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

CHAIRMAN'S ADDRESS

I again welcome the opportunity to provide fellow shareholders in Phileo Australia Limited with additional information and insights into our company's operations during the 2015/16 financial year.

I should say at the outset that throughout the year in Australia and especially in Victoria where our operations are centered a very strong market has prevailed for most types of property.

In a low interest rate environment, capital gains for residential property in almost all locations have been exceptional, commercial property yields have fallen to never before seen rates as prices have appreciated under owner-occupier and investor demand while Melbourne's population growth has created significant call for new estates and subdivisions.

Our shareholders should note that your company has been in a position to benefit from the strongly performing property market conditions resulting in increased independent valuations across most of our portfolio holdings.

However, as a number of Phileo's property holdings are measured at the lower of cost or net realisable value, these recent increases in value are not reflected in the financial statement. The exception is the gain in the market value of our investment property – 303 Collins Street, Melbourne and the recoupment of the remaining prior year accumulated impairment losses in respect to the development property held at Rocklea Homemaker Centre and adjoining residential land in Bendigo.

Notwithstanding, the current net asset backing per share as at 30 June 2016 increased to $3.50 (previous year $3.19)

By way of note, the net asset backing per share would increase to approximately $6.30, using the latest independent valuations for the properties classified as inventories minus the tax effect of the increased valuations.

I am pleased to provide a commentary on the status of each of our major property holdings.

The 30-storey commercial rental property at 303 Collins Street, Melbourne (southwest corner with Elizabeth Street) was revalued to show a fair value gain of $12,466,000 before tax reflecting an independent value assessment of $108,000,000 as compared to its previous independent valuation of $95,000,000.

The building is approximately 65% occupied and we are working with the appointed leasing agents to increase the occupancy, notwithstanding that lease renewals by sitting tenants are pleasing.

Negotiations are also at an advanced stage with an ASX 200 listed company for their occupancy of the ground floor.

During the year the Minister for Planning approved the Black Forest Precinct of the Wyndham Planning Scheme which includes 363 hectares parcel of land at Black Forest Road, Wyndham Vale owned by the group.

This opens up the potential to develop this holding to yield approximately 4,500 to 5,000 residential housing lots and associated services.

Your directors will continue to explore all possibilities including sale of the land, sale in super lots, or enter into a joint venture to develop the land, at the appropriate time.

An independent valuation has assessed the current market value of this holding at $120,000,000 an increase of 164% over the site value of $45,433,000 as reflected in the Council rates notice for 2015/16.

The Mont Albert Rise proposed 79-unit residential town house development is also classified as Non Current Inventory and is measured at the lower of cost or net realisable value.

Phileo continues to pursue negotiations with agencies including the Environmental Protection Authority in relation to the former landfilled part of the site and with Heritage Victoria and the Building Appeal Board for preservation of the Brickwork site.

A current independent valuation has assessed the value of this site at $20,000,000 or an increase of approximately 58% over the January 2012 valuation of $12,600,000.

The directors continue to consider various development options, including high density residential development for the balance of the area of this site.

Increased residential values in the immediately surrounding middle distance eastern suburbs continue to underwrite the anticipated demand for this development.

The local Bendigo area has shown significant residential growth which has assisted Phileo's Rocklea Homemaker Centre to achieve a current 98% occupancy.

CHAIRMAN'S ADDRESS
(continued)

Our adjoining holding of vacant residential land is pending a rezoning to a service industry zone. If successful, the company is considering developing and selling workshops suitable for small to medium sized business.

The latest independent valuation from Jones Lang Lasalle dated 25 August 2016 attributes a value of $32,620,000 for the Rocklea Homemaker Centre and the adjoining vacant Residential land, an increase of around 19% over the last independent valuation of March 2015 and valuation confirmation letter of August 2015.

The balance sheet carrying value of this property is currently $29,701,959.

The 108 room Ramada Encore Hotel in McCrae Street Dandenong continued to trade actively achieving an occupancy of 73% (previous year 69%) albeit having to compete with competitive room rates.

The revenue contribution increased marginally from $3,215,000 to $3,249,000 but the profitability fell slightly.

A fully franked final dividend of the year of 2 cents identical to the previous year will be paid in October.

Your company operates with a proactive small executive management and support team.

I again pay them tribute for their active and efficient participation in the affairs of Phileo Australia Limited over the last financial year.

With its current portfolio of property holdings, our conservative leverage ratios and operating overheads, together with our future plans I believe Phileo Australia Limited is well placed to take advantage for whatever conditions the economy and the property market present in the year ahead.

Graham Homes
Chairman
23 September 2016

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 2016** ("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.

During the year, the entity deregistered its 75% owned subsidiary – Shuttlecrest Pty Ltd.

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

Operating Results

The consolidated net operating profit before income tax for the year was $13,681,000 (2015: $23,742,000 profit). The consolidated net profit for the year after income tax was $9,538,000 (2015: $16,611,000 profit). The change in profit before tax of $10,061,000 from 2015 was mainly due to the following:

- The current year profit includes a fair value gain of $12,466,000 (before tax) (2015:19,918,000) which was recognised on revaluation of investment property at 303 Collins Street, Melbourne. The current year gain represents the excess of an independent valuer assessment of the asset's current fair value of $108,000,000 over its previous carrying value of $95,000,000;

- The current year profit also includes a gain on recoupment of remaining prior year accumulated impairment losses of $2,003,000 (before tax) (2015: $4,959,000 profit) in respect to the development property held at Rocklea Homemaker Centre ("Rocklea Homemaker Centre") and adjoining residential land in Bendigo. An independent valuer assessed the current market value of this property at $32,620,000, which is in excess of total development costs of this property. Consequently, after making an appropriate allowance for selling expenses, a gain of $2,003,000 was recognised for the year.

- The above net fair value gains were partially offset by a loss of $297,000 (before tax) (2015: $741,000 loss) resulting from the fair value accounting of interest swap held by the company.

- In 2015, the entity sold the industrial vacant land, 1-5 Northcorp Bvd, Broadmeadows, Vic, which was held by its 75% owned subsidiary – Shuttlecrest Pty Ltd for a profit before tax of $109,000. No development properties were sold during the year.

After deducting the profit attributable to minority interests, the profit attributable to members after tax was $9,537,000 (2015: $16,594,000 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 $13,151,000 (2015: $13,692,000), excluding fair value gain on revaluation of the investment property of $12,466,000, and recoupment of remaining prior year impairment loss of $2,003,000 in respect to the Rocklea Homemaker Centre and adjoining residential land in Bendigo . During the year, the consolidated entity:

- earned rental income totalling $9,781,000 (2015: $9,416,000) from its rental properties, which included rental of $7,364,000 (2015: $7,529,000) inclusive of recovery of outgoings from the 30-storey commercial rental property at 303 Collins Street, Melbourne;

- 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 $3,249,000 (2015: $3,215,000).

Review of Operations (Continued)

The increase in rental revenue was mainly from the increased occupancy of around 84% (2015: 76%) at the Rocklea Homemaker Centre at the end of the financial year. This increase in revenue was partially offset by a reduction in the occupancy rate at 303 Collins Street, Melbourne from 67% at the beginning of the financial year to 65% as at June 2016.

Management is currently working on various strategies to improve the occupancy rate of its commercial rental property at 303 Collins Street, Melbourne.

Profit (before tax but after borrowing costs) from rental activities has increased to $2,039,000 (2015: $1,883,000) mainly due to overall increase in rental income and reduction in the borrowing costs for the year.

The hotel's profitability before tax and intercompany rent has reduced marginally to $771,000 (2015: $781,000 profit). The room occupancy rate for the year has increased by 4% from 69% as at June 2015 to 73% as at June 2016. However, the lower average room rate for the year resulted in an increase in the revenue by approximately 1% only. The effect of lower average room rate together with the increase in operating costs resulted in reduced profitability from the hotel operation for the year.

During the period, the company appointed CBRE as a selling agent to market the Rocklea Homemaker Centre for sale. CBRE advised to market the property by Expression of Interest (EOI). The EOI was closed on 3/12/15. Upon review of the offers received, the company decided to enhance the value of the centre by filling up the existing vacancies before selling the centre.

During the year, the Minister for Planning signed the Wyndham Planning Scheme Amendment C170, being the approved Black forest North Precinct plan which includes 363 hectares of the land at Black Forest Road, Wyndham Vale (The Land) held by Daleston Pty Ltd (ABN 31 111 517 885), a wholly-owned subsidiary of Phileo Australia Limited. This approval was published in the Government Gazette on 11th February 2016.

Subsequent to the above, the company appointed an independent valuer to assess the current market value of the land. The independent valuer assessed the current market value of the land at $120,000,000, which represented an increase of approximately 164% over the Site Value of $45,433,000 reflected in the Council rates notice for 2015-16. The Land is classified as part of "Non Current Inventory" in the financial report, which is measured at the lower of cost or net realisable value. As a consequence, the results for the financial year ending 30 June 2016 do not include any gain resulting from the excess of the asset's market value over its current carrying value.

The land is currently leased for cattle grazing activities. The company recorded a loss after tax for the year of $846,000 (2015: $769,000 loss), arising mainly from land holding costs, including land tax and council rates, in relation to this property.

In 2015, the company sold the vacant industrial land at Northcorp Industrial Park, Broadmeadows in Victoria. The property was owned by Shuttlecrest Pty Ltd (ABN 46 114 765 696), a 75% owned subsidiary company of Phileo Australia. Subsequent to the sale of the land, Shuttlecrest Pty Ltd was deregistered during the year. Consequently, the group no longer has a minority interest at the reporting date.

During the year, the company 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. During the year, the company appointed an independent valuer to assess the current market value of the Box Hill property. The independent valuer assessed the current market value of this property at $20,000,000, which represented an increase of approximately 58% over the last independent valuation (dated 25/1/2012) which reflected a Site Value of $12,600,000. The Box Hill property is classified as part of "Non Current Inventory" in the financial report, which is measured at the lower of cost or net realisable value. As a consequence, the results for the financial year ending 30 June 2016 do not include any gain resulting from the excess of the asset's market value over its current carrying value.

During the year the entity's result per share after tax was $0.33 profit (2015: $0.57 profit).

Financial Position

At 30 June 2016 the consolidated entity's property portfolio had a carrying value of $173,828,000 (2015: $157,918,000). The carrying values of these properties were consistent with directors' valuation based on the latest available independent market valuations and/or 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) for the property concerned.

The entity increased its $10,500,000 loan facility to $12,500,000 to fund its investment/development projects and working capital requirements. This facility is secured against the Bendigo property (Rocklea Homemaker Centre and adjoining residential land). The total loan facility of the entity as at 30 June 2016 was $57,500,000 (2015: $55,000,000).

As at balance date the entity total bank borrowings amounted to $56,500,000 (2015:$53,500,000). Of the total borrowings, 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 bank borrowings of $11,500,000, is secured against the Rocklea Homemaker Centre and adjoining residential land and was mainly used to fund the development of Stage 2 of the Rocklea Homemaker Centre and the group's investments and working capital requirements. The entities' other properties are unencumbered at 30th June 2016.

As at balance date, the entity had approximately $924,000 (2015: $993,000) in cash and at bank, and $36,127,000 (2015: $35,792,000) 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 2016, the economic entity's net tangible asset backing per share was $3.50 (2015: $3.19).

Significant Changes in State of Affairs

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

Dividends Paid or Recommended

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

A fully franked final dividend of 2 cents per ordinary share for the financial year ended 30 June 2015 was declared after 30 June 2015. This final dividend was paid in October 2015.

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 2016 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 303 Collins Street, Melbourne and the Rocklea Homemaker Centre.

In June 2016, the company negotiated new lease agreements for most of the remaining vacancies at the Rocklea Homemaker Centre. The lease commencement dates for these new leases range from August to September 2016. Including these new leases, the occupancy rate for the Rocklea Homemaker Centre for 2016-17 will be around 98%. With improved near full occupancy, the company has appointed selling agents for marketing the property for sale.

Management, in consultation with reputed leasing agents, is actively looking for new tenants to lease the vacancies of 303 Collins Street, Melbourne.

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

The Land at Wyndham Vale is within Victoria's urban growth corridor with significant upside potential in a future development. As reported earlier, the Minister for Planning has signed the Wyndham Planning Scheme Amendment C170, being the approved Black Forest North Precinct plan which includes the land Subject to approval from the relevant authorities, the land of 360 Hectares is likely to yield approximately 4,500 to 5,000 lots of about 300 to 600 sqm each. The Company is considering development of this project in stages, however, it will continue to explore all possibilities including sale of the land, sale in super lots, or enter into a joint venture to develop the land, at the appropriate time.

The company's current intention is to continue with the 79-unit residential townhouse development on resolution of some outstanding matters with the Environmental Protection Authority (EPA) in relation to the former landfill site and with Heritage Victoria and the Building Appeal Board for preservation of the Brickwork site. In addition, the company is also considering various development options, including high density residential development, for the remaining area of this property.

Environmental Issues

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

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

Information on the Directors

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

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 70. 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 57. 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 71. 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 57. 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 63. Andrew joined the Board in July 2000.

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

Company Secretary

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

Directors' Shareholdings

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

Director	Fully Paid Ordinary Shares	Percentage Held
Rudy Koh (Managing Director/CEO)	10,348,814	35.78%
Michael Loke (Non-Executive Director)	3,345,500	11.57%
Andrew Hang (Non-Executive Director and Independent Director)	2,590,196	8.95%
Alfred Sung (Executive Director)	1,896,849	6.56%
Graham Homes (Chairman and Non-Executive Independent Director)	59,116	0.20%

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

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

Meetings of Directors

The following table sets out the number of formal board of directors meetings held during the financial year and the number of board meetings attended by each director (while they were a director). During the financial year, 8 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	8
Alfred Sung (Executive Director)	8	8
Andrew Hang (Non-Executive and Independent Director)	8	4
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	1

Indemnifying Officers or Auditor

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

DIRECTORS' REPORT (Continued)

Options

As at the date of this report, there were no share options or other options outstanding (2015: 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 2016.

Auditor's Independence Declaration

The lead auditor's independence declaration for the financial year ended 30 June 2016 has been received and can be found on page 10 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

REMUNERATION REPORT (AUDITED) (Continued)

Table of Benefits and Payments:

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

For the Year Ended 30 June 2016

Name	Office	Salaries and Fees $	Benefits, including superannuation $	Total $
Rudy Koh	Managing Director/CEO	444,216	38,032	482,248
Alfred Sung	Executive Director	410,420	64,203	474,623
Graham Homes	Chairman and Non-Executive Independent Director	36,000	-	36,000
Andrew Hang	Non-Executive and Independent Director	24,000	2,974	26,974
Michael Loke	Non-Executive Director	24,000	2,280	26,280
Total		**938,636**	**107,489**	**1,046,125**

For the Year Ended 30 June 2015

Name	Office	Salaries and Fees $	Benefits, including superannuation $	Total $
Rudy Koh	Managing Director/CEO	404,663	46,998	451,661
Alfred Sung	Executive Director	362,059	73,460	435,519
Graham Homes	Chairman and Non-Executive Independent Director	36,000	-	36,000
Andrew Hang	Non-Executive and Independent Director	24,000	5,185	29,185
Michael Loke	Non-Executive Director	24,000	2,280	26,280
Total		**850,722**	**127,923**	**978,645**

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

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

Performance-based Remuneration

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

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

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

End of Remuneration Report (Audited).

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

Rudy Koh
Managing Director
Melbourne
23 September 2016

MOORE STEPHENS

Moore Stephens Audit (Vic)

Level 18, 530 Collins Street
Melbourne Victoria 3000

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

www.moorestephens.com.au

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016, there have been:

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

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

Moore Stephens

MOORE STEPHENS AUDIT (VIC)
ABN 16 847 721 257

ANDREW JOHNSON
Partner
Audit & Assurance Services

Melbourne, Victoria

23 September 2016

MOORE STEPHENS

Moore Stephens Audit (Vic)

Level 18, 530 Collins Street
Melbourne Victoria 3000

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

www.moorestephens.com.au

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

Report on the 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 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

MOORE STEPHENS

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 2016 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 8 to 9 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the remuneration report of Phileo Australia Limited and Controlled Entities for the year ended 30 June 2016 complies with s 300A of the *Corporations Act 2001*.

Moore Stephens

MOORE STEPHENS AUDIT (VIC)
ABN 16 847 721 257

ANDREW JOHNSON
Partner
Audit & Assurance Services

Melbourne, Victoria

23 September 2016

DIRECTORS' DECLARATION
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

The Directors declare that:

1. the financial statements and notes, as set out on pages 14 to 56, 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 2016 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
23 September 2016

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated Group	
		2016	2015
		$	$
Revenue and other income	4	27,619,947	38,569,085
Rental property expenses		(4,428,793)	(3,900,095)
Hotel operating expenses		(1,587,083)	(1,566,463)
Development property expenses		(1,454,801)	(2,369,957)
Employee benefits expense		(2,167,019)	(2,053,820)
Depreciation and amortisation expense	18	(130,030)	(133,635)
Finance costs		(3,207,726)	(3,566,094)
Inventory write down	15	-	-
Net change in value of Interest swap	16	(296,607)	(741,064)
Other expenses		(667,603)	(496,309)
Profit (Loss) before income tax	5	13,680,285	23,741,648
Income tax benefit (expense)	6	(4,142,553)	(7,131,160)
Profit (Loss) from continuing operations		9,537,732	16,610,488
Profit (Loss) for the year	5	9,537,732	16,610,488
Profit (Loss) attributable to:			
Members of the parent entity		9,536,239	16,593,609
Non-controlling interest		1,493	16,879
		9,537,732	16,610,488
Earnings per share			
From continuing and discontinued operations:			
Basic profit (loss) in cents per share	11	33	57
Diluted profit (loss) in cents per share	11	33	57
From continuing operations:			
Basic profit (loss) in cents per share	11	33	57
Diluted profit (loss) in cents per share	11	33	57

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated Group	
		2016	2015
		$	$
Profit (Loss) for the year		9,537,732	16,610,488
Add (Less) Comprehensive income/ (expense) for the year		-	-
Total comprehensive profit (loss) income for the year		9,537,732	16,610,488
Total comprehensive profit (loss) attributable to:			
Members of the parent entity		9,536,239	16,593,609
Non-controlling interest		1,493	16,879
		9,537,732	16,610,488

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Note	Consolidated Group	
		2016	2015
		$	$
CURRENT ASSETS			
Cash	12	924,305	992,789
Receivables	13	137,562	20,277
Inventory	15	-	-
Other	19	645,779	588,523
TOTAL CURRENT ASSETS		1,707,646	1,601,589
NON-CURRENT ASSETS			
Inventory	15	65,828,484	62,917,559
Investment Property	17	108,000,000	95,000,000
Plant and equipment	18	795,389	870,071
Deferred tax asset	6	7,275,644	6,973,578
Other	19	2,813,309	2,741,011
TOTAL NON-CURRENT ASSETS		184,712,826	168,502,219
TOTAL ASSETS		186,420,472	170,103,808
CURRENT LIABILITIES			
Payables	20	1,229,759	1,914,661
Current tax payable		129,216	129,216
Dividend payable	10	-	-
Provisions	22	287,073	272,876
TOTAL CURRENT LIABILITIES		1,646,048	2,316,753
NON-CURRENT LIABILITIES			
Interest bearing liabilities	21	56,500,000	53,500,000
Derivatives	16	5,201,082	4,904,475
Deferred tax liability	6	21,050,336	16,605,717
Loans from minority shareholder	29	-	7,520
Other creditors	20	610,348	322,795
Provisions	22	47,036	40,118
TOTAL NON-CURRENT LIABILITIES		83,408,802	75,380,625
TOTAL LIABILITIES		85,054,850	77,697,378
NET ASSETS		**101,365,622**	**92,406,430**
EQUITY			
Issued capital	23	19,910,650	19,910,650
Reserves	28	13,539	13,539
Retained earnings	28	81,441,433	72,483,734
Minority interest		-	(1,493)
TOTAL EQUITY		**101,365,622**	**92,406,430**

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
FORTHE YEAR ENDED 30 JUNE 2016

	Note	Issued Capital $	Other Reserves $	Retained Earnings $	Minority Interests $	Total $
Balance at 1 July 2014		19,910,650	13,539	56,468,665	(18,372)	76,374,482
Profit/(Loss) for the year		-	-	16,593,609	16,879	16,610,488
Subtotal		19,910,650	13,539	73,062,274	(1,493)	92,984,970
Dividends paid or provided for	10	-	-	(578,540)	-	(578,540)
Balance at 30 June 2015	23,28	19,910,650	13,539	72,483,734	(1,493)	92,406,430
Balance at 1 July 2015		19,910,650	13,539	72,483,734	(1,493)	92,406,430
Profit/(Loss) for the year		-	-	9,536,239	1,493	9,537,732
Subtotal		19,910,650	13,539	82,019,973	-	101,944,162
Dividends paid or provided for	10	-	-	(578,540)	-	(578,540)
Balance at 30 June 2016	23,28	19,910,650	13,539	81,441,433	-	101,365,622

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated Group	
		2016	**2015**
		$	$
CASHFLOW FROM OPERATING ACTIVITIES			
Receipts from ordinary activities		14,258,310	13,659,976
Payment to suppliers & employees		(12,049,719)	(9,160,913)
Payment for property development		(908,046)	(5,112,604)
Net Cash produced/(used) in Operating Activities	25	1,300,545	(613,541)
CASHFLOW FROM INVESTING ACTIVITIES			
Payment for investment property development		(534,268)	(821,450)
Payment for purchase of plant & equipment		(55,348)	(26,132)
Cash flow from/(used) in Investing Activities		(589,616)	(847,582)
CASHFLOW FROM FINANCING ACTIVITIES			
Interest paid		(3,207,726)	(3,566,094)
Interest received		14,373	26,232
Loan received (net)		2,992,480	4,771,553
Dividend paid		(578,540)	(578,540)
Cash flow from/(used) in Financing Activities		(779,413)	653,151
Net increase (decrease) in cash		(68,484)	(807,972)
Cash at beginning of the year		992,789	1,800,761
Cash at end of the year	12	924,305	992,789

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Preparation

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

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

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

(a) *Principles of Consolidation*

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

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

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

(b) Plant and Equipment

Plant and Equipment

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

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

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

(d) Investment Properties

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

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

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

(e) Profit and Revenue Recognition

<u>Rental Revenue</u>
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.

<u>Revenue and Profit Recognition on Sale of Inventories (Properties)</u>
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).

<u>Revenue from Services Rendered</u>
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).

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 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.

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 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.

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.

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.

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

(s) Key Estimates

i) Inventory

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

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

ii) Measurement of Fair Value

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

- derivative financial instruments; and
- investment properties.

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

Level 1:
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2:
Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3:
Measurements based on unobservable inputs for the asset or liability.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (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(a) - Investment properties.

(t) Comparative Amounts

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

2. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

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

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

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

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

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

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

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

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

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

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

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

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

AASB 16 Leases (applicable for annual reporting periods commencing on or after 1 January 2019):

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

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

3. PARENT INFORMATION

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

	2016	2015
	$	$
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	792,122	725,099
Non-current assets	91,763,263	87,034,218
TOTAL ASSETS	92,555,385	87,759,317
LIABILITIES		
Current liabilities	1,036,556	1,308,256
Non-current liabilities	15,869,372	12,222,620
TOTAL LIABILITIES	16,905,928	13,530,876
NET ASSETS	75,649,457	74,228,441
EQUITY		
Issued capital	19,910,650	19,910,650
Retained earnings	55,725,268	54,304,252
Capital profits reserve	13,539	13,539
TOTAL EQUITY	75,649,457	74,228,441
STATEMENT OF COMPREHENSIVE INCOME		
Total Profit / (loss)	1,999,556	4,101,130
Total comprehensive income / (loss)	1,999,556	4,101,130

Guarantees

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

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

Contingent liabilities

At 30 June 2016, Phileo Australia Limited had no material undisclosed contingent liabilities (2015: $Nil).

Contractual commitments

At 30 June 2016, Phileo Australia Limited had not entered into any material contractual commitments for the acquisition of property, plant and equipment (2015: $Nil).

	Note	Consolidated Group 2016 $	Consolidated Group 2015 $
4. REVENUE AND OTHER INCOME			
a. **Revenue from continuing operations**			
Sale of property		-	964,000
Other revenue from ordinary activities:			
Rental income from properties		9,780,774	9,416,217
Hotel income		3,249,066	3,214,715
Interest revenue – bank		14,373	26,232
Other		107,123	71,174
Total Revenue from ordinary activities		13,151,336	13,692,338
b. **Other Income**			
Gain on recoupment of impairment of inventories	15	2,002,879	4,958,694
Gain on fair value adjustment of investment properties	17	12,465,732	19,918,053
Total other income		14,468,611	24,876,747
Total Revenue and Other Income		**27,619,947**	**38,569,085**

5. PROFIT (LOSS) FOR THE YEAR

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

	2016 $	2015 $
Borrowing costs - financial institutions	3,207,726	3,566,094
Land tax and Rates	2,673,818	2,506,135
Bad debts written off	9,548	8,826
Rental expense on operating leases		
- minimum office lease payments	162,394	140,398
Inventory write down /(up) – Rocklea Homemaker Centre	(2,002,879)	(4,958,694)

	Consolidated Group	
	2016	2015
	$	$

6. INCOME TAX

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

	2016 $	2015 $
Current tax	-	-
Deferred tax	4,142,553	7,131,160
	4,142,553	7,131,160

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

	2016 $	2015 $
Operating (loss) profit	13,680,285	23,741,648
Income tax expense (benefit) calculated at 30% (2015: 30%) of operating (loss) profit from ordinary activities before income tax	4,104,085	7,122,494
Add/(less), Tax effect of permanent Differences:		
Non-deductible items	2,175	578
Adjustment relating to prior years	36,293	6,042
Other	-	2,046
	38,468	8,666
Income Tax Expense (Benefit) Attributable to Profit from Ordinary Activities before Income Tax	4,142,553	7,131,160

6. INCOME TAX (CONTINUED)

(c) Deferred Tax Asset ("DTA")

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

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

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

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

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

Entity		30 June 2016	30 June 2015
Phileo Australia Limited	Tax losses	$1,510,554	$2,786,431
Phileo 303 Collins Pty Ltd	Tax losses	$10,606,731	$9,730,361
Daleston Pty Ltd	Tax losses	$6,019,719	$4,843,660
Sequoia Management Pty Ltd	Tax losses	$297,975	$330,084
Shuttlecrest Pty Ltd	Tax losses	-	-
Phileo Australia Limited	Capital losses	$79,684	$79,684

	Consolidated Group	
	2016	2015
	$	$
Deferred tax asset	7,275,644	6,973,578
Deferred tax asset reconciliation:		
Opening balance at 1 July	6,973,578	7,339,035
Adjustment to prior year's timing differences	4,279	157,250
Restated opening balance	6,977,857	7,496,285
Tax losses/(utilised)	196,129	(675,941)
Other timing differences	101,658	155,280
Tax losses not recognised	-	(2,046)
Closing balance at 30 June	7,275,644	6,973,578

	Consolidated Group	
	2016	**2015**
	$	**$**
6. INCOME TAX (CONTINUED)		
(d) Deferred tax liability ("DTL")	21,050,336	16,605,717
Deferred tax liability reconciliation:		
Opening balance at 1 July	16,605,717	9,840,014
Adjustment to prior year's timing differences	40,572	163,292
Restated opening balance	16,646,289	10,003,306
Difference between tax and accounting written down values (includes Deferred tax liability of $13,707,474 (2015:$9,967,755) recognised on fair value adjustment to the investment property)	4,404,047	6,602,411
Closing balance at 30 June	21,050,336	16,605,717

7. DEREGISTRATION OF COMPANY

In 2015, the company sold the vacant industrial land at Northcorp Industrial Park, Broadmeadows in Victoria. The property was owned by Shuttlecrest Pty Ltd (ABN 46 114 765 696), a 75% owned subsidiary company of Phileo Australia. Subsequent to the sale of the land, Shuttlecrest Pty Ltd was deregistered during the year. Consequently, the group no longer has a minority interest at the reporting date.

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 2016

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

Short and Long term employee benefits	1,046,125	978,645
	1,046,125	978,645

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:

30 June 2016	Balance at Beginning of Year	Granted as Remuneration during the Year	Issued on Exercise of Options during the Year	Other Changes during the Year	Balance at End of Year
Graham Homes	59,116	-	-	-	59,116
Rudy Koh	10,348,814	-	-	-	10,348,814
Alfred Sung	1,896,849	-	-	-	1,896,849
Michael Loke	3,345,500	-	-	-	3,345,500
Andrew Hang	2,590,196	-	-	-	2,590,196
	18,240,475	-	-	-	18,240,475

30 June 2015	Balance at Beginning of Year	Granted as Remuneration during the Year	Issued on Exercise of Options during the Year	Other Changes during the Year	Balance at End of Year
Graham Homes	59,305	-	-	(189)	59,116
Rudy Koh	10,348,814	-	-	-	10,348,814
Alfred Sung	1,896,849	-	-	-	1,896,849
Michael Loke	3,345,500	-	-	-	3,345,500
Andrew Hang	2,590,196	-	-	-	2,590,196
	18,240,664	-	-	(189)	18,240,475

Other KMP Transactions

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

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

There were no loans to KMP during the financial year (2015: $Nil).

9. AUDITOR'S REMUNERATION

	Consolidated Group	
	2016 $	2015 $
Remuneration of the auditor for:		
Auditing or reviewing the financial statements	45,150	42,050

	Consolidated Group	
	2016 $	2015 $
10. DIVIDENDS		
a) Distributions paid:		
2015 final dividend (fully franked) of 2 cents per share declared and paid in 2016	578,540	578,540
b) Declared final 2016 fully franked ordinary dividend $Nil (2015: Nil cents) per share franked at the tax rate of 30% (2015: 30%)	-	-
c) Movement in Franking Account:		
Balance at 1 July	19,889,544	20,137,490
Franking debits arising from payment of dividends (above)	(247,946)	(247,946)
Balance at 30 June	19,641,598	19,889,544

The directors have declared a fully franked $0.02 per ordinary share final dividend for this financial year after 30 June 2016. Therefore, the dividend has not been provided for in the accounts as at 30 June 2016.

11. EARNINGS PER SHARE

	2016	2015
Profit/ (Loss) profit after tax	9,537,732	16,610,488
Add/(Less): (Profit) /Loss profit attributable to minority equity interest	(1,493)	(16,879)
Profit/ (Loss) profit attributable to members of the parent entity	9,536,239	16,593,609
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	33	57

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

	Note	Consolidated Group	
		2016 $	2015 $

12. CASH AND CASH EQUIVALENTS

	Note	2016 $	2015 $
Cash at bank and in hand		924,305	992,789
Short-term bank deposits		-	-
	25	924,305	992,789

The effective interest rate on short-term bank deposits was Nil% (2015: Nil%); These deposits have an average maturity of Nil days (2015: Nil days).

Reconciliation of cash

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

	Note	2016 $	2015 $
Cash and cash equivalents		924,305	992,789
	25	924,305	992,789

13. TRADE AND OTHER RECEIVABLES

		2016 $	2015 $
CURRENT			
Trade receivables		137,562	20,277
Provision for impairment		-	-
Total current trade and other receivables		137,562	20,277

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.

13. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Gross Amount $	Past Due and Impaired $	Past Due but Not Impaired (Days Overdue) < 30 $	31–60 $	61–90 $	> 90 $	Within Initial Trade Terms $
2016							
Trade receivables	137,562	-	61,783	36,082	35,570	4,127	137,562
Total	137,562	-	61,783	36,082	35,570	4,127	137,562
2015							
Trade receivables	20,277	-	16,159	3,588	530	-	16,159
Total	20,277	-	16,159	3,588	530	-	16,159

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**

Controlled Entities Consolidated and principal activities	Country of Incorporation	Percentage Owned 2016	2015
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	Australia	-	75%
Rocklea Homemaker Centre Pty Ltd (dormant)	Australia	100%	100%

b. **Acquisition of Controlled Entities**

There were no entities acquired during the financial year.

	Consolidated Group	
	2016 $	2015 $

15. INVENTORY

	2016 $	2015 $
(a) **Current:**	-	-

	2016 $	2015 $
(b) **Non-Current:** *(i)*		
Freehold land and buildings (at cost) – Opening	62,917,559	53,674,704
Add: Development cost incurred during the year	908,046	5,112,604
Add: Write up during the year (ii)	2,002,879	4,958,694
Less: Cost of development land sold during the year	-	(828,443)
Less: Write down during the year (ii)	-	-
	65,828,484	62,917,559
Acquisition cost	26,867,926	26,867,926
Development cost	41,413,686	40,505,640
Borrowing cost	1,352,131	1,352,131
Inventory write down *(ii)*	(3,805,259)	(5,808,138)
Total non-current inventory	65,828,484	62,917,559
Total *(iii)*	65,828,484	62,917,559

(c) **Inventory pledged as security**

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

	2016 $	2015 $
Rocklea Homemaker Centre and residential land at Bendigo		
- Carrying amount	29,701,959	27,125,800
- Loan facility	12,500,000	10,500,000

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 and adjoining Residential land* at Kangaroo Flat, off the Calder Highway near Bendigo; the 108-room business class hotel at 50-52 McCrae Street, Dandenong; all stated at lower of cost or market value. The vacant land at Northcorp Industrial Park in Broadmeadows was sold during 2015.

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

(ii) Inventory Write Down: As at balance date, the write down of $3,805,259 represents the balance of inventory write down recognised in prior periods for the Rocklea Homemaker Centre of $Nil (2015: $2,002,880), and the write down for the McCrae Street property of $3,805,259 (2015: $3,805,259).

(iii) Aggregate carrying value: The aggregate carrying value of all inventory held at 30 June 2016, based on the lower of cost and net realisable value was estimated at $65,828,484 (2015: $62,917,559).

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

- the latest independent valuation *for Rocklea Homemaker Centre* and Residential land of $32,620,000 obtained in August 2016;
- the latest independent valuation *for* Federation Street residential development land of $20,000,000 obtained in June 2016;
- the latest independent valuation *for* Wyndham Vale future residential development land of $120,000,000 obtained in May 2016;
- the McCrae Street building at latest independent valuation of $8,900,000 obtained in June 2014.

16. DERIVATIVES

	Consolidated Group	
	2016	**2015**
	$	**$**
Interest rate swap for hedging the commercial bills	5,201,082	4,904,475
Total non-current derivatives	5,201,082	4,904,475

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.

	Consolidated Group	
	2016	2015
	$	$
17. INVESTMENT PROPERTY		
Opening balance at 1 July	95,000,000	74,260,497
Add: Additions for the period	534,268	821,450
Add/(Less): Net gain/(loss) from fair value adjustment (17 (a))	12,465,732	19,918,053
Closing Balance at 30 June	108,000,000	95,000,000

17 (a): Determining fair value

(i) As stated in the accounting policy note, Investment properties are stated at fair value. The fair value of the investment property has been determined at $108,000,000 based on valuation performed by Knight Frank Valuations Victoria (KF), an accredited independent valuer, as at 14th June 2016. KF is a specialist firm in valuing these types of investment properties. The directors reviewed the valuation at the reporting date and determined the fair value of the property at $108,000,000. The directors' estimate of the fair value of investment property is based on the KF's valuation for the property, amended for changes (if any) to the leasing and market conditions at the reporting date. The key assumptions used in the director's estimate of the fair value are listed below as 17(a)(ii). All of the key assumptions have been compared to the last independent valuation report for the investment property.

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

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

The following primary inputs have been used

CAP approach assumptions		DCF approach assumptions	
Adopted Cap Rate	6.75%	Discount Rate	8.00%
		Terminal Yield	7.25%
		Weighted rental growth (Average 10 years)	3.70%
		CPI (Average 10 years)	2.40%

	Consolidated Group 2016 $	Consolidated Group 2015 $
17(b). Investment property pledged as security		
303 Collins Street, Melbourne		
- Carrying amount	108,000,000	95,000,000
- Loan facility	45,000,000	45,000,000

18. PLANT AND EQUIPMENT

	2016 $	2015 $
Leasehold improvements:		
At cost	943,065	943,065
less: Accumulated depreciation	(336,910)	(269,528)
	606,155	673,537
Plant and machinery:		
At cost	334,181	334,181
less: Accumulated depreciation	(312,860)	(305,067)
	21,321	29,114
Office equipment, furniture and fittings:		
At cost	816,005	760,659
less: Accumulated depreciation	(648,092)	(593,239)
	167,913	167,420
	795,389	870,071

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

CONSOLIDATED GROUP	Leasehold improvements $	Plant and machinery $	Office equipment, Furniture and fittings $	Total $
Balance at beginning of the year	673,537	29,114	167,420	870,071
Additions	-	-	55,348	55,348
Deductions/Adjustments	-	-	-	-
Depreciation expense	(67,382)	(7,793)	(54,855)	(130,030)
Carrying amounts at end of year	606,155	21,321	167,913	795,389

	Consolidated Group	
	2016	2015
	$	$
19. OTHER ASSETS		
CURRENT		
Prepayments	588,704	572,190
Hotel stocks	18,108	9,654
Other debtors	38,967	6,679
	645,779	588,523
NON-CURRENT		
Prepayments	2,756,516	2,684,215
Other debtor	56,793	56,796
	2,813,309	2,741,011

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	689,964	908,344
Sundry payables and accrued expenses	539,795	1,006,317
	1,229,759	1,914,661
NON-CURRENT		
Unsecured liabilities:		
Tenant's incentive	309,554	-
Tenants' bond monies	300,794	322,795
	610,348	322,795

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

21. BORROWINGS		
NON-CURRENT		
Secured liabilities:		
Commercial bills	56,500,000	53,500,000
Total non-current borrowings	56,500,000	53,500,000
Total borrowings	56,500,000	53,500,000

	Consolidated Group	
	2016 $	2015 $
21. BORROWINGS (CONTINUED)		
a. Total current and non-current secured liabilities:		
Commercial bills	56,500,000	53,500,000
	56,500,000	53,500,000
b. The carrying amounts of non-current assets pledged as security are:		
Freehold land and buildings	137,701,959	122,125,800
	137,701,959	122,125,800

c. **Collateral provided**

The commercial bills secured by a first registered mortgage over property at 303 Collins Street Melbourne and Rocklea Homemaker Centre and adjoining residential land in Bendigo (2015: same) owned by the Group.

Covenants imposed by the bank for loan against 303 Collins Street, Melbourne require total bank debt not to exceed 65% (2015: 65%) of total independent valuation of the pledged securities and 1.30 (2015:1.35) times interest cover.

Covenants imposed by the bank for loan against Rocklea Homemaker Centre and adjoining residential land in Bendigo require total bank debt not to exceed 50% (2015: 50%) of total independent valuation of the pledged securities and 2 (2015: 2) times interest cover.

		Consolidated Group	
Maturity Dates	**Effective Interest Rate (%)**	**2016 $**	**2015 $**
30 September 2018	6.15	45,000,000	45,000,000
30 September 2017	4.20	11,500,000	8,500,000
		56,500,000	53,500,000

d. During the year the group increased its loan facility with a limit of $10,500,000 to $12,500,000 to fund its future projects and working capital requirements. This facility is secured against the property at Bendigo - Rocklea Homemaker Centre and adjoining residential land. The total loan facility of the group as at 30 June 2016 was $57,500,000 (2015: $55,500,000), of which a balance of $1,000,000 is available to fund company’s working capital requirement and future development projects.

	Annual Leave	Long Service Leave	Total
	$	$	$
22. PROVISIONS			
Consolidated Group			
Opening balance at 1 July	66,636	246,358	312,994
Additional provisions	9,171	11,944	21,115
Amounts used	-	-	-
Balance at 30 June	75,807	258,302	334,109

	Consolidated Group	
	2016	2015
	$	$
Analysis of total provisions		
Current	287,073	272,876
Non-current	47,036	40,118
	334,109	312,994

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**

	2016	2015
28,927,016 (2015: 28,927,016) ordinary shares each fully paid	19,910,650	19,910,650

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

(b) **Authorised Share Capital**

Authorised share capital consists of 198,000,000 (2015: 198,000,000) ordinary shares and 2,000,000 (2015: 2,000,000) preference shares.

(c) **Share Options**

At 30 June 2016 there were no options outstanding (2015: Nil).

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 2016 and 30 June 2015 are as follows:

	Consolidated Group	
	2016 $	2015 $
Total borrowings	56,500,000	53,500,000
Less Cash and cash equivalents	(924,305)	(992,789)
Net debt	55,575,695	52,507,211
Total equity	101,365,622	92,406,430
Capital Gearing ratio	55%	57%

24. OPERATING SEGMENTS

Segment Information

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

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

Types of products and services by segment

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

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

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

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

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

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

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

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

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

24. OPERATING SEGMENTS (CONTINUED)

	REVENUES		RESULTS		ASSETS		LIABILITIES	
	2016	2015	2016	2015	2016	2015	2016	2015
	$	$	$	$	$	$	$	$
Industry Segments								
Rental of properties	9,780,774	9,416,217	2,039,152	1,882,646	141,064,855	125,403,939	51,686,233	51,631,120
Hotel operation	3,249,066	3,214,715	770,766	780,585	9,048,010	8,982,626	174,569	103,823
Development sites	-	964,000	(1,454,801)	(1,405,957)	27,404,525	27,069,759	-	246,837
Investment at bank	14,373	26,232	14,373	26,232	922,405	888,553	-	-
Administration	-	-	(1,968,332)	(1,748,715)	-	-	-	-
Unallocated items (c)	14,575,734	24,947,921	14,279,127	24,206,857	7,980,677	7,758,931	33,194,048	25,715,598
Total	27,619,947	38,569,085	13,680,285	23,741,648	186,420,472	170,103,808	85,054,850	77,697,378

(a) The above total reconciles to -								
Amount reported in Note 4:								
Group revenue	27,619,947	38,569,085	-	-	-	-	-	-
Amount reported on the Income Statement before Income tax	-	-	13,680,285	23,741,648	-	-	-	-
Amount reported on the Balance Sheet	-	-	-	-	186,420,472	170,103,808	85,054,850	77,697,378
(b) Intra-group rent and outgoings excluded from 'Rental of properties' (above)	756,080	710,625	756,080	710,625	-	-	-	-
(c) Significant non-cash items included in the results (above)								
(i) Gain on fair value adjustment to investment properties	12,465,732	19,918,053	12,465,732	19,918,053	-	-	-	-
(ii) Loss on fair value adjustment to Interest swap	-	-	(296,607)	(741,064)	-	-	-	-
(iii) Recoupment of impairment /(impairment) of inventories	2,002,879	4,958,694	2,002,879	4,958,694	-	-	-	-
(iv) Depreciation	-	-	(130,030)	(133,635)	-	-	-	-

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

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	
	2016	**2015**
	$	**$**
Cash at bank and in hand	924,305	992,789

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

	2016 $	2015 $
Profit (Loss) after income tax	9,537,732	16,610,488
Non-cash flows in profit or loss from ordinary activities:		
Gain on fair value adjustments from investment properties	(12,465,732)	(19,918,053)
Loss on fair value adjustments for interest swap	296,607	741,064
Current year's depreciation	130,030	133,635
Bad Debts written off	9,548	8,826
Loss on disposal/discard of assets	-	-
Write down/(up) of inventory	(2,002,879)	(4,958,694)
Items treated from Financing activities:		
Interest Paid	3,207,726	3,566,094
Interest received	(14,373)	(26,232)
Changes in net assets and liabilities		
(Increase) decrease in:		
Current receivables	(126,833)	85,303
Inventory	(908,046)	(4,284,161)
Other current assets	(57,256)	346,054
Deferred tax assets	(302,066)	365,457
Other non current assets	(72,298)	(395,641)
Increase (decrease) in:		
Payables	(397,349)	295,940
Other creditors	-	-
Deferred tax liability	4,444,619	6,765,703
Current tax payable	-	-
Employee provisions	21,115	50,676
Net cash produced/(used) in operating activities	1,300,545	(613,541)

(c) ***Financing facilities***

	2016 $	2015 $
Secured commercial bank facilities:		
Drawn	56,500,000	53,500,000
Undrawn	1,000,000	2,000,000

25. CASH FLOW INFORMATION (CONTINUED)

(d) ***Interest Rates***

The effective interest rate on short-term bank deposits during the period was approximately Nil% p.a. (2015: Nil% p.a. approximately).

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

There were no non-cash financing and investing activities during the financial years ended 30 June 2016 and 30 June 2015.

26. RELATED PARTY DISCLOSURES

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

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

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

	Transaction Value		**Balance outstanding as at**	
Transaction	**2016**	**2015**	**30/06/16**	**30/06/15**
Consultancy fees*	$55,635	$48,600	$11,880	-

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

(b) **Directors' shareholdings**

As at 30 June 2016, fully paid ordinary shares in Phileo Australia Limited held by directors and their director related entities amounted to 18,240,475 shares representing 63.06% controlling interest (2015: 18,240,475 ordinary shares representing 63.06% controlling interest).

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

(c) **Transactions within the group**

Group entities are disclosed in Note 14: Controlled Entities.

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

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

(d) **Controlling Entities**

The parent entity of the group is Phileo Australia Limited.

27. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

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

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

	Consolidated Group	
	2016	**2015**
	$	**$**
Financial Assets		
Cash	924,305	992,789
Receivables	137,562	20,277
	1,061,867	1,013,066
Financial Liabilities		
Payables	1,840,107	2,237,456
Interest bearing liabilities	56,500,000	53,500,000
Interest swap – fair value through profit and loss account	5,201,082	4,904,475
Income tax payable	129,216	129,216
Loan from minority shareholder	-	7,520
	63,670,405	60,778,667
Net Position	(62,608,538)	(59,765,601)

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 2016 was mainly due to borrowings to assist the acquisition of 303 Collins Street, Melbourne, funding of development of Stage 2 of the Rocklea Homemaker Centre and the group's investments and working capital requirements.

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

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

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

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 2016, 80% 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. Melbourne of $45,000,000. The net interest payment, or receipt settlements of the swap contracts occur on every 1st working day of each month 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 (80%) (2015: $45,000,000 – 84%) are to pay-fixed interest rate swaps, are as follows:

Consolidated Group	**Effective Average Fixed Interest Rate Payable**		**Notional Principal**	
	2016	**2015**	**2016**	**2015**
	%	**%**	**$**	**$**
Maturity of notional amounts				
Less than 1 year			-	-
1 to 2 Years	4.20%	4.29%	11,500,000	8,500,000
2 to 5 years	6.15%	7.17%	45,000,000	45,000,000
			56,500,000	53,500,000

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

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

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

	Consolidated Group	
	2016	**2015**
	$	**$**
Financial Assets		
Cash	924,305	992,789
	924,305	992,789
Financial Liabilities		
Interest bearing liabilities	56,500,000	53,500,000
	56,500,000	53,500,000
Net Position	(55,575,695)	(52,507,211)

As in the previous financial year end, the deficit in the net position at 30 June 2016 was mainly due to borrowings to assist in the acquisition of 303 Collins Street, Melbourne and development of Stage 2 of the Rocklea Homemaker Centre and the group's investment and working capital requirements. Borrowings by the group includes commercial bills which are interest bearing at commercial interest rates sourced from an Australian financial institution.

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)	
	2016	2015	2016	2015
	$	$	$	$
Consolidated group				
Plus 1% (100 basis points)	(548,377)	(511,524)	(548,377)	(511,524)
Minus 1% (100 basis points)	548,377	511,524	548,377	511,524
Parent Entity				
Plus 1% (100 basis points)	(98,377)	(61,524)	(98,377)	(61,524)
Minus 1% (100 basis points)	98,377	61,524	98,377	61,524

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 realisable value by transacting at the higher end of the cycle. Type of property, location and timing of transactions are therefore critical in mitigating price risk. Where possible the Board seeks opportunities to diversify the type of properties held by obtaining other revenue streams.

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)	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Consolidated group				
Plus 1% (100 basis points)	1,464,240	1,308,478	1,464,240	1,308,478
Minus 1% (100 basis points)	(1,464,240)	(1,308,478)	(1,464,240)	(1,308,478)
Parent Entity				
Plus 1% (100 basis points)	384,240	358,478	384,240	358,478
Minus 1% (100 basis points)	(384,240)	(358,478)	(384,240)	(358,478)

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

The liquidity profile of the financial instruments of the group demonstrates that, based on the closing position as at 30 June 2016 the company has sufficient cash and undrawn funds to meet the short-mid term financing obligations. As reported in Note 21(d), during the year, the group increased the loan facility secured against the Bendigo property to $12.5 million. The group has undrawn amount of $1 million from this facility to fund its working capital requirements. The overall deficit position in the consolidated group is due to part of the interest bearing liability used to fund the acquisition of 303 Collins Street, Melbourne and development of Stage 2 of the Rocklea Homemaker Centre. The group intends to renew the borrowing facilities at the end of the term to manage its liquidity position.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity Risk (Continued)

Liquidity Profile

	Balance at 30/06/2016 $	0-6 months $	6-12 months $	Over 1 year Less than 5 years $	Over 5 years $	Total $
Consolidated Group:						
Financial Assets						
Cash	924,305	924,305	-	-	-	924,305
Receivables	137,562	137,562	-	-	-	137,562
	1,061,867	1,061,867	-	-	-	1,061,867
Financial Liabilities						
Payables	1,840,107	1,229,759	-	610,348	-	1,840,107
Interest bearing liability	56,500,000	-	-	56,500,000	-	56,500,000
Interest swap – fair value through profit and loss account	5,201,082	-	-	-	5,201,082	5,201,082
Income tax payable	129,216	-	129,216	-	-	129,216
Dividend payable	-	-	-	-	-	-
Loan from minority shareholder	-	-	-	-	-	-
	63,670,405	1,229,759	129,216	57,110,348	5,201,082	63,670,405
Net Position	(62,608,538)	(167,892)	(129,216)	(57,110,348)	(5,201,082)	(62,608,538)

	Balance at 30/06/2015 $	0-6 months $	6-12 months $	Over 1 year Less than 5 years $	Over 5 years $	Total $
Consolidated Group:						
Financial Assets						
Cash	992,789	992,789	-	-	-	992,789
Receivables	20,277	20,277	-	-	-	20,277
	1,013,066	1,013,066	-	-	-	1,013,066
Financial Liabilities						
Payables	2,237,456	1,914,661	-	322,795	-	2,237,456
Interest bearing liability	53,500,000	-	-	53,500,000	-	53,500,000
Interest swap – fair value through profit and loss account	4,904,475	-	-	-	4,904,475	4,904,475
Income tax payable	129,216	-	129,216	-	-	129,216
Dividend payable	-	-	-	-	-	-
Loans from minority shareholder	7,520	7,520	-	-	-	7,520
	60,778,667	1,922,181	129,216	53,822,795	4,904,475	60,778,667
Net Position	(59,765,601)	(909,115)	(129,216)	(53,822,795)	(4,904,475)	(59,765,601)

	Consolidated Group	
	2016	2015
	$	$

28. RETAINED PROFITS AND RESERVES

Retained profits at beginning	72,483,734	56,468,665
(Loss) profit for the financial year attributable to members of the parent entity	9,536,239	16,593,609
Dividends provided	(578,540)	(578,540)
Retained profits at end	81,441,433	72,483,734
Capital profits	13,539	13,539

There was no movement in capital profits reserves during the financial year (2015: $Nil).

29. LOAN FROM MINORITY SHAREHOLDER

Loan from minority shareholder at fair value	-	7,520

30. RENTAL LEASE RECEIVABLES

Non-cancellable operating leases:		
No longer than one year	8,427,755	7,048,485
Longer than one year and not longer than 5 years	18,182,776	15,871,845
Longer than 5 years	4,792,984	3,008,130
Future rental lease receivables	31,403,515	25,928,460

(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 $9,780,774 (2015: $9,416,217)

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.

30. RENTAL LEASE RECEIVABLES (CONTINUED)

(b) As at 30 June 2016, the group owned properties at McCrae Street (Dandenong), Rocklea Homemaker Centre (Kangaroo Flats, Bendigo) and 303 Collins Street, Melbourne that are being leased to various tenants over varying periods and are secured by non-cancellable operating lease contracts.

(c) As at 30 June 2016 the carrying value of leasable properties was $146,423,959 (2015: $130,847,800) and the net lettable area was 43,990 square metres (2015: 43,990 square metres).

	Consolidated Group	
	2016	**2015**
	$	**$**
Rental properties	104,537,637	103,430,089
Fair value adjustments	45,691,580	33,225,848
Write (downs) to net realisable value	(3,627,258)	(5,277,337)
Provision for selling costs	(178,000)	(530,800)
Net rental properties	146,423,959	130,847,800
Other properties, including land	27,404,525	27,069,759
Total properties	173,828,484	157,917,559
Total write (downs)/up to net realisable value during the year	14,468,611	24,876,747

31. ECONOMIC DEPENDENCY

The group 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 (2015: final dividend $0.02 fully franked). The dividend was declared after 30 June 2016 and has not been provided for in the accounts as at 30 June 2016.

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	510,585	-

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

ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 19 SEPTEMBER 2016

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 279 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	48	19,919	0.069
1,001-5,000	155	403,497	1.395
5,001-10,000	37	278,204	0.962
10,001-100,000	22	596,450	2.062
100,001-99,999,999,999	17	27,628,946	95.512
Totals	**279**	**28,927,016**	**100.000**

Holdings less than a marketable Parcel

1-57	**11**	178	0.0006

Substantial Shareholders

Ordinary Shareholders	Fully Paid Number	%
PAL INVESTMENTS (AUST) PTY LTD	10,053,678	34.755
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,920,381	23.924
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)	1,896,849	6.557
RADIANCE GROUP TRADING LTD	1,470,824	5.085
	25,053,928	86.611

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

ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 19 SEPTEMBER 2016

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	6,920,381	23.924
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	BENGER SUPERANNUATION PTY LIMITED <BENGER SUPER FUND>	463,696	1.603
9	HAYMAN INVESTMENTS CO LTD	381,204	1.318
10	SIENA NOMINEES PTY LTD <THE SLATTERY FAMILY S/F A/C>	302,000	1.044
11	ZELCREST CAPITAL LIMITED	237,422	0.821
12	MR BRIAN GARFIELD BENGER	192,811	0.667
13	MR RUDY ENG WAH KOH & MRS FUI KYUN CHIEW <KOH S/F A/C>	159,834	0.553
14	EQUITY BRIDGE SDN BHD	122,749	0.424
15	KRR INVESTMENTS PTY LTD	115,302	0.398
16	SHANDORA ONE PTY LTD <BENGER SUPER FUND A/C>	68,829	0.238
17	HOMEGOODE NOMINEES PTY LTD <HOMES PROPERTY FUND A/C>	59,116	0.204
18	MRS ROSY SOH	56,045	0.194
19	GARDEN INVESTMENT & TRADE PTY LTD <KEE SAW & CO SUPERFUND A/C>	55,895	0.193
20	PETER & OLGA ABRAHAMS SUPERANNUATION FUND	50,000	0.173
	Total shares held by twenty largest shareholders	27,938,831	96.584
	Total shares held by other shareholders	988,185	3.416
	Total number of shares	28,927,016	100.000

Company Secretary
Tejas Gandhi, Chartered Accountant

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

Share Registry
Boardroom Pty Limited
(ABN 14 003 209 836)
Level 12, 225 George Street
Sydney NSW 2000
(Correspondence: GPO Box 3993, Sydney 2001)
General Ph: (61 2) 9290 9600
Fax: (61 2) 9279 0664
Contact: 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".

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