

Phileo Australia Limited

Property Investor and Developer

A.C.N. 007 608 755

A.B.N. 52 007 608 755

***ANNUAL REPORT FOR THE FINANCIAL
YEAR ENDED 30 JUNE 2014***

PHILEO AUSTRALIA LIMITED

A.C.N. 007 608 755
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ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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

CHAIRMAN'S ADDRESS

I always welcome the opportunity to provide our shareholders with an update on the activities of our company and the events and transactions of the latest financial year.

Shareholders will be aware that the revenue generated from the property investments and hotel operations of Phileo Australia Limited increased by 7% to \$12,877,000 and that after all expenses and income tax a loss of \$661,000 was incurred for the financial year ended June 30, 2014. The loss incurred was mainly as a result of the recognition of a net asset impairment loss relating to property and the fair value accounting of the interest swap.

The carrying value of our property portfolio increased slightly to \$127,935,000. Our net tangible asset backing per share was \$2.64 marginally less than the \$2.68 of the previous year.

Shareholders will also be aware that a final dividend of 2.0 cents per share has been declared and is payable on Monday 27 October 2014.

Our major asset is the prime 30 storey city corner freehold office building at 303 Collins Street, Melbourne. We currently have a vacancy rate in this building of 32% which is reflective of the commercial office rental market for multi-level buildings in the Melbourne CBD. We are working to secure new tenancies. Notwithstanding our rental revenue and outgoings recovery at 303 Collins Street, Melbourne increased marginally during the year from \$7.67 million to \$7.97 million.

I am anticipating that in the relatively near term there will be a significant increase in the value of our 360 hectares of land in Wyndham Vale. Located within Melbourne's urban growth corridor this site has the potential to yield 4,500 to 5,000 lots of 300 to 600 meters in size. The Metropolitan Planning Authority is currently preparing a Precinct Structure Plan (PSP 42.1N) which is expected to go on exhibition late this year or early next year. In the interim the property continues to be leased for cattle grazing.

Stage 1 of our Rocklea Homemaker Centre in Bendigo is substantially full and we have commenced to build Stage 2 of the Centre in response to increased tenancy demand and secured rental commitments.

Our trading activity, the Ramada Encore business class hotel operating from our McCrae Street Dandenong building increased its occupancy from 60 to 63% resulting in increased revenue. And together with operational efficiencies resulted in an improvement in profit from \$350,001 to \$638,000.

The future development of our 79 unit Mont Albert Rise holding in Box Hill awaits the finalisation of outstanding matters with the Environmental Protection Agency. Property values in the immediately adjoining inner eastern suburban residential area continue to strengthen in market value.

Our Broadmeadows vacant industrial land holding in the Northcorp Industrial Park remains available for sale.

Throughout the past twelve months your company's shares have continued to trade on the Australian Stock Exchange at a higher price than our asset backing per share. I anticipate that this reflects investors' appreciation of our property holdings and our financial position.

Your company operates with a small executive and management support team based in our own office building at 303 Collins Street. It is again appropriate that I should acknowledge the contribution made by our staff to our continued success and I thank them accordingly for their continued support over the past twelve months.



Graham Homes
Chairman
30 September 2014

CORPORATE GOVERNANCE STATEMENT

Unless disclosed below, all the best practice recommendations of The ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2014.

Board Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the directors' report.

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

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds:

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

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

Ethical Standards

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

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

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

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

Diversity Policy

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

Trading Policy

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

Audit Committee

All non-executive directors are the members of the newly formed Audit Committee. Michael Loke, is appointed to chair the Audit Committee meetings.

CORPORATE GOVERNANCE STATEMENT
(Continued)

Performance Evaluation

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

Board Roles and Responsibilities

Functions reserved to the Board and those delegated to management are formalized and structured. The main role of the board include

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

Shareholder Rights

Any routine queries from shareholders are dealt with by the Company Secretary or referred to the company's share registry Boardroom Pty Limited. Any significant issues raised by members or of a non-routine nature where appropriate are brought to the board's attention for discussion and action as deemed necessary. Shareholders' correspondence and reasonable requests by shareholders are dealt with to the members' satisfaction as soon as possible by the Company Secretary or else referred to the share registry where appropriate.

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

Stakeholders

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

Risk Management

In view of the small size of the company, the company does not yet have a formal risk management committee. Recognising and managing material risk is therefore the responsibility of the collective board. The board acknowledges that risk management is not about eliminating all risks but is about identifying and responding to risks in a way that creates value for the company and its shareholders.

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

Remuneration Committee and Remuneration Policies

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

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

DIRECTORS' REPORT

Your directors present their report, together with the financial statements of the Group, being the company and its controlled entities, for the financial year ended **30 June 2014** ("financial year").

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

Principal Activities and Significant Changes in Nature of Activities

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

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

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

Operating Results

The consolidated net operating loss before income tax for the year was \$815,000 (2013: \$8,644,000 profit). The consolidated net loss for the year after income tax was \$661,000 (2013: \$6,079,000 profit). The change of \$9,461,000 (before tax) for the year was mainly due to the following:

- The prior year profit includes net fair value gain of \$13,308,000 (before tax), recognised on reclassification of property at 303 Collins Street, Melbourne as an investment property. There were no further fair value gain or loss recognised for this property during the year.
- The net fair value gain on reclassification of property of \$13,308,000 recognised in prior year was partially offset by a loss of \$3,861,000 (before tax) resulting from the fair value accounting of interest swap held by the company. For the year ended June 2014, the fair value accounting of the interest swap held at the reporting date resulted in an additional loss of \$303,000.
- The current year loss also includes a net asset impairment loss of \$1,815,000 (before tax) (2013: Nil). The asset impairment relates to the carrying value of Rocklea Homemaker Centre in Bendigo ("Rocklea Homemaker Centre"), recognised to reflect its current market valuation.
- In addition, the current year losses were partially offset by a partial recoupment of prior year accumulated impairment losses in respect to the property held at 50-52 McCrae Street, Dandenong Vic. An independent valuer assessed the current market value of this property at \$8,900,000, which represented an excess of \$1,550,000 over its carrying value of \$7,350,000. Consequently, after making an appropriate allowance for selling expenses, a gain of \$1,372,000 was recognised for the year.

After deducting the loss attributable to minority interests, the loss attributable to members after tax was \$660,000 (2013: \$6,080,000 profit).

Review of Operations

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

Total consolidated revenue for the year was \$12,877,000 (2013: \$11,999,000, excluding fair value gain on revaluation of the investment property of \$13,308,000). The consolidated entity:

- earned rental income totalling \$9,459,000 (2013: \$9,034,000) from its rental properties, which included rental of \$7,978,000 (2013: \$7,671,000) inclusive of recovery of outgoings from the 30-storey commercial office building at 303 Collins Street in the Melbourne central business district; and
- continued to operate the 108-room Ramada Encore business class hotel through its wholly owned subsidiary Sequoia Management Pty Ltd (ABN 62 108 168 243). The hotel operation is operated from the property owned at McCrae Street, Dandenong. The hotel operation contributed revenue of \$3,000,000 (2013: \$2,800,000).

The increase in rental revenue was mainly on account of significant improved property occupancy rate at the Rocklea Homemaker Centre from 41% at the beginning of the financial year to 81.5% as at June 2014. This increase was partially offset by a reduction in overall property occupancy rate at 303 Collins Street from 76% at the beginning of the financial year to 68% as at June 2014. Management is currently working on various strategies to improve the occupancy rate of the rental properties.

Profit (before tax but after borrowing costs) from rental activities increased to \$1,994,000 (2013: \$1,404,000) mainly due to improved occupancy rate at Rocklea Homemaker Centre and a reduction in the borrowing costs for the year.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
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DIRECTORS' REPORT (Continued)

Review of Operations (Continued)

The hotel's profitability before tax has improved significantly to \$638,000 (2013: \$350,001) due to the increase in occupancy rate from 60% as at June 2013 to 63% as at June 2014 and an increase in revenue from other related activities such as café and hire of function rooms, and achieving operational cost savings.

During the year the rural property ("Wyndham Vale land") owned by Daleston Pty Ltd (ABN 31 111 517 885), a wholly-owned subsidiary company of Phileo Australia Limited, continued to be leased for cattle grazing. This entity recorded loss after tax for the year of \$810,000 (2013: \$590,000 loss), arising mainly from land holding costs including land tax and council rates.

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

During the year, the entity continued to hold the vacant land that has been rezoned for the 79-unit Mont Albert Rise proposed residential townhouse development at Box Hill ("Box Hill property") for future development. Various development options are being considered for this property.

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

During the year the entity's result per share after tax was \$0.02 loss (2013: \$0.21 profit).

Financial Position

At 30 June 2014 the consolidated entity's property portfolio had a carrying value of \$127,935,000 (2013: \$126,922,000). The carrying values of these properties were consistent with directors' valuation based on the latest available independent market valuations and other available financial data.

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

The entity obtained a further loan facility with a limit of \$8,000,000 to fund its future development projects and working capital requirements. The new loan is secured against the property-Rocklea Homemaker Centre. The total loan facility of the entity as at 30 June 2014 was \$53,000,000 (2013: \$45,000,000)

As at balance date the entity total bank borrowings amounted to \$48,500,000 (2013: \$45,000,000). Of the total borrowings, a loan of \$45,000,000 was used to partially fund the acquisition of 303 Collins Street property, and is secured against that property. The balance of the loan amount of \$3,500,000 was drawn, from the further loan facility, to fund working capital requirements. The entities' other properties remain unencumbered at 30 June 2014.

As at balance date, the entity had approximately \$1,801,000 (2013: \$1,447,000) in cash, cash management accounts and term deposits at bank, and \$36,387,000 (2013: \$53,112,000) in carrying value of unencumbered properties that were available to secure new borrowings if required.

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

As at 30 June 2014, the economic entity's net tangible asset backing per share was \$2.64 (2013: \$2.68).

Significant Changes in State of Affairs

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

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
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DIRECTORS' REPORT (Continued)

Dividends Paid or Recommended

The directors have declared a fully franked \$0.02 per ordinary share final dividend for this financial year. The dividend was declared after 30 June 2014 and has not been provided for in the accounts as at 30 June 2014.

A fully franked final dividend of 2 cents per ordinary share for the financial year ended 30 June 2013 was declared after 30 June 2013. This final dividend was paid in October 2013.

Significant After Balance Date Events

As at the date of signing this report, there have not been any events of a significant nature after the balance date of 30 June 2014 that have not already been disclosed in this report.

Future Developments, Prospects and Business Strategies

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

Management, in consultation with reputed leasing agents, is actively looking for new tenants to lease the vacancies of the Collins Street property & vacancies of Stage 1 in the Rocklea Homemaker Centre. In addition, we have commenced to build Stage 2 of the Centre in response to increased tenancy demand and secured rental commitments. The stage 2 development will result in approximately 5,785m² of additional leasable area.

The improved profitability of the Ramada Encore Hotel operation was mainly from an improved occupancy rate from 60% to 63%. This trend of improved occupancy rate is expected to continue for future years.

The Wyndham Vale land is within Victoria's urban growth corridor with significant upside potential in a future development. Subject to approval from the relevant authorities, the Wyndham Vale land of 360 Hectares is likely to yield approximately 4,500 to 5,000 lots of about 300 to 600 sqm each. The Metropolitan Planning Authority (MPA) is preparing the precinct structure plan (PSP 42N) for exhibition during this year.

The development of the Box Hill site will proceed when we finalise the outstanding matters with Environmental Protection Authority (EPA).

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

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

Environmental Issues

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

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

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
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DIRECTORS' REPORT (Continued)

Information on the Directors

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

NAME	PARTICULARS
Graham Homes	Chairman, Non-executive and Independent Director. A Fellow of the Real Estate Institute of Australia and Fellow of the Australian Property Institute. Aged 68. Joined the Board in December 1995 in a non-executive independent capacity. Member of the Remuneration and the Audit Committee. Graham has over 40 years of professional involvement in real estate agency, property portfolio management and consultancy in Melbourne. He established his own property consultancy, Homes Property Consultants, in 1991 that he sold in 2000. He is currently engaged as an independent property consultant.
Rudy Eng Wah Koh	Managing Director and Chief Executive Officer. Former practising barrister and solicitor in Malaysia. Aged 55. Joined the Board in December 1995. Member of the Remuneration Committee. Formerly the Managing Director of a property development company and director of a bank, both listed publicly on the Kuala Lumpur Stock Exchange. Rudy has an extensive legal and commercial background, and significant experience in the property market and banking sectors.
Alfred Sung	Executive Director. Registered Architect and was formerly a director of a Melbourne architecture firm. Aged 69. Joined the Board in September 1997. Alfred has over 30 years of professional experience as an architect on a wide variety of building types. He has extensive experience in the establishment and management of development projects with particular skills in building and property procurement.
Michael Tan Chung Loke	Non-Executive Director. Chairman of the Audit Committee. A former barrister and solicitor in Malaysia. Aged 55. Joined the Board in March 1999. Michael was formerly a partner of a legal practice in Malaysia and has significant experience in property development with both private and public listed companies in Malaysia.
Andrew Chooi Seng Hang	Non-Executive and Independent Director. Qualified engineer. Member of the Audit Committee. Property developer in Melbourne and Malaysia with over 20 years experience. Aged 61. Andrew joined the Board in July 2000.

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

Company Secretary

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

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
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DIRECTORS' REPORT (Continued)

Directors' Shareholdings

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

Director	Fully Paid Ordinary Shares	Percentage Held
Rudy Koh (Managing Director/CEO)	10,348,814	35.78%
Michael Loke (Non-Executive Director)	3,345,500	11.57%
Andrew Hang (Non-Executive Director and Independent Director)	2,590,196	8.95%
Alfred Sung (Executive Director)	1,896,849	6.56%
Graham Homes (Chairman and Non-Executive Independent Director)	59,305	0.21%

The board collectively held 18,240,664 shares or 63.07% of the company's fully paid ordinary shares each entitled to one vote.

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

Meetings of Directors

The following table sets out the number of formal board of directors meetings held during the financial year and the number of board meetings attended by each director (while they were a director). During the financial year, 9 board meetings were held.

Director	Board Meetings	
	Held	Attended
Graham Homes (Chairman, Non-Executive and Independent Director)	8	8
Rudy Koh (Managing Director/CEO)	8	7
Alfred Sung (Executive Director)	8	7
Andrew Hang (Non-Executive and Independent Director)	8	7
Michael Loke (Non-Executive Director)	8	4

Meeting of the Audit Committee

Audit Committee meetings held during the year:

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

Indemnifying Officers or Auditor

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

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

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
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DIRECTORS' REPORT (Continued)

Options

As at the date of this report, there were no share options or other options outstanding (2013: Nil).

Proceedings on Behalf of the Company

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

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

Non-audit Services

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

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

There were no fees for non-audit services paid or payable to the external auditor during the financial year ended 30 June 2014.

Auditor's Independence Declaration

The lead auditor's independence declaration for the financial year ended 30 June 2014 has been received and can be found on page 11 of the Annual Report.

REMUNERATION REPORT (AUDITED)

Remuneration Committee

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

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

Remuneration Policy

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

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

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
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DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (AUDITED) (Continued)

Table of Benefits and Payments for the Year Ended 30 June 2014

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

Name	Office	Salaries and Fees \$	Benefits, including superannuation \$	Total \$
Rudy Koh	Managing Director/CEO	346,413	53,966	400,379
Alfred Sung	Executive Director	324,786	83,159	407,945
Graham Homes	Chairman and Non-Executive Independent Director	36,000	-	36,000
Andrew Hang	Non-Executive and Independent Director	24,000	7,593	31,593
Michael Loke	Non-Executive Director	24,000	2,220	26,220
Total		755,199	146,938	902,137

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

Performance-based Remuneration

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

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

There were no share issue schemes, share option arrangements or retirement benefits or termination arrangements, bonuses, profit-sharing, allowances, bonus, commission or incentive payments, loans or advances to directors made during the financial year, whether performance-related or not. There were no benefits of a non-monetary nature received by the directors not otherwise disclosed in this report.

End of Remuneration Report (Audited).

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


Rudy Koh
Managing Director

Melbourne
30 September 2014

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014, there have been:

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



NEXIA MELBOURNE
ABN 16 847 721 257



GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

30 September 2014

Nexia Melbourne

Level 18, 530 Collins Street, Melbourne VIC 3000
p +61 3 9608 0100, f +61 3 9608 0192
info@nexiamelbourne.com.au, www.nexia.com.au

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

Report on the Financial Report

We have audited the accompanying financial report of Phileo Australia Limited and Controlled Entities (the group), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

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

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

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

Independence

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

Nexia Melbourne

Level 18, 530 Collins Street, Melbourne VIC 3000
p +61 3 9608 0100, f +61 3 9608 0192
info@nexiamelbourne.com.au, www.nexia.com.au

Independent member of Nexia International



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Auditor's Opinion

In our opinion:

- a. the financial report of Phileo Australia Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 9 to 10 of the directors' report for the year ended 30 June 2014. The directors of the group are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the remuneration report of Phileo Australia Limited and Controlled Entities for the year ended 30 June 2014 complies with s 300A of the *Corporations Act 2001*.



NEXIA MELBOURNE
ABN 16 847 721 257



GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

30 September 2014

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

DIRECTORS' DECLARATION
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

The Directors declare that:

1. the financial statements and notes, as set out on pages 15 to 57, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
 - (b) give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the company and the consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view;
3. in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Rudy Koh
Managing Director

Melbourne
30 September 2014

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

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated Group 2014 \$	2013 \$
Revenue and other income	4	12,877,341	25,306,736
Rental property expenses		(3,984,721)	(3,988,872)
Hotel operating expenses		(1,514,937)	(1,633,893)
Development property expenses		(1,507,124)	(1,127,032)
Employee benefits expense		(1,939,470)	(1,944,235)
Depreciation and amortisation expense	18	(131,724)	(132,450)
Finance costs		(3,375,699)	(3,546,875)
Inventory write down	15	(443,681)	-
Net change in value of Interest swap	16	(302,594)	(3,860,817)
Other expenses		(492,499)	(428,540)
Profit (Loss) before income tax	5	(815,108)	8,644,022
Income tax benefit (expense)	6	153,675	(2,565,460)
Profit (Loss) from continuing operations		(661,433)	6,078,562
Profit (Loss) for the year	5	(661,433)	6,078,562
Profit (Loss) attributable to:			
Members of the parent entity		(659,856)	6,080,037
Non-controlling interest		(1,577)	(1,475)
		(661,433)	6,078,562
Earnings per share			
From continuing and discontinued operations:			
Basic profit (loss) in cents per share	11	(2)	21
Diluted profit (loss) in cents per share	11	(2)	21
From continuing operations:			
Basic profit (loss) in cents per share	11	(2)	21
Diluted profit (loss) in cents per share	11	(2)	21

The accompanying notes form part of these financial statements.

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated Group	
		2014	2013
		\$	\$
Profit (Loss) for the year		(661,433)	6,078,562
Add (Less) Comprehensive income/ (expense) for the year		-	-
Total comprehensive profit (loss) income for the year		(661,433)	6,078,562
Total comprehensive profit (loss) attributable to:			
Members of the parent entity		(659,856)	6,080,037
Non-controlling interest		(1,577)	(1,475)
		(661,433)	6,078,562

The accompanying notes form part of these financial statements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Note	Consolidated Group 2014 \$	2013 \$
CURRENT ASSETS			
Cash	12	1,800,761	1,446,576
Receivables	13	114,404	80,280
Inventory	15	-	-
Other	19	934,577	1,036,163
TOTAL CURRENT ASSETS		<u>2,849,742</u>	<u>2,563,019</u>
NON-CURRENT ASSETS			
Inventory	15	53,674,704	53,111,774
Investment Property	17	74,260,497	73,809,741
Plant and equipment	18	977,574	1,070,991
Deferred tax asset	6	7,339,035	6,323,495
Other	19	2,345,370	784,384
TOTAL NON-CURRENT ASSETS		<u>138,597,180</u>	<u>135,100,385</u>
TOTAL ASSETS		<u>141,446,922</u>	<u>137,663,404</u>
CURRENT LIABILITIES			
Payables	20	1,659,109	1,534,931
Current tax payable		129,216	129,216
Dividend payable	10	-	-
Provisions	22	232,266	198,019
TOTAL CURRENT LIABILITIES		<u>2,020,591</u>	<u>1,862,166</u>
NON-CURRENT LIABILITIES			
Interest bearing liabilities	21	48,500,000	45,000,000
Derivatives	16	4,163,409	3,860,817
Deferred tax liability	6	9,840,014	8,978,148
Loans from minority shareholder	29	235,967	233,467
Other creditors	20	282,407	95,238
Provisions	22	30,052	19,113
TOTAL NON-CURRENT LIABILITIES		<u>63,051,849</u>	<u>58,186,783</u>
TOTAL LIABILITIES		<u>65,072,440</u>	<u>60,048,949</u>
NET ASSETS		<u><u>76,374,482</u></u>	<u><u>77,614,455</u></u>
EQUITY			
Issued capital	23	19,910,650	19,910,650
Reserves	28	13,539	13,539
Retained earnings	28	56,468,665	57,707,061
Minority interest		(18,372)	(16,795)
TOTAL EQUITY		<u><u>76,374,482</u></u>	<u><u>77,614,455</u></u>

The accompanying notes form part of these financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014

	Note	Issued Capital \$	Other Reserves \$	Retained Earnings \$	Minority Interests \$	Total \$
Balance at 1 July 2012		19,910,650	13,539	52,205,564	(15,320)	72,114,433
Profit/(Loss) for the year		-	-	6,080,037	(1,475)	6,078,562
Subtotal		19,910,650	13,539	58,285,601	(16,795)	78,192,995
Dividends paid or provided for	10	-	-	(578,540)	-	(578,540)
Balance at 30 June 2013	23,28	<u>19,910,650</u>	<u>13,539</u>	<u>57,707,061</u>	<u>(16,795)</u>	<u>77,614,455</u>
Balance at 1 July 2013		19,910,650	13,539	57,707,061	(16,795)	77,614,455
Profit/(Loss) for the year		-	-	(659,856)	(1,577)	(661,433)
Subtotal		19,910,650	13,539	57,047,205	(18,372)	76,953,022
Dividends paid or provided for	10	-	-	(578,540)	-	(578,540)
Balance at 30 June 2014	23,28	<u>19,910,650</u>	<u>13,539</u>	<u>56,468,665</u>	<u>(18,372)</u>	<u>76,374,482</u>

The accompanying notes form part of these financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated Group 2014 \$	2013 \$
CASHFLOW FROM OPERATING ACTIVITIES			
Receipts from ordinary activities		11,223,523	12,641,130
Payment to suppliers & employees		(8,954,176)	(9,149,078)
Payment for property development		(1,006,611)	(856,469)
<i>Net Cash produced/(used) in Operating Activities</i>		<u>1,262,736</u>	<u>2,635,583</u>
CASHFLOW FROM INVESTING ACTIVITIES			
Payment for investment property development		(450,756)	(313,761)
Payment for purchase of plant & equipment		(38,305)	(31,995)
<i>Cash flow from/(used) in Investing Activities</i>		<u>(489,061)</u>	<u>(345,756)</u>
CASHFLOW FROM FINANCING ACTIVITIES			
Interest paid		(3,375,699)	(3,546,875)
Interest received		32,249	111,780
Loan received		3,502,500	3,000
Dividend paid		(578,540)	(578,540)
<i>Cash flow from/(used) in Financing Activities</i>		<u>(419,490)</u>	<u>(4,010,635)</u>
Net increase (decrease) in cash		354,185	(1,720,808)
Cash at beginning of the year		1,446,576	3,167,384
Cash at end of the year	12	<u><u>1,800,761</u></u>	<u><u>1,446,576</u></u>

The accompanying notes form part of these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Preparation

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

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

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

(a) Principles of Consolidation

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

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

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

(b) Plant and Equipment

Plant and Equipment

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Plant and Equipment (Continued)

Depreciation

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

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

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

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

(c) Inventories

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

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

(d) Investment Properties

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

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

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

(e) Profit and Revenue Recognition

Rental Revenue

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

Revenue and Profit Recognition on Sale of Inventories (Properties)

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

Revenue from Services Rendered

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Borrowing Costs

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

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

(g) Leased Assets

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

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

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

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

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

(h) Provisions

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

(i) Receivables

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

(j) Accounts Payable

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

(k) Employee Entitlements

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

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

(l) Income Tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Income Tax (Continued)

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

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

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

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

(m) Goods and Services Tax

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

(n) Rental Lease

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

(o) Financial Instruments

Recognition and Initial Measurement

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

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

Derecognition

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) *Financial Instruments (Continued)*

Classification and Subsequent Measurement

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

(v) Financial Liabilities

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

Fair value

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

Impairment of Financial Assets

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Financial Instruments (Continued)

Financial Guarantees

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

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

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

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

(p) Impairment of Non-Financial Assets

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

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

Calculation of Recoverable Amount:

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

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

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

Reversals of Impairment:

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

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

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Cash and Cash Equivalents

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

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

(r) Derivatives instruments

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

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

Cash flow hedge:

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

Other non- trading derivatives:

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

(s) Key Estimates

i) Inventory

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

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

ii) Measurement of Fair Value

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

- derivative financial instruments; and
- investment properties.

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

Level 1:

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

Level 2:

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

Level 3:

Measurements based on unobservable inputs for the asset or liability.

PHILEO AUSTRALIA LIMITED AND CONTROLLED ENTITIES
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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

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

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

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

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

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

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

Note 16	-	Derivative financial instrument;
Note 17(b)	-	Investment properties.

(t) Comparative Amounts

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

2. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

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

- AASB 9: *Financial Instruments* and associated Amending Standards (applicable for annual reporting periods commencing on or after 1 January 2017).

The Standard will be applicable retrospectively (subject to the comment on hedge accounting below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes made to the Standard that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of AASB 9, the application of such accounting would be largely prospective.

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

- AASB 2012–3: *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard provides clarifying guidance relating to the offsetting of financial instruments, which is not expected to impact the Group's financial statements.

- Interpretation 21: *Levies* (applicable for annual reporting periods commencing on or after 1 January 2014).

Interpretation 21 clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of time. This Interpretation is not expected to significantly impact the Group's financial statements.

- AASB 2013–3: *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard amends the disclosure requirements in AASB 136: *Impairment of Assets* pertaining to the use of fair value in impairment assessment and is not expected to significantly impact the Group's financial statements.

- AASB 2013–4: *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting* (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013–4 makes amendments to AASB 139: *Financial Instruments: Recognition and Measurement* to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. This Standard is not expected to significantly impact the Group's financial statements.

- AASB 2013–5: *Amendments to Australian Accounting Standards – Investment Entities* (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013–5 amends AASB 10: *Consolidated Financial Statements* to define an "investment entity" and requires, with limited exceptions, that the subsidiaries of such entities be accounted for at fair value through profit or loss in accordance with AASB 9 and not be consolidated. Additional disclosures are also required. As neither the parent nor its subsidiaries meet the definition of an investment entity, this Standard is not expected to significantly impact the Group's financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

3. PARENT INFORMATION

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

	2014	2013
	\$	\$
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	1,799,174	1,230,351
Non-current assets	77,077,402	73,818,225
TOTAL ASSETS	<u>78,876,576</u>	<u>75,048,576</u>
LIABILITIES		
Current liabilities	1,349,734	895,082
Non-current liabilities	6,820,991	3,012,343
TOTAL LIABILITIES	<u>8,170,725</u>	<u>3,907,425</u>
NET ASSETS	<u>70,705,851</u>	<u>71,141,151</u>
EQUITY		
Issued capital	19,910,650	19,910,650
Retained earnings	50,781,662	51,216,962
Capital profits reserve	13,539	13,539
TOTAL EQUITY	<u>70,705,851</u>	<u>71,141,151</u>
STATEMENT OF COMPREHENSIVE INCOME		
Total Profit / (loss)	143,240	551,876
Total comprehensive income / (loss)	143,240	551,876

Guarantees

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

Contingent liabilities

At 30 June 2014, Phileo Australia Limited had no material undisclosed contingent liabilities (2013: \$Nil).

Contractual commitments

At 30 June 2014, Phileo Australia Limited had not entered into any material contractual commitments for the acquisition of property, plant and equipment (2013: \$Nil).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

		Consolidated Group	
	Note	2014	2013
		\$	\$
4. REVENUE AND OTHER INCOME			
a. Revenue from continuing operations			
Sale of property		-	-
<i>Other revenue from ordinary activities:</i>			
Rental income from properties		9,458,921	9,034,081
Hotel income		2,999,944	2,799,986
Interest revenue – bank		32,249	111,780
Other		386,227	53,094
TOTAL REVENUE		12,877,341	11,998,941
b. Other Income			
Gain on fair value adjustment of investment properties	17	-	13,307,795
		12,877,341	25,306,736

5. PROFIT (LOSS) FOR THE YEAR

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

Borrowing costs - financial institutions	3,375,699	3,546,875
Land tax and Rates	2,469,017	2,352,897
Bad debts written off	17,219	26,459
Loss on disposal of assets	-	20,100
Rental expense on operating leases		
- minimum office lease payments	135,502	141,363
Inventory write down – Rocklea Homemaker Centre, Bendigo	1,815,681	-
Inventory write up – McCrae Street, Dandenong	(1,372,000)	-

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

	Consolidated Group	
	2014	2013
	\$	\$
6. INCOME TAX		
(a) The component of tax (benefit) expense comprises of:		
Current tax	-	-
Deferred tax	(153,675)	2,565,460
	<u>(153,675)</u>	<u>2,565,460</u>
(b) The prima facie tax/(benefit) on profit (loss) from ordinary activities before income tax is reconciled to the income tax as follows:		
Operating (loss) profit	<u>(815,108)</u>	<u>8,644,022</u>
Income tax expense (benefit) calculated at 30% (2013: 30%) of operating (loss) profit from ordinary activities before income tax	<u>(244,532)</u>	<u>2,593,206</u>
Add/(less), Tax effect of permanent Differences:		
Non-deductible items	29,616	369
Adjustment relating to prior years	61,241	(28,115)
	<u>90,857</u>	<u>(27,746)</u>
Income Tax Expense (Benefit) Attributable to Profit from Ordinary Activities before Income Tax	<u>(153,675)</u>	<u>2,565,460</u>

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

6. INCOME TAX (CONTINUED)

(c) Deferred Tax Asset

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

(i) assessable income is derived of a nature and of an amount sufficient to enable the benefit from the deductions to be realised;

(ii) conditions of deductibility imposed by the law are complied with; and

(iii) no changes in tax legislation adversely affect the realisation of the benefit

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

		30 June 2014	30 June 2013
Phileo Australia Limited	Tax losses	\$7,244,678	\$6,783,926
Phileo 303 Collins Pty Ltd	Tax losses	\$7,931,484	\$6,521,492
Daleston Pty Ltd	Tax losses	\$3,744,014	\$2,586,541
Sequoia Management Pty Ltd	Tax losses	\$399,497	\$383,993
Shuttlecrest Pty Ltd	Tax losses	\$83,451	\$74,439
Phileo Australia Limited	Capital losses	\$79,684	\$79,684

Consolidated Group

2014 **2013**
\$ **\$**

(d) Deferred tax asset ("DTA")

Deferred tax asset reconciliation:

Opening balance at 1 July

Adjustment to prior year's timing differences

Restated opening balance

Tax losses

Other timing differences

Tax losses utilised

Closing balance at 30 June

7,339,035	6,323,495
6,323,495	4,094,426
(61,481)	175,561
6,262,014	4,269,987
915,820	2,029,573
161,201	23,935
-	-
7,339,035	6,323,495

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

	Consolidated Group	
	2014	2013
	\$	\$
6. INCOME TAX (CONTINUED)		
(d) Deferred tax liability ("DTL")	9,840,014	8,978,148
Deferred tax liability reconciliation:		
Opening balance at 1 July	8,978,148	4,183,614
Adjustment to prior year's timing differences	(240)	147,542
Restated opening balance	8,977,908	4,331,156
Difference between tax and accounting written down values (includes Deferred tax liability of \$3,992,339 (2013:\$3,992,339) recognised on fair value adjustment to the investment property)	862,106	4,646,992
Closing balance at 30 June	9,840,014	8,978,148

7. DISCONTINUED OPERATIONS

There were no discontinued operations during the financial year.

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

Refer to the Remuneration Report (Audited) contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2014

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

Short-term employee benefits	902,137	792,258
	902,137	792,258

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

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

KMP Shareholdings

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

	Balance at Beginning of Year	Granted as Remuneration during the Year	Issued on Exercise of Options during the Year	Other Changes during the Year	Balance at End of Year
30 June 2014					
Graham Homes	59,305	-	-	-	59,305
Rudy Koh	10,284,314	-	-	64,500	10,348,814
Alfred Sung	1,896,849	-	-	-	1,896,849
Michael Loke	3,345,500	-	-	-	3,345,500
Andrew Hang	2,590,196	-	-	-	2,590,196
	18,176,164	-	-	64,500	18,240,664

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

Other KMP Transactions

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

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

There were no loans to KMP during the financial year (2013: \$Nil).

9. AUDITOR'S REMUNERATION

	Consolidated Group	
	2014	2013
	\$	\$
Remuneration of the auditor of the parent entity for:		
Auditing or reviewing the financial statements	41,500	41,500

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

	Consolidated Group	
	2014	2013
	\$	\$
10. Dividends		
a) Distributions paid:		
2013 final dividend (fully franked) of 2 cents per share declared and paid in 2014	578,540	578,540
b) Declared final 2014 fully franked ordinary dividend \$Nil (2013: Nil cents) per share franked at the tax rate of 30% (2013: 30%)	-	-
c) Movement in Franking Account:		
Balance at 1 July	20,137,490	20,385,436
Franking debits arising from payment of proposed dividends (above)	(247,946)	(247,946)
Balance at 30 June	19,889,544	20,137,490

The directors have declared a fully franked \$0.02 per ordinary share final dividend for this financial year after 30 June 2014. Therefore, the dividend has not been provided for in the accounts as at 30 June 2014.

11. EARNINGS PER SHARE

Profit/ (Loss) profit after tax	(661,433)	6,078,562
Add/(Less): (Profit) /Loss profit attributable to minority equity interest	1,577	1,475
Profit/ (Loss) profit attributable to members of the parent entity	(659,856)	6,080,037
The Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	28,927,016	28,927,016
Basic gain/ (loss) profit per share in cents	(2)	21

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

	Note	Consolidated Group	
		2014	2013
		\$	\$
12. CASH AND CASH EQUIVALENTS			
Cash at bank and in hand		900,761	240,106
Short-term bank deposits		900,000	1,206,470
	25	1,800,761	1,446,576

The effective interest rate on short-term bank deposits was 3.15% (2013: 4.50%); these deposits have an average maturity of 60 days.

Reconciliation of cash

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

Cash and cash equivalents		1,800,761	1,446,576
	25	1,800,761	1,446,576

13. TRADE AND OTHER RECEIVABLES

CURRENT

Trade receivables		114,404	80,280
Provision for impairment		-	-
Total current trade and other receivables		114,404	80,280

Trade receivables comprise mainly rent and hotel account receivables.

Provision for Impairment of Receivables

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

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

Credit risk

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

13. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Gross Amount \$	Past Due and Impaired \$	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms \$
			< 30 \$	31–60 \$	61–90 \$	> 90 \$	
2014							
Trade receivables	114,404	-	82,840	6,878	23,632	1,054	82,840
Total	114,404	-	82,840	6,878	23,632	1,054	82,840
2013							
Trade receivables	80,280	-	11,450	6,404	-	62,426	11,450
Total	80,280	-	11,450	6,404	-	62,426	11,450

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

Collateral Held as Security

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

Collateral Pledged

Group has not provided any charges over the trade receivables.

14. CONTROLLED ENTITIES

a. Controlled Entities Consolidated

and principal activities	Country of Incorporation	Percentage Owned	
		2014	2013
Subsidiaries of Phileo Australia Limited:			
Phileo 303 Collins Pty Ltd (investment property holding)	Australia	100%	100%
Sequoia Management Pty Ltd (hotel operation)	Australia	100%	100%
Daleston Pty Ltd (property holding)	Australia	100%	100%
Shuttlecrest Pty Ltd (property holding)	Australia	75%	75%
Rocklea Homemaker Centre Pty Ltd (dormant)	Australia	100%	100%

* Percentage of voting power is in proportion to ownership.

b. Acquisition of Controlled Entities

There were no entities acquired during the financial year.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

	Consolidated Group	
	2014	2013
	\$	\$
15. INVENTORY		
(a) Current: (i)	-	-
(b) Non-Current: (i)		
Freehold land and buildings (at cost) – Opening	53,111,774	112,443,490
Add: Development cost incurred during the year	1,006,611	860,490
Less: Transfer to Investment Properties (i)	-	(60,192,206)
Less: Write down during the year (ii)	(443,681)	-
	53,674,704	53,111,774
Acquisition cost*	27,678,667	27,678,667
Development cost*	35,436,226	34,429,615
Borrowing cost*	1,352,131	1,352,131
Inventory write down (ii)	(10,792,320)	(10,348,639)
Total non-current inventory	53,674,704	53,111,774
Total	53,674,704	53,111,774

* Excludes value of property reclassified as investment property

(c) Inventory pledged as security

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

Rocklea Homemaker Centre		
- Carrying amount	17,287,200	-
- Loan facility	8,000,000	-

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

15. INVENTORY (CONTINUED)

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

The industrial land at Broadmeadows is actively marketed for sale. This property is classified as non-current in the current and previous periods as there was no formal contract with buyer for sale of the land.

The company reviews the intended use of each of the properties to ensure that the classification, measurement and presentation of its property portfolio are correct in light of the current economic climate and intended use of each of the properties. Following the review of inventory of properties in 2013, the 30-storey office complex at 303 Collins Street, Melbourne CBD was reclassified from Inventory to Investment property. Refer Note 17

(ii) *Inventory Write Down.* Cumulative inventory write down of \$10,792,320 (2013: \$10,348,639) for the company's properties included the write down for the Rocklea Homemaker Centre of \$6,961,574 (2013: \$5,145,893), the write down for the McCrae Street property of \$3,805,258 (2013: \$5,177,258), and write down of industrial land at Broadmeadows of \$25,488 (2013: 25,488).

(iv) *Aggregate carrying value.* The aggregate carrying value of all inventory held at 30 June 2014, based on the lower of cost and net realisable value was estimated at \$53,674,704 (2013: \$53,111,774).

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

- the *Rocklea Homemaker Centre* developed up to Stage 1, at latest independent valuation of \$17,640,000 obtained in December 2013;
- the Federation Street residential development land at latest independent valuation of \$12,600,000 obtained in January 2012;
- the Wyndham Vale future residential development land at the latest Council valuation of \$45,443,000 per rates notice issued in August 2014.
- the McCrae Street building at latest independent valuation of \$8,900,000 obtained in June 2014; and
- the industrial land at Northcorp Blvd in Broadmeadows at the latest Council valuation of \$898,000 per rates notice issued in September 2014.

16. DERIVATIVES

	Consolidated Group	
	2014	2013
	\$	\$
Interest rate swap for hedging the commercial bills	4,163,409	3,860,817
Total non-current derivatives	4,163,409	3,860,817

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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	Consolidated Group	
	2014	2013
	\$	\$
17. INVESTMENT PROPERTY		
Opening balance at 1 July	73,809,741	-
Add: Transfer from Inventory (17 (a))	-	60,192,206
Add: Additions for the period	450,756	309,740
Add/(Less): Net gain/(loss) from fair value adjustment (17 (b))	-	13,307,795
Closing Balance at 30 June	<u>74,260,497</u>	<u>73,809,741</u>

17(a): Transfer from inventory

In 2013, the company reviewed the intended use of each of the properties to ensure that the classification, measurement and presentation of its property portfolio are correct in light of the economic environment and intended use of each of the properties.

Following the review, it was considered appropriate to classify property at 330 Collins street Melbourne from Inventory to Investment property.

17 (b): Determining fair value

- (i) As stated in the accounting policy note, Investment properties are stated at fair value. The fair value of the investment property has been determined at \$73,500,000 based on valuation performed by Knight Frank Valuations Victoria (KF), an accredited independent valuer, as at 7th Feb 2014. Knight Frank Valuations Victoria is a specialist firm in valuing these types of investment properties. The directors reviewed the valuation at the reporting date and determined the fair value of the property at \$74,260,497. The directors' estimate of the fair value of investment property is based on the KF's valuation for the property, amended for changes to the leasing and market conditions at the reporting date. The key assumptions used in the director's estimate of the fair value are listed below as 17(b)(ii). All of the key assumptions have been compared to the last independent valuation report for the investment property.

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

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

The following primary inputs have been used

CAP approach assumptions

Adopted Cap Rate	8.50%
PV of adjustments	8.50%

DCF approach assumptions

Discount Rate	9.50%
Terminal Yield	8.75%
Weighted rental growth (Average 10 years)	3.55%
CPI (Average 10 years)	2.60%

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	Consolidated Group	
	2014	2013
	\$	\$
17(c). Investment property pledged as security		
303 Collins Street, Melbourne		
- Carrying amount	74,260,497	73,809,741
- Loan facility	45,000,000	45,000,000
18. Plant and Equipment		
Leasehold improvements:		
At cost	943,065	943,065
less: Accumulated depreciation	(202,146)	(129,950)
	<u>740,919</u>	<u>813,115</u>
Plant and machinery:		
At cost	315,728	315,728
less: Accumulated depreciation	(293,080)	(285,422)
	<u>22,648</u>	<u>30,306</u>
Office equipment, furniture and fittings:		
At cost	752,980	714,673
less: Accumulated depreciation	(538,973)	(487,103)
	<u>214,007</u>	<u>227,570</u>
	<u>977,574</u>	<u>1,070,991</u>

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

	Leasehold improve- ments	Plant and machinery	Office equipment, Furniture and fittings	Total
CONSOLIDATED GROUP	\$	\$	\$	\$
Balance at beginning of the year	813,115	30,306	227,570	1,070,991
Additions	-	-	38,307	38,307
Deductions/Adjustments	-	-	-	-
Depreciation expense	(72,196)	(7,658)	(51,870)	(131,724)
Carrying amounts at end of year	<u>740,919</u>	<u>22,648</u>	<u>214,007</u>	<u>977,574</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

	Consolidated Group	
	2014	2013
	\$	\$
19. OTHER ASSETS		
CURRENT		
Prepayments	914,398	989,282
Hotel stocks	15,401	23,435
Other debtors	4,778	23,446
	<u>934,577</u>	<u>1,036,163</u>
NON-CURRENT		
Prepayments	2,289,583	728,597
Other debtor	55,787	55,787
	<u>2,345,370</u>	<u>784,384</u>

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

20. TRADE AND OTHER PAYABLES

CURRENT		
Unsecured liabilities:		
Trade payables	673,186	593,992
Sundry payables and accrued expenses	985,923	940,939
	<u>1,659,109</u>	<u>1,534,931</u>
NON-CURRENT		
Unsecured liabilities:		
Tenants' bond monies	282,407	95,238
	<u>282,407</u>	<u>95,238</u>

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

21. BORROWINGS

NON-CURRENT		
Secured liabilities:		
Commercial bills	48,500,000	45,000,000
Total non-current borrowings	<u>48,500,000</u>	<u>45,000,000</u>
Total borrowings	<u>48,500,000</u>	<u>45,000,000</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

		Consolidated Group	
		2014	2013
		\$	\$
21. BORROWINGS (CONTINUED)			
a.	Total current and non-current secured liabilities:		
	Commercial bills	48,500,000	45,000,000
		<u>48,500,000</u>	<u>45,000,000</u>
b.	The carrying amounts of non-current assets pledged as security are:		
	Freehold land and buildings	91,547,697	73,809,741
		<u>91,547,697</u>	<u>73,809,741</u>

c. Collateral provided

The commercial bills secured by a first registered mortgage over property at 303 Collins Street Melbourne and Rocklea Homemaker Centre in Bendigo (2013: 303 Collins Street Melbourne) owned by the Group.

Covenants imposed by the bank for loan against 303 Collins Street require total bank debt not to exceed 65% (2013: 60%) of total independent valuation of the pledged securities and 1.25 (2013:1.25) times interest cover.

Covenants imposed by the bank for loan against Rocklea Homemaker Centre require total bank debt not to exceed 50% (2013: Nil %) of total independent valuation of the pledged securities and 2 (2013: Nil) times interest cover.

		Consolidated Group	
Maturity Dates	Effective Interest Rate (%)	2014	2013
		\$	\$
30 September 2015	7.17	45,000,000	45,000,000
31 August 2016	4.47	3,500,000	-
		<u>48,500,000</u>	<u>45,000,000</u>

- d. During the year the entity obtained a further loan facility with a limit of \$8,000,000 to fund its future development projects and working capital requirements. The new loan is secured against the property-Rocklea Homemaker Centre. The total loan facility of the entity as at 30 June 2014 was \$53,000,000 (2013: \$45,000,000), of which a balance of \$4,500,000 is available to fund company's working capital requirement and future development projects.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

	Annual Leave	Long Service Leave	Total
	\$	\$	\$
22. PROVISIONS			
Consolidated Group			
Opening balance at 1 July 2013	55,691	161,441	217,132
Additional provisions	295	44,891	45,186
Amounts used	-	-	-
Balance at 30 June 2014	55,986	206,332	262,318

	Consolidated Group	
	2014	2013
	\$	\$
Analysis of total provisions		
Current	232,266	198,019
Non-current	30,052	19,113
	262,318	217,132

Provision for Current Employee Benefits

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

Provision for Non-Current Employee Benefits

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

23. ISSUED CAPITAL

(a) Issued Share Capital

28,927,016 (2013: 28,927,016) ordinary shares each fully paid	19,910,650	19,910,650
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Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Authorised Share Capital

Authorised share capital consists of 198,000,000 (2013: 198,000,000) ordinary shares and 2,000,000 (2013: 2,000,000) preference shares.

(c) Share Options

At 30 June 2014 there were no options outstanding (2013: Nil).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

23. ISSUED CAPITAL (CONTINUED)

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

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

Capital Management

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

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

There are no externally imposed capital requirements.

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

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. This strategy is to ensure that the Group's capital gearing ratio remains between 50% and 70%. The gearing ratios for the year ended 30 June 2014 and 30 June 2013 are as follows:

	Consolidated Group	
	2014	2013
	\$	\$
Total borrowings	48,500,000	45,000,000
Less Cash and cash equivalents	(1,800,761)	(1,446,576)
Net debt	<u>46,699,239</u>	<u>43,553,424</u>
 Total equity	 76,374,482	 77,614,455
 Capital Gearing ratio	 61%	 56%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

24. OPERATING SEGMENTS

Segment Information

Identification of reportable segments

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

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

Types of products and services by segment

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

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

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

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

Basis of accounting for purposes of reporting by operating segments

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

Inter-segment transactions

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

Segment assets

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

Segment liabilities

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

Unallocated items

These include mainly administrative and statutory costs of operation, inventory write down and depreciation. They are not allocated to any particular segments because they are not considered part of the core operations of any segment.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

24. OPERATING SEGMENTS (CONTINUED)

	<u>REVENUES</u>		<u>RESULTS</u>		<u>ASSETS</u>		<u>LIABILITIES</u>	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$	\$	\$
Industry Segments								
Rental of properties	9,458,921	9,034,081	1,994,200	1,403,661	91,547,697	92,234,794	48,500,000	45,000,000
Hotel operation	2,999,944	2,799,986	637,652	350,502	8,722,000	7,350,000	459,072	543,848
Development sites	-	-	(1,507,124)	(1,127,032)	27,665,504	27,336,721	-	-
Inventory write down			-	-	-	-	-	-
Investment at bank	32,249	111,780	32,249	111,780	1,763,148	1,372,536	-	-
Administration			(1,612,037)	(1,594,961)	-	-	-	-
Unallocated items (c)	386,227	13,360,889	(360,048)	9,500,072	11,748,573	9,369,353	16,113,368	14,505,101
Total	12,877,341	25,306,736	(815,108)	8,644,022	141,446,922	137,663,404	65,072,440	60,048,949

(a) The above total reconciles to -

Amount reported in Note 4:

Group revenue	12,877,341	25,306,736	-	-	-	-	-	-
Amount reported on the Income Statement before Income tax	-	-	(815,108)	8,644,022	-	-	-	-
Amount reported on the Balance Sheet	-	-	-	-	141,446,922	137,663,404	65,072,440	60,048,949

(b) Intra-group rent and outgoings

excluded from 'Rental of

properties' (above)	694,914	627,393	694,914	627,393	-	-	-	-
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(c) Significant non-cash items included

in the results (above)

(i) Gain on fair value adjustment to investment properties	-	13,307,795	-	13,307,795	-	-	-	-
(ii) Loss on fair value adjustment to Interest swap	-	-	(302,594)	(3,860,817)	-	-	-	-
(iii) Loss on impairment of inventories			(443,681)	-				
(iv) Depreciation	-	-	(131,724)	(132,450)				

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

25. CASH FLOW INFORMATION

(a) Reconciliation of Cash

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

	Consolidated Group	
	2014	2013
	\$	\$
Cash at bank and in hand	1,800,761	1,446,576

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

Profit (Loss) after income tax	(661,433)	6,078,562
Non-cash flows in profit or loss from ordinary activities:		
Gain on fair value adjustments from investment properties	-	(13,307,795)
Loss on fair value adjustments for interest swap	302,594	3,860,817
Current year's depreciation	131,724	132,450
Bad Debts written off	17,219	26,459
Loss on disposal/discard of assets	-	20,100
Write down of inventory	443,681	-
Items treated from Financing activities:		
Interest Paid	3,375,699	3,546,875
Interest received	(32,249)	(111,780)
<i>Changes in net assets and liabilities</i>		
<i>(Increase) decrease in:</i>		
Current receivables	(51,346)	481,972
Inventory	(1,006,611)	(856,469)
Other current assets	101,586	(82,093)
Deferred tax assets	(1,015,541)	(2,229,077)
Other non current assets	(1,560,986)	354,089
<i>Increase (decrease) in:</i>		
Payables	311,347	(66,708)
Other creditors	-	-
Deferred tax liability	861,866	4,794,534
Current tax payable	-	-
Employee provisions	45,186	(6,353)
Net cash produced in operating activities	1,262,736	2,635,583

(c) Financing facilities

Secured commercial bank facilities:

Drawn	48,500,000	45,000,000
Undrawn	4,500,000	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

25. CASH FLOW INFORMATION (CONTINUED)

(d) ***Interest Rates***

The effective interest rate on short-term bank deposits during the period was approximately 3.15% p.a. (2013: 4.50% p.a. approximately). These deposits have an average maturity of 60 days.

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

There were no non-cash financing and investing activities during the financial years ended 30 June 2014 and 30 June 2013.

26. RELATED PARTY DISCLOSURES

(a) **Transactions with directors and director-related entities**

- (i) Other than directors' remuneration, there were no transactions with directors or their related entities during the financial year (2013: \$Nil).
- (ii) Details of directors' remuneration are disclosed in Note 8: Interests of Key Management Personnel to the financial statements.

(b) **Directors' shareholdings**

As at 30 June 2014, fully paid ordinary shares in Phileo Australia Limited held by directors and their director related entities amounted to 18,240,664 shares representing 63.07% controlling interest (2013: 18,176,164 ordinary shares representing 62.83% controlling interest).

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

(c) **Transactions within the group**

Group entities are disclosed in Note 14: Controlled Entities.

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

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

(d) **Controlling Entities**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

27. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

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

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

	Consolidated Group	
	2014	2013
	\$	\$
<i>Financial Assets</i>		
Cash	1,800,761	1,446,576
Receivables	114,404	80,280
	<u>1,915,165</u>	<u>1,526,856</u>
<i>Financial Liabilities</i>		
Payables	1,659,109	1,534,931
Interest bearing liabilities	48,500,000	45,000,000
Interest swap – fair value through profit and loss account	4,163,409	3,860,817
Income tax payable	129,216	129,216
Loan from minority shareholder	235,967	233,467
	<u>54,687,701</u>	<u>50,758,431</u>
<i>Net Position</i>	<u>(52,772,536)</u>	<u>(49,231,575)</u>

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

As in the previous financial year end, the deficit in the group's net financial asset position at 30 June 2014 was due mainly to borrowings to assist in the acquisition of 303 Collins Street, Melbourne CBD and funding company's working capital requirement.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

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

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

Interest rate risk is managed using interest rate swaps to convert the debt to fixed rate. Interest rate swap transactions are entered into by the Group to exchange variable and fixed interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. At 30 June 2014, 93% of the group variable rate debt is swapped at fixed rate.

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

At the end of the reporting period, the details of outstanding contracts, of which \$45,000,000 (93%) (2013: \$45,000,000 – 100%) are to pay-fixed interest rate swaps, are as follows:

Consolidated Group	Effective Average Fixed Interest Rate Payable		Notional Principal	
	2014 %	2013 %	2014 \$	2013 \$
Maturity of notional amounts				
Less than 1 year			-	-
1 to 2 Years	7.17%	7.17%	45,000,000	-
2 to 5 years	4.51%	-	3,500,000	45,000,000
			<u>48,500,000</u>	<u>45,000,000</u>

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

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

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

	Consolidated Group	
	2014 \$	2013 \$
<i>Financial Assets</i>		
Cash	<u>1,800,761</u>	<u>1,446,576</u>
	<u>1,800,761</u>	<u>1,446,576</u>
<i>Financial Liabilities</i>		
Interest bearing liabilities	<u>48,500,000</u>	<u>45,000,000</u>
	<u>48,500,000</u>	<u>45,000,000</u>
Net Position	<u>(46,699,239)</u>	<u>(43,553,424)</u>

As in the previous financial year end, the deficit in the net position at 30 June 2014 was mainly due to borrowings to assist in the acquisition of 303 Collins Street, Melbourne CBD. Borrowings by the group include commercial bills which are interest bearing at commercial interest rates sourced from an Australian financial institution.

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NOTES TO THE FINANCIAL STATEMENTS
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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

Interest rate risk – Sensitivity Analysis

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

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2014	2013	2014	2013
	\$	\$	\$	\$
Consolidated group				
Plus 1% (100 basis points)	(476,000)	(437,935)	(476,000)	(437,935)
Minus 1% (100 basis points)	476,000	437,935	476,000	437,935
Parent Entity				
Plus 1% (100 basis points)	(26,000)	11,240	(26,000)	11,240
Minus 1% (100 basis points)	26,000	(11,240)	26,000	(11,240)

This analysis includes interest bearing liabilities.

Foreign Currency Risk

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

Price and Commodity Risk

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Price and Commodity Risk (Continued)

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

	Pre-Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2014	2013	2014	2013
	\$	\$	\$	\$
Consolidated group				
Plus 1% (100 basis points)	1,002,697	995,848	1,002,697	995,848
Minus 1% (100 basis points)	(1,002,697)	(995,848)	(1,002,697)	(995,848)
Parent Entity				
Plus 1% (100 basis points)	260,092	257,751	260,092	257,751
Minus 1% (100 basis points)	(260,092)	(257,751)	(260,092)	(257,751)

Credit Risk

The group's credit risk arises mainly from receivables. The maximum exposure to credit risk is represented by the total amount of the trade receivables on the balance sheet. Such trade receivables include rent receivable from tenants under non-cancellable leases, commercial clients of the hotel and purchasers of property from time to time. Credit risk is mitigated by having recourse in leases like bank or corporate guarantees, rent deposits and rent paid at least one month in advance. Hotel receivables exposure to bad debts is minimal as most clients pay by credit cards or subject to trade terms. Exposure to property sale credit risk is mitigated by deposit, usually 5% paid up front on signing of the commercial contract of sale of real estate which is usually not subject to a cooling off period. At balance date, all trade receivables shown in the balance sheet were considered recoverable.

Liquidity Risk

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

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

The liquidity profile of the financial instruments of the group demonstrates that, based on the closing position as at 30 June 2014 the company has sufficient funds to meet the short-mid term financing obligations. As reported in Note 21(d), during the year, the group obtained an additional loan facility of \$8m secured against the Rocklea Homemaker Centre. The group has undrawn amount of \$4.5 million from this facility to fund its future development projects and to meet its working capital requirements. The overall deficit position in the consolidated group is due to the interest bearing liability used to fund the acquisition of 303 Collins Street, Melbourne in prior years. The group intends to renew the borrowing facilities at the end of the term to manage its liquidity position.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity Risk (Continued)

Liquidity Profile

	Balance at 30/06/2014 \$	0-6 months \$	6-12 months \$	Over 1 year Less than 5 years \$	Over 5 years \$	Total \$
Consolidated Group:						
<i>Financial Assets</i>						
Cash	1,800,761	1,800,761	-	-	-	1,800,761
Receivables	114,404	114,404				114,404
	<u>1,915,165</u>	<u>1,915,165</u>				<u>1,915,165</u>
<i>Financial Liabilities</i>						
Payables	1,659,109	1,659,109				1,659,109
Interest bearing liability	48,500,000			48,500,000		48,500,000
Interest swap – fair value through profit and loss account	4,163,409			-	4,163,409	4,163,409
Income tax payable	129,216	-	129,216	-	-	129,216
Dividend payable	-	-	-	-	-	-
Loan from minority shareholder	235,967			235,967	-	235,967
	<u>54,687,701</u>	<u>1,659,109</u>	<u>129,216</u>	<u>48,735,967</u>	<u>4,163,409</u>	<u>54,687,701</u>
<i>Net Position</i>	<u>(52,772,536)</u>	<u>256,056</u>	<u>(129,216)</u>	<u>(48,735,967)</u>	<u>(4,163,409)</u>	<u>(52,772,536)</u>
	Balance at 30/06/2013 \$	0-6 months \$	6-12 months \$	Over 1 year Less than 5 years \$	Over 5 years \$	Total \$
Consolidated Group:						
<i>Financial Assets</i>						
Cash	1,446,576	1,446,576	-	-	-	1,446,576
Receivables	80,280	80,280				80,280
	<u>1,526,856</u>	<u>1,526,856</u>				<u>1,526,856</u>
<i>Financial Liabilities</i>						
Payables	1,534,931	1,534,931				1,534,931
Interest bearing liability	45,000,000			45,000,000		45,000,000
Interest swap – fair value through profit and loss account	3,860,817			-	3,860,817	3,860,817
Income tax payable	129,216	-	129,216	-	-	129,216
Dividend payable	-	-	-	-	-	-
Loans from minority shareholder	233,467			233,467	-	233,467
	<u>50,758,431</u>	<u>1,534,931</u>	<u>129,216</u>	<u>47,233,467</u>	<u>3,860,817</u>	<u>50,758,431</u>
<i>Net Position</i>	<u>(49,231,575)</u>	<u>(8,075)</u>	<u>(129,216)</u>	<u>(47,233,467)</u>	<u>(3,860,817)</u>	<u>(49,231,575)</u>

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

	Consolidated Group	
	2014	2013
	\$	\$
28. RETAINED PROFITS AND RESERVES		
Retained profits at beginning	57,707,061	52,205,564
(Loss) profit for the financial year attributable to members of the parent entity	(659,866)	6,080,037
Adjustment relating to prior years	-	-
Adjustment for minority interest	-	-
Dividends provided	(578,540)	(578,540)
Retained profits at end	56,468,655	57,707,061
Capital profits	13,539	13,539

There was no movement in capital profits reserves during the financial year (2013: \$Nil).

29. LOAN FROM MINORITY SHAREHOLDER

Loan from minority shareholder at fair value	235,967	233,467
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The minority shareholder has made a loan to Shuttlecrest Pty Ltd \$235,967 (2013: \$233,467) with an undertaking that the loan will not be recalled until the relevant company's assets fair value exceeds its liabilities. There is no interest payable on this loan nor are there any fixed repayment terms.

30. RENTAL LEASE RECEIVABLES

Non-cancelable operating leases:		
Not longer than one year	6,693,200	7,333,400
Longer than one year and not longer than 5 years	15,046,324	14,899,864
Longer than 5 years	187,930	445,662
Future rental lease receivables	21,927,454	22,678,926

(a) Non-cancellable operating leases

The group derived part of its revenue during the financial year from its rental properties. In the financial year, rental and fixed and variable outgoings recovered had totalled \$9,458,921 (2013: \$9,034,081)

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

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

- (b) As at 30 June 2014, the group owned properties at McCrae Street (Dandenong), Rocklea Homemaker Centre (Kangaroo Flats, Bendigo) and 303 Collins Street, Melbourne CBD that are being leased to various tenants over varying periods and are secured by non-cancellable operating lease contracts.

PHILEO AUSTRALIA LIMITED & CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (Continued)

30. RENTAL LEASE RECEIVABLES (CONTINUED)

- (c) As at 30 June 2014 the carrying value of leasable properties had totalled \$100,269,697 (2013: \$99,584,794). Net lettable area had totalled 38,416 square metres as at 30 June 2014 (2013: 38,416 square metres).

As at the end of the financial year, there were no new pre-lease developments committed to future leasing on completion (2013: Nil).

	Consolidated Group	
	2014	2013
	\$	\$
Rental properties – Gross	97,728,733	96,600,149
Fair value adjustments	13,307,795	13,307,795
Write downs to net realisable value	(10,236,031)	(9,993,150)
Provision for selling costs	(530,800)	(330,000)
Net rental properties	100,269,697	99,584,794
Other properties, including land	27,665,504	27,336,721
Total properties	127,935,201	126,921,515
Total write downs to net realisable value during the year	(443,681)	-

31. ECONOMIC DEPENDENCY

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

32. EVENTS AFTER THE REPORTING PERIOD

The directors have declared a fully franked \$0.02 per ordinary share final dividend for this financial year (2013: final dividend \$0.02 fully franked). The dividend was declared after 30 June 2014 and has not been provided for in the accounts as at 30 June 2014.

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

33. CAPITAL COMMITMENT

For rental property	507,484	711,025
For development land	125,095	-

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

ADDITIONAL STOCK EXCHANGE INFORMATION
AS AT 25 SEPTEMBER 2014

Number of Shareholders

Ordinary Share Capital

The company has an issued share capital of 28,927,016 ordinary shares each fully paid and held by 270 individual shareholders. There were no partly paid ordinary shares issued at the date of this report. All issued ordinary shares carry one vote per share.

Preference Share Capital

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

Options

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

Distribution of Shareholders

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

Holdings Ranges	Holders	Total Units	%
1-1,000	38	15,449	0.053
1,001-5,000	154	403,179	1.394
5,001-10,000	36	283,338	0.979
10,001-100,000	24	662,085	2.289
100,001-99,999,999,999	18	27,562,965	95.285
Totals	270	28,927,016	100.000

**Holdings less than a marketable
Parcel**

1-244	13	345	0.001
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Substantial Shareholders

	Fully Paid Number	%
Ordinary Shareholders		
PAL INVESTMENTS (AUST) PTY LTD	10,053,678	34.755
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,324,881	21.865
PIUCO ENTERPRISES CORP	2,750,000	9.507
BEELYE PTY LIMITED <B L SUPER FUND A/C>	1,962,196	6.783
ACEQ PTY LTD <SUPERANNUATION FUND A/C>	1,896,849	6.557
RADIANCE GROUP TRADING LTD	1,470,824	5.085
	<u>24,458,428</u>	<u>84.552</u>

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

ADDITIONAL STOCK EXCHANGE INFORMATION
AS AT 25 SEPTEMBER 2014

Twenty Largest Shareholders

Ordinary Shareholders	Fully paid shares	%
1 PAL INVESTMENTS (AUST) PTY LTD	10,053,678	34.755
2 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,324,881	21.865
3 PIUCO ENTERPRISES CORP	2,750,000	9.507
4 BEELYE PTY LIMITED <B L SUPER FUND A/C>	1,962,196	6.783
5 ACEQ PTY LTD (SUPERANNUATION FUND)	1,896,849	6.557
6 RADIANCE GROUP TRADING LTD	1,470,824	5.085
7 SLW CORPORATION PTY LTD	620,000	2.143
8 MR MICHAEL TAN CHUNG LOKE	595,500	2.059
9 SIENA NOMINEES PTY LTD <THE SLATTERY FAMILY S/F A/C>	461,000	1.594
10 HAYMAN INVESTMENTS CO LTD	381,204	1.318
11 ZELCREST CAPITAL LIMITED	237,422	0.821
12 MR BRIAN GARFIELD BENDER	222,700	0.770
13 BENDER SUPERANNUATION PTY LIMITED <BENDER SUPER FUND>	208,826	0.722
14 MR RUDY ENG WAH KOH & MRS FUI KYUN CHIEW <KOH S/F A/C>	159,834	0.553
15 EQUITY BRIDGE SDN BHD	122,749	0.424
16 KRR INVESTMENTS PTY LTD	115,302	0.399
17 MR JAMES JOHN CLIVE RODDA	84,124	0.290
18 HOMEGOOD NOMINEES PTY LTD <HOMES PROPERTY FUND A/C>	59,305	0.205
19 DR LENG LU SOH & MRS ROSY SOH <LL & R SOH FAMILY S/F A/C>	56,045	0.193
20 SHANDORA ONE PTY LTD <BENDER SUPER FUND A/C>	53,398	0.185
Total shares held by twenty largest shareholders	27,835,837	96.228
Total shares held by other shareholders	1,091,179	3.772
Total number of shares	28,927,016	100.000

Company Secretary

Tejas Gandhi, Chartered Accountant

Principal Registered Office and Principal Place of Business

Level 14, 303 Collins Street
Melbourne, Victoria 3000
Ph: (61 3) 9663 8018
Fax: (61 3) 9663 8038
phileo@palltd.com.au

Share Registry

Boardroom Pty Limited
(ABN 14 003 209 836)
Level 7, 207 Kent Street
Sydney NSW 200
(Correspondence: GPO Box 3993, Sydney 2001)
General Ph: (61 2) 9290 9616
Fax: (61 2) 9279 0664
Contact: Ms Bridgette Rogers, Client Service Manager
bridgette.rogers@boardroomlimited.com.au
www.boardroomlimited.com.au

Stock Exchange Listings

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