sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than **7:00pm (AEDT) on Tuesday, 18 December 2018**. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

📠 **By Fax** + 61 2 9290 9655

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993,
Sydney NSW 2001 Australia

👤 **In Person** Boardroom Pty Limited
Level 12, 225 George Street,
Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

Phileo Australia Limited

ACN 007 608 755

MRS SAM SAMPLE
1 SAMPLE STREET
SYDNEY NSW 2000

☐

Your Address

This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Securityholders sponsored by a broker should advise their broker of any changes.

Please note, you cannot change ownership of your securities using this form.

PROXY FORM FOR GENERAL MEETING OF ALL SHAREHOLDERS

STEP 1 APPOINT A PROXY

I/We being a member/s of **Phileo Australia Limited** (Company) and entitled to attend and vote hereby appoint:

☐

the **Chair of the Meeting** (mark box)

OR if you are **NOT** appointing the Chair of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the Meeting as my/our proxy at the General Meeting of the Company to be held at **MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne on Thursday, 20 December 2018 at 10:00am (AEDT)** and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

The Chair of the Meeting intends to vote undirected proxies in favour of each of the items of business.

STEP 2 VOTING DIRECTIONS

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a poll and your vote will not be counted in calculating the required majority.

Special
Resolution

First Capital Return Resolution

For further details of this resolution, please refer to the Notice of Meeting for the General Meeting of all Shareholders at Appendix 2 to the Explanatory Memorandum which accompanies this Proxy Form.

For Against Abstain*

☐ ☐ ☐

Important
Notes

Voting restrictions apply

At the General Meeting of all Shareholders, no votes in favour of the First Capital Return Resolution may be cast by:

- (a) any Exiting Shareholder or Partially Exiting Shareholder (being a person who is to receive consideration as part of the proposed Capital Return); or
- (b) an Associate of any Shareholder referred to in paragraph (a) above.

Accordingly, Phileo will disregard a vote cast in favour of the First Capital Return Resolution by any Shareholder referred to in paragraphs (a) and (b) above.

Phileo need not disregard a vote cast against the First Capital Return Resolution by any Shareholder referred to in paragraphs (a) and (b) above.

If the Chairman is your proxy or is appointed as your proxy by default

If the Chairman is your proxy or is appointed your proxy by default, unless you indicate otherwise by ticking either the 'for', 'against' or 'abstain' box in relation to the First Capital Return Resolution, you will be expressly authorising the Chairman to vote in accordance with the Chairman's voting intentions on the First Capital Return Resolution.

If the Chairman receives an undirected proxy from a Shareholder and that Shareholder is:

- a Continuing Shareholder, the Chairman intends to vote all undirected proxies of which he is appointed as proxy in favour of the First Capital Return Resolution (in the absence of a Superior Proposal from another party prior to the date of the General Meeting of all Shareholders); or
- an Exiting Shareholder or a Partially Exiting Shareholder, the Chairman intends to abstain from voting on the First Capital Return Resolution.

STEP 3 SIGNATURE OF SECURITYHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director / Company Secretary

Contact Name.....

Contact Daytime Telephone.....

Date / / 2018



N1_7092_000012

MRS SAM SAMPLE
1 SAMPLE STREET
SYDNEY NSW 2000

All Correspondence to:

 **By Mail** Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001 Australia

 **By Fax:** +61 2 9290 9655

 **By Phone:** (within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

SPECIAL MEETING OF EXITING AND PARTIALLY EXITING SHAREHOLDERS

YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded **before 7:00pm (AEDT) on Tuesday, 18 December 2018**. You should ensure that your Proxy Form is posted or delivered in sufficient time for it to be received by the Share Registry by that time.

Defined terms used in this Proxy Form have the same meaning set out in the Notice of Meeting of Special Meeting of Exiting and Partially Exiting Shareholders dated 19 November 2018

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chair of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chair of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chair of the Meeting will be your proxy. A proxy need not be a securityholder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your securities your vote on that item will be invalid.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders should sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than **7:00pm (AEDT) on Tuesday, 18 December 2018**. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

 **By Fax** + 61 2 9290 9655

 **By Mail** Boardroom Pty Limited
GPO Box 3993,
Sydney NSW 2001 Australia

 **In Person** Boardroom Pty Limited
Level 12, 225 George Street,
Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

Phileo Australia Limited

ACN 007 608 755

MRS SAM SAMPLE
1 SAMPLE STREET
SYDNEY NSW 2000

☐

Your Address

This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Securityholders sponsored by a broker should advise their broker of any changes.

Please note, you cannot change ownership of your securities using this form.

PROXY FORM FOR SPECIAL MEETING OF EXITING AND PARTIALLY EXITING SHAREHOLDERS

STEP 1 APPOINT A PROXY

I/We being a member/s of **Phileo Australia Limited** (Company) and entitled to attend and vote hereby appoint:

☐

the **Chair of the Meeting** (mark box)

OR if you are **NOT** appointing the Chair of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered securityholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the Meeting as my/our proxy at the General Meeting of the Company to be held at **MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne on Thursday, 20 December 2018 at 10:30am (AEDT)** or as soon as reasonably practicable after the General Meeting of all Shareholders has concluded or been adjourned (whichever time is later) and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

The Chair of the Meeting intends to vote undirected proxies in favour of each of the items of business.

STEP 2 VOTING DIRECTIONS

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a poll and your vote will not be counted in calculating the required majority.

Special
Resolution

Second Capital Return Resolution

For further details of this resolution, please refer to the Notice of Meeting for the Special Meeting of Exiting and Partially Exiting Shareholders at Appendix 3 to the Explanatory Memorandum which accompanies this Proxy Form

For

☐

Against

☐

Abstain*

☐

Important
Notes

Voting restrictions apply

At the Special Meeting of Exiting and Partially Exiting Shareholders, only the Exiting Shareholders and the Partially Exiting Shareholders may be present at the meeting and can vote on (either in favour of or against) the Second Capital Return Resolution.

All votes purportedly cast for or on behalf of any other Shareholders on the Second Capital Return Resolution will be disregarded.

If the Chairman is your proxy or is appointed as your proxy by default

If the Chairman is your proxy or is appointed your proxy by default, unless you indicate otherwise by ticking either the 'for', 'against' or 'abstain' box in relation to the Second Capital Return Resolution, you will be expressly authorising the Chairman to vote in accordance with the Chairman's voting intentions on the Second Capital Return Resolution.

If the Chairman receives an undirected proxy from an Exiting Shareholder or a Partially Exiting Shareholder, the Chairman intends to vote all undirected proxies of which he is appointed as proxy *in favour of* the Second Capital Return Resolution (in the absence of a Superior Proposal from another party prior to the date of the Special Meeting of Exiting and Partially Exiting Shareholders).

STEP 3 SIGNATURE OF SECURITYHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director / Company Secretary

Contact Name.....

Contact Daytime Telephone.....

Date / / 2018



N1_7092_000012

MRS SAM SAMPLE
1 SAMPLE STREET
SYDNEY NSW 2000

All Correspondence to:

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001 Australia

📠 **By Fax:** +61 2 9290 9655

☎ **By Phone:** (within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

2018 ANNUAL GENERAL MEETING

YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded **before 7:00pm (AEDT) on Tuesday, 18 December 2018**. You should ensure that your Proxy Form is posted or delivered in sufficient time for it to be received by the Share Registry by that time.

Defined terms used in this Proxy Form have the same meaning set out in the Notice of Annual General Meeting dated 19 November 2018

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chair of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chair of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chair of the Meeting will be your proxy. A proxy need not be a securityholder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your securities your vote on that item will be invalid.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders should sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than **11:00am (AEDT) on Tuesday, 18 December 2018**. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

📠 **By Fax** + 61 2 9290 9655

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993,
Sydney NSW 2001 Australia

👤 **In Person** Boardroom Pty Limited
Level 12, 225 George Street,
Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

Phileo Australia Limited

ACN 007 608 755

MRS SAM SAMPLE
1 SAMPLE STREET
SYDNEY NSW 2000

☐

Your Address

This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Securityholders sponsored by a broker should advise their broker of any changes.

Please note, you cannot change ownership of your securities using this form.

PROXY FORM FOR 2018 ANNUAL GENERAL MEETING

STEP 1 APPOINT A PROXY

I/We being a member/s of **Phileo Australia Limited** (Company) and entitled to attend and vote hereby appoint:

☐

the **Chair of the Meeting** (mark box)

OR if you are **NOT** appointing the Chair of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered securityholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the Meeting as my/our proxy at the Annual General Meeting of the Company to be held at **MinterEllison, Rialto Towers, Level 23, 525 Collins Street, Melbourne on Thursday, 20 December 2018 at 11:00am (AEDT)** or as soon as reasonably practicable after the Special Meeting of Exiting and Partially Exiting Shareholders has concluded or been adjourned (whichever time is later) and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

STEP 2 VOTING DIRECTIONS

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a poll and your vote will not be counted in calculating the required majority.

		For	Against	Abstain*
Resolution 1	Delisting Resolution	☐	☐	☐
Resolution 2	Remuneration Report	☐	☐	☐
Resolution 3	Re-election of Director (Mr Andrew Hang)	☐	☐	☐
Resolution 4	Re-election of Director (Mr Michael Loke)	☐	☐	☐

For further details of the above resolutions, please refer to the Notice of Annual General Meeting at Appendix 4 to the Explanatory Memorandum which accompanies this Proxy Form

Important
Notes

Voting restrictions apply

Phileo will disregard any votes cast on Resolution 2 (Remuneration Report) by or on behalf of the key management personnel of the company (KMP) disclosed in the Remuneration Report, or by or on behalf of a closely related party of the KMP or the KMP's proxy.

However, Phileo will not disregard a vote cast by the Chairman, a KMP or a related party of a KMP if:

- it is cast as a proxy;
- the proxy appointment is the Chairman and the appointment expressly authorises the Chairman to exercise the proxy and how the proxy is to vote on the resolution even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP; and
- it is not cast on behalf of a KMP or a closely related party of a KMP.

Phileo's KMP are those people with authority and responsibility for planning, directing and controlling the company's activities or its controlled entities directly or indirectly. For Phileo, the KMP comprises members of the Board. Their closely related parties are defined in the Corporations Act and include certain of their family members, dependents and companies they control.

If the Chairman is your proxy or is appointed as your proxy by default

If the Chairman is your proxy or is appointed your proxy by default, unless you indicate otherwise by ticking either the 'for', 'against' or 'abstain' box in relation to the relevant Resolution, you will be expressly authorising the Chairman to vote in accordance with the Chairman's voting intentions on the relevant Resolution even if that Resolution is connected directly or indirectly with the remuneration of a member of KMP.

If the Chairman receives an undirected proxy from a Shareholder, the Chairman intends to vote all undirected proxies of which he is appointed as proxy in favour of all Resolutions including Resolution 2 (Remuneration Report) despite Resolution 2 (Remuneration Report) being connected with the remuneration of KMP.

STEP 3 SIGNATURE OF SECURITYHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director / Company Secretary

Contact Name.....

Contact Daytime Telephone.....

Date / / 2018

OPT-OUT ELECTION FORM

PHILEO AUSTRALIA LIMITED (ACN 007 608 755)

This is an important document that requires your immediate attention. If you are in doubt about how to deal with this Form, please contact your financial or other professional adviser.

Important Information for Trustees and Nominees on reverse of this Opt-Out Election Form

N1_7092_000012

MRS SAM SAMPLE
1 SAMPLE STREET
SYDNEY NSW 2000

SRN/HIN	
Sub Register	
No of shares held	



Step 1 - Please check and confirm that these details are correct. If any changes are necessary, please amend the relevant details by hand.

This Opt-Out Election Form (**Form**) relates to the proposed capital return under which a maximum of 10.50 million Shares will be cancelled in exchange for \$12.66 cash per Cancelled Share (**Capital Return**) by Phileo Australia Limited (**Phileo** or **Company**). All defined terms used in this Form have the same meaning as set out in the Explanatory Memorandum which accompanies this Form.

As a Shareholder, you have a choice of whether to participate in or opt-out of the Capital Return.

DECISION	ACTION
TO RECEIVE THE CAPITAL RETURN	If you wish to participate in the Capital Return and receive \$12.66 cash for each of your Cancelled Shares, and therefore completely exit your Phileo investment, you do not need to make an election to opt-out . In that case, you should IGNORE this Opt-Out Election Form.
TO RETAIN YOUR SHARES	If you wish to opt-out of the Capital Return, and therefore retain all or some your Phileo Shares, you must complete and return this Opt-Out Election Form so that it is received by the Share Registry by no later than 7.00pm on Tuesday, 11 December 2018 (Opt-Out Election Cut-Off Date).

If you wish to opt-out of the Capital Return, you can either:

- elect to opt-out of the Capital Return in full – you will retain all of your Shares and not receive any payment. If you choose this option, you will be classified as a Continuing Shareholder; or
- elect to opt-out of the Capital Return for some of your Shares – you can elect to opt-out of the Capital Return for some instead of all of your Shares – if you choose this option, you will be classified as a Partially Exiting Shareholder. This option is only available to Shareholders who hold more than 10,000 Shares as at the Opt-Out Election Cut Off Date and continue to hold 10,000 Shares on the Capital Return Record Date and who, after making their partial opt-out election, would continue to hold at least 10,000 Shares following the Capital Return.

Shareholders should carefully read the Explanatory Memorandum (including the Independent Expert's Report) accompanying this Form which explains the Capital Return, and consider seeking their own independent financial and taxation advice in relation to their particular circumstances before making a decision.

Step 2 – Complete either Part A or Part B (Do not complete BOTH Part A and Part B)

Part A – Fully Opt-Out

☐

By ticking the box in this Part A and by signing and returning this Form, I/we confirm that I/we want to retain all my/our Phileo Shares and will not receive the \$12.66 payable per Cancelled Share. I/we will remain as shareholder(s) in Phileo which (subject to the Capital Return Resolutions and the Delisting Resolution being approved) will no longer be listed on the Australian Securities Exchange.

Part B – Partially Opt-Out

☐

By ticking the box in this Part B and by signing and returning this Form, I/we confirm that I/we want to retain **some** of my/our Phileo Shares as indicated in the box below and will not receive the \$12.66 payable per Cancelled Share in respect of those shares. I/we will remain as shareholder(s) in Phileo which (subject to the Capital Return Resolutions and the Delisting Resolution being approved) will no longer be listed on the Australian Securities Exchange.

Number of Phileo shares that I/we wish to retain (Note: This amount must be at least 10,000 Shares)

Important: Information for Shareholders

Shareholders who elect to partially opt-out but who return a Form which states or otherwise leads Phileo to conclude that the Shareholder will hold less than 10,000 Shares following the Capital Return will be treated as Exiting Shareholders and their entire shareholding will be cancelled under the Capital Return (if the Capital Return Resolutions are approved).

If you tick the box in Part B of this Form and specify a number less than 10,000 Shares, your Form will be invalid and your election will be disregarded. Instead, you will be treated as an Exiting Shareholder and will have all of your Shares cancelled under the Capital Return.

Step 3 – Sign and return the Opt-Out Election Form

If you wish to opt-out of the Capital Return, and therefore retain all or some your Phileo Shares, you must complete and return this Opt-Out Election Form using the methods listed below:

By Post	By hand delivery	By email
Phileo Australia Limited C/- Boardroom Pty Ltd GPO Box 3993 Sydney, NSW, Australia 2000	Phileo Australia Limited C/- Boardroom Pty Ltd Level 12, 225 George Street Sydney, NSW, Australia 2000	phileo@palltd.com.au

The Form must be received by the Share Registry no later than 7.00pm on Tuesday, 11 December 2018 (being the Opt-out Election Cut-Off Date) to be valid.

It is your responsibility to allow sufficient time for this Form to be received by the Share Registry by the above date. Neither the Share Registry nor Phileo accepts any responsibility if you do not correctly complete or sign this Form, return the Form to any other address or by any other means, or if the Form is not received by the above date.

Authorised signature/s

This section **must** be signed in order for your election to be valid.

Individual or Shareholder 1

Sole Director and Sole Company Secretary

Shareholder 2

Director

Shareholder 3

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date

You must sign this Form as follows in the spaces provided:

Individual this form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name all of the holders must sign.

Power of Attorney: if signed under a Power of Attorney, and you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this Proxy Form when you return it.

Companies: by a Director jointly with either another Director or a Company Secretary, unless the company has a sole Director and sole Company Secretary. Where the company has a sole Director who is also the sole Company Secretary, this Proxy Form must be signed by that person. If the company does not have a Company Secretary, the sole Director can also sign alone. Please indicate the office held by signing in the appropriate space and delete titles as applicable.

This Form (and the Power of Attorney or other authority, if any, under which this Form is signed) or a copy or facsimile which appears on its face to be an authentic copy of this Form (and the Power of Attorney or other authority) must be deposited at or received by Phileo (at Phileo Australia Limited, C/- Boardroom Pty Ltd, Level 12, 225 George Street Sydney, NSW, Australia 2000 or emailed to phileo@palltd.com.au) by 7.00pm (Melbourne time) on Tuesday, 11 December 2018.

Important Information for Trustees and Nominees

Trustees and nominees who hold Shares should inform the beneficial owner(s) about the Capital Return and seek their instructions. If a trustee or nominee receives instructions from the beneficial owner(s) that they wish to retain all or some their Shares, such trustee or nominee must contact Boardroom Pty Limited on 1300 737 670 or email corporateactions@boardroomlimited.com.au and request a Nominee Schedule for completion showing full details of the beneficial owner(s) names and addresses and either Part A (full opt-out election for all Shares) or Part B (partial opt-out election, including specifying the number of Shares they want to retain, which must be at least 10,000 Shares) and return the completed schedule with this duly signed Opt-Out Election Form.