

APPENDIX 4D Half Year Report

Entity:	Galileo Japan Trust (ARSN 122 465 990)
Current period:	1 July 2014 – 31 December 2014
Previous corresponding period:	1 July 2013 – 31 December 2013

Results for announcement to the Market

						(\$ '000)
Revenues from ordinary activities	Down	70.6%	from	31,273	to	9,207
Profit from ordinary activities attributable to unitholders of the Trust	Down	87.6%	from	22,841	to	2,822
Net profit for the period attributable to unitholders of the Trust	Down	87.6%	from	22,841	to	2,822

Distributions to unitholders	Amount per unit (cents)
<i>Previous corresponding period:</i> Interim distribution	3.5
<i>Current period:</i> Interim distribution	6.7
Record date to determine entitlement to interim distribution	31 December 2014

Note: Franked amount per unit is not applicable

Distribution reinvestment plan (DRP)

The Trust's Distribution Reinvestment Plan (DRP) was not in operation during the period.

Explanation and discussion of the above results

The significant variance in the revenue and profit comparison to the previous corresponding period above is due to the previous corresponding period including a gain from debt forgiveness of \$26.1 million relating to a loan facility that was repaid at a discount during that period. Refer to the associated ASX results presentation and related announcement for further details on the results for the half-year ended 31 December 2014.

Net Asset Value

	31 December 2014	30 June 2014
Net asset value per unit	\$2.15	\$2.19

Details of controlled entities and associates

There were no new entities over which control was gained during the period, nor any associates or joint venture entities that became part of the consolidated group during the period.

Accounting standards used by foreign entities

Refer to note 2 'Summary of significant accounting policies' in the attached financial report.

Financial report of the Trust for the half-year ended 31 December 2014

The financial report of the Trust for the half-year ended 31 December 2014 is attached to this announcement.

Other significant information

Refer to the Directors' report which is attached to this announcement along with the associated ASX results presentation and announcement.

Compliance statement

This Appendix 4D is based on the financial statements of the Trust for the half-year ended 31 December 2014 which have been reviewed by PricewaterhouseCoopers. Refer to the financial statements for a copy of their review report.

GALILEO JAPAN TRUST

ARSN 122 465 990

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

GALILEO JAPAN TRUST
Financial Report
For the half-year ended 31 December 2014

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GALILEO JAPAN TRUST
Directors' Report
For the half-year ended 31 December 2014

The Directors of Galileo Japan Funds Management Limited, the responsible entity (Responsible Entity) of Galileo Japan Trust submit herewith the financial report of Galileo Japan Trust (the 'Trust') for the half-year ended 31 December 2014.

All amounts in this report are in Australian dollars unless otherwise stated.

Corporate Information

The Trust was registered with the Australian Securities and Investments Commission on 10 November 2006 and listed on the Australian Securities Exchange (ASX) on 18 December 2006. The Responsible Entity of the Trust is incorporated and domiciled in Australia, with its registered office located at Level 9, 1 Alfred Street, Sydney, NSW 2000.

Directors

The following persons have held office as directors of the Responsible Entity during the half-year ended 31 December 2014 and up to the date of this report:

Jack Ritch	- Independent Non-Executive Chairman
Philip Redmond	- Independent Non-Executive Director
Frank Zipfinger	- Independent Non-Executive Director
Neil Werrett	- Managing Director and Chief Executive Officer
Peter Murphy	- Executive Director and Chief Operating Officer

During the half-year ended 31 December 2014 there were 9 directors meetings held and all directors were present.

Principal Activity of the Trust

The principal activity of the Trust is to maximise the returns for unitholders via an indirect investment in a Japanese Tokumei Kumiai ('TK Business') which owns a diverse portfolio of real estate assets in Japan.

Operating and Financial Review

Japanese TK Business debt refinancing

As announced to the market in October 2014 the Japanese TK Business completed an early refinance of the Eurobonds ("Refinance") that were issued in October 2013. The Refinance (including associated costs) was funded with new mezzanine loans totalling ¥6.00 billion (A\$62.9 million) as well as the net cash proceeds released from the sale of Lions Square in July 2014.

Key points of the Refinance were as follows:

- The maturity date of the new mezzanine loans is the same as the existing senior loan (October 2018);
- The average "all-in" interest rate on the new mezzanine loans (including an interest rate swap on ¥2.0 billion of the principal for the duration of the loan) is 3.3% p.a.;
- Upfront fee on the new mezzanine loans of 1.0%;
- The new mezzanine loans do not require any principal amortisation (being interest only) and do not include loan to value covenant tests;
- The Eurobonds were issued in October 2013 at a par value of ¥6.12 billion (A\$64.2 million), a fixed interest coupon of 8.0% per annum, and a maturity date of October 2020. The par value immediately prior to the Refinance was ¥5.90 billion (A\$61.8 million). The Eurobonds had a three year lock out period during which early repayment was not permitted, other than when assets were sold. The Japanese TK Business negotiated to pay ¥6.49 billion (A\$68.0 million), including accrued interest, to acquire all the Eurobonds effective 24 October 2014; and
- An increase in funds from operations allowing for the increase in distribution guidance from 13.5 cents per unit to 15.0 cents per unit for the financial year ending 30 June 2015, reflecting the interest expense savings from the date of the Refinance (24 October 2014) to 30 June 2015.

Operating and Financial Review (continued)

Sale of two Japanese TK Business investment properties

On 24 July 2014, the Japanese TK business completed the sale of its beneficial interest in Lions Square, located in Saitama prefecture, Greater Tokyo for ¥2.4 billion (\$25.0 million). The sale price represented a 32.5% premium to the last independent valuation of ¥1.8 billion (\$18.9 million) as at 31 December 2013.

On 12 December 2014, the Japanese TK business completed the sale of its beneficial interest in Doshoumachi, located in Osaka, for ¥800 million (\$8.1 million). The sale price represented a 14% premium to the last reported book value of ¥702 million (\$7.1 million) as at 30 June 2014.

Financial results

Through its indirect investment in the Japanese TK Business, the Trust holds a beneficial interest in 19 properties (30 June 2014: 21 properties). The fair value of investment property held by the TK Business is a significant component of the fair value of the Trust's investment in the TK Business. At 31 December 2014 the fair value of investment property equates to ¥55.95 billion (\$570.7 million) which is up 1.0% (in Japanese yen terms) from 30 June 2014 (¥55.4 billion; \$580.7 million) on a like-for-like basis however, decreased in Australian dollar terms as a result of the weaker Japanese yen. The 31 December 2014 value has been determined using independent valuations for six properties prepared by DTZ Debenham Tie Leung KK, with the remainder of the portfolio being the Directors' assessment of fair value.

Key points relating to the financial result for the half-year ended 31 December 2014 are summarised below.

- Net profit for the period of \$2.8 million (31 December 2013: \$22.8 million). The profit for the previous corresponding period included a gain from debt forgiveness of \$26.1 million relating to a loan facility that was repaid at a discount;
- Fair value gain on financial assets held at fair value through profit or loss for the half-year of \$9.1 million (31 December 2013: \$5.2 million);
- Net asset value of \$2.15 per unit at 31 December 2014 (30 June 2014: \$2.19);
- Unrealised foreign exchange loss for the period of \$5.7 million as a result of the weaker average Japanese yen (\$1.00 = ¥98.04) compared to 30 June 2014 (\$1.00 = ¥95.43);
- At 31 December 2014 current liabilities exceed current assets by \$2.1 million due to the provision for distribution of \$7.1 million that will be paid to unitholders on 27 February 2015. The Trust received \$4.6 million from the TK Business in February 2015 relating to the December quarter operations, which, when combined with cash already held by the Trust, will be used to fund the distribution payment. As a result, the Directors believe there are reasonable grounds that, at the date of this report, the Trust will be able to pay its debts as and when they become due and payable.

The foreign exchange rate at the balance date was A\$1=¥98.04 (30 June 2014: A\$1=¥95.43) while the average foreign exchange rate for the half-year ended 31 December 2014 was A\$1=¥96.97 (31 December 2013: A\$1=¥95.43).

Distributions

As announced to the market on 19 December 2014 the Trust will pay an interim distribution equivalent to 6.7 cents per unit on 27 February 2015. The Trust's Distribution Reinvestment Plan (DRP) is not in operation.

Significant changes in the state of affairs

In the opinion of the Directors of the Responsible Entity, other than the matters discussed above, including the TK Business debt refinancing, there were no significant changes in the state of affairs of the Trust that occurred during the half-year ended 31 December 2014 and up to the date of this report.

Events subsequent to balance date

The Trust announced to the market on 12 December 2014 that it was initiating an on-market unit buy-back. Should market conditions permit, the Trust intends to buy back up to the lesser of \$1.9 million and 10% of the issued capital (106,444,665) of the Trust. The on-market unit buy-back commenced on 5 January 2015 and as at the date of this report 306,748 units have been bought back by the Trust for \$517,437 and subsequently cancelled, resulting in units on issue for the Trust at the date of this report being 106,137,917.

The Directors are not aware of any matter or circumstance occurring since 31 December 2014 not otherwise dealt with in the financial report that has significantly or may significantly alter the operations of the Trust, the results of those operations or the state of affairs of the Trust in subsequent financial periods.

Rounding of amounts

The Trust is a registered scheme of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission relating to the 'rounding off' of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 forms part of this report and is set out on page 6.

This report is signed in accordance with a resolution of the Directors of the Responsible Entity.



Jack Ritch
Chairman
Sydney, 26 February 2015



Auditor's Independence Declaration

As lead auditor for the review of Galileo Japan Trust for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'E A Barron', with a large, stylized 'A' and a long horizontal stroke extending to the right.

E A Barron
Partner
PricewaterhouseCoopers

Sydney
26 February 2015

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GALILEO JAPAN TRUST
Income Statement
For the half-year ended 31 December 2014

		31 December 2014	31 December 2013
	Note	\$'000	\$'000
Revenue and other income			
Fair value gain on financial assets held at fair value through profit or loss	4	9,078	5,201
Debt forgiveness – foreign currency loan facility		-	26,061
Realised foreign exchange gain		125	-
Interest and other income		4	11
Total revenue and other income		9,207	31,273
Expenses			
Finance costs – foreign currency loan facility		-	(1,045)
Responsible entity fees and costs		(317)	(315)
Professional fees		(178)	(203)
Other expenses		(201)	(127)
Unrealised foreign exchange loss		(5,689)	(6,742)
Total expenses		(6,385)	(8,432)
Net profit before tax for the half-year		2,822	22,841
Income tax expense		-	-
Net profit after tax for the half-year		2,822	22,841
Basic and diluted earnings per unit	6	\$0.03	\$0.44

The Income Statement should be read in conjunction with the accompanying notes.

GALILEO JAPAN TRUST
Statement of Comprehensive Income
For the half-year ended 31 December 2014

		31 December 2014	31 December 2013
	Note	\$'000	\$'000
Net profit after tax for the half-year		2,822	22,841
Other comprehensive income		-	-
Total comprehensive Income		2,822	22,841

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

GALILEO JAPAN TRUST
Balance Sheet
31 December 2014

		31 December 2014	30 June 2014
	Note	\$'000	\$'000
Assets			
Current Assets			
Cash and cash equivalents		5,031	4,955
Trade and other receivables		270	571
Total Current Assets		5,301	5,526
Non-Current Assets			
Financial asset held at fair value through profit or loss	4	231,068	235,416
Total Non-Current Assets		231,068	235,416
TOTAL ASSETS		236,369	240,942
Liabilities			
Current Liabilities			
Trade and other payables		304	248
Provision for distribution	3	7,132	7,451
Total Current Liabilities		7,436	7,699
TOTAL LIABILITIES		7,436	7,699
NET ASSETS		228,933	233,243
UNITHOLDERS' EQUITY			
Contributed equity	5	528,278	528,278
Accumulated losses		(299,345)	(295,035)
TOTAL EQUITY		228,933	233,243

The Balance Sheet should be read in conjunction with the accompanying notes.

GALILEO JAPAN TRUST
Statement of Changes in Equity
For the half-year ended 31 December 2014

	Contributed Equity \$'000	Accumulated Losses \$'000	Total Equity \$'000
Balance 1 July 2014	528,278	(295,035)	233,243
Profit for the half-year	-	2,822	2,822
Transactions with unitholders in their capacity as unitholders:			
Issue of share capital	-	-	-
Costs incurred in relation to equity issued	-	-	-
Distribution paid or payable	-	(7,132)	(7,132)
Balance 31 December 2014	528,278	(299,345)	228,933
 Balance 1 July 2013	 386,856	 (318,534)	 68,322
Profit for the half-year	-	22,841	22,841
Transactions with unitholders in their capacity as unitholders:			
Issue of share capital	147,500	-	147,500
Costs incurred in relation to equity issued	(5,933)	-	(5,933)
Distribution paid or payable	-	(3,726)	(3,726)
Balance 31 December 2013	528,423	(299,419)	229,004

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

GALILEO JAPAN TRUST
Statement of Cash Flows
For the half-year ended 31 December 2014

	31 December 2014	31 December 2013
	\$'000	\$'000
Cash flows from operating activities		
Interest received	4	11
Operating costs paid	(766)	(3,261)
GST received/(paid)	426	(563)
Net cash outflow from operating activities	(336)	(3,813)
Cash flows from investing activities		
Investment in financial assets held at fair value through profit or loss	-	(123,359)
Distributions received	7,845	343
Net cash inflow/(outflow) from investing activities	7,845	(123,016)
Cash flows from financing activities		
Proceeds from the issue of units	-	147,500
Costs incurred in relation to issue of units	-	(5,933)
Distributions paid	(7,451)	-
Repayment of borrowings	-	(14,086)
Net cash inflow/(outflow) from financing activities	(7,451)	127,481
Net increase in cash and cash equivalents	58	652
Effect of foreign exchange movements on cash	18	(11)
Cash and cash equivalents at the beginning of the period	4,955	510
Cash and cash equivalents at the end of the period	5,031	1,151

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

Note 1. General information

Galileo Japan Trust (the 'Trust') was established pursuant to the Trust Constitution and was registered as a managed investment scheme with the Australian Securities and Investments Commission on 10 November 2006. The Trust was listed on the Australian Securities Exchange on 18 December 2006.

The Trust's aim is to maximise the returns for unitholders via an indirect investment in a Japanese Tokumei Kumiai ('TK Business') which owns a diverse portfolio of real estate assets in Japan.

Note 2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

(a) Basis of preparation

This interim financial report for the half-year ended 31 December 2014 has been prepared in accordance with the requirements of the Trust Constitution, Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual financial report for the year ended 30 June 2014 and any public announcements made by the Trust during the interim period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

At 31 December 2014 current liabilities exceed current assets by \$2.1 million due to the provision for distribution of \$7.1 million that will be paid to unitholders on 27 February 2015. The Trust received \$4.6 million from the TK Business in February 2015 relating to the December quarter operations, which, when combined with cash already held by the Trust, will be used to fund the distribution payment. As a result, the Directors believe there are reasonable grounds that, at the date of this report, the Trust will be able to pay its debts as and when they become due and payable.

The financial report was approved by the Board of Directors on 26 February 2015.

(b) Significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Comparatives

Where applicable, certain comparative figures are restated in order to comply with the current half-year presentation of the financial statements.

New and Amended Accounting Standards

There have been no new or revised accounting standards or interpretations which are effective from the periods beginning on or after 1 July 2014 that impact the interim financial results.

(c) Critical accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the amounts of assets and liabilities reported at the end of the period and the amounts of revenues and expenses recognised during the reporting period. Although the estimates are based on management's best knowledge, actual results may ultimately differ from these. Where any such judgements are made they are indicated within the relevant accounting policies and related note in the financial statements. The estimates and assumptions that have a significant risk of causing a material adjustment to the fair value of assets and liabilities within the financial statements of the Trust are described in Note 4 *Financial asset at fair value through profit or loss*.

(d) Rounding of amounts

The Trust is a registered scheme of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission relating to the 'rounding off' of amounts in the directors' report and the financial statements. Amounts in the directors' report and the financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Note 3. Provision for Distribution

As announced to the market on 19 December 2014 the Trust will pay an interim distribution equivalent to 6.7 cents per unit on 27 February 2015. The provision for distribution for the half-year ended 31 December 2014 is \$7,131,793 (31 December 2013: 3,725,563).

Note 4. Financial asset at fair value through profit or loss

The Trust's interest in the portfolio of real estate assets in Japan is via a Tokumei Kumiai (TK) investment structure. Under Japanese commercial law, a TK is not a legal entity but a contractual relationship or a series of contractual relationships between one or more TK investors and the TK operator. In a TK arrangement, the TK investor makes TK investments into the business of an operator as defined by the TK agreement governing the arrangement.

The TK operator exclusively conducts the business in its own name and under its sole control in accordance with the TK agreement. The TK investor (in this case the Trust) has no rights to make any business decisions with respect to the TK business and has no voting rights in relation to the TK operator. Under the TK agreement, the TK investor is entitled to a proportional share of the profits and losses of the TK business which, in the case of the Trust, is 97%.

Determination of fair value

Fair value hierarchy

Financial instruments measured at fair value are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The three levels are:

- **Level 1** – valued by reference to quoted prices in active markets for identical assets or liabilities;
- **Level 2** – valued using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- **Level 3** – valued using valuation techniques or models that are based on unobservable inputs.

The fair value of the financial instrument held at balance date is derived using valuation techniques or models that are based on unobservable inputs and are therefore classified as Level 3 on the fair value hierarchy.

The Trust holds no Level 1 or Level 2 financial assets or liabilities.

The following table shows recurring financial assets that are measured at fair value at each balance date.

	31 December 2014	30 June 2014
	\$'000	\$'000
Financial asset held at fair value through profit or loss:		
Unlisted investments (Level 3)	231,068	235,416

Note 4. Financial asset at fair value through profit or loss

The following table shows a reconciliation of the opening balance to the closing balance for unlisted investments in Level 3 of the fair value hierarchy. The fair value of the unlisted investment is determined in Japanese yen and translated at the relevant period end foreign exchange rate.

	31 December 2014	30 June 2014
	\$'000	\$'000
Unlisted investment - balance at the beginning of the period	235,416	109,605
Fair value gain recognised in income statement	9,078	21,178
Investment in TK Business	-	123,359
Distributions from TK Business	(7,623)	(8,714)
Foreign exchange movements	(5,803)	(10,012)
Unlisted investment - balance at the end of the period	231,068	235,416

The fair value gain recognised in the income statement includes an unrealised gain of \$4.7 million relating to investment property revaluations and an unrealised loss of \$0.05 million relating to the mark-to-market of the interest rate swap (30 June 2014: unrealised gain \$8.4 million relating to investment property revaluations and \$2.8 million unrealised loss relating to the mark-to-market of the interest rate swap). Also see Note 7 *Segment information* for further details.

Fair value techniques using unobservable inputs

The fair value of the investment in the TK Business at balance date is determined by reference to the assets and liabilities of the underlying investment at balance date. The key components of the assets and liabilities of the TK Business are the investment properties and borrowings which are summarised in Note 7 *Segment information*.

(i) Investment property

At each reporting date the fair value of the Trusts indirect investment in the TK's investment property portfolio is assessed by the Directors. Fair value is determined based on either an independent market valuation by professionally qualified valuers or an assessment by the Directors. Independent valuations of the investment properties are obtained at least every three years, whenever the Responsible Entity believes there may have been a significant change in fair value within the period or to confirm current market valuation benchmarks, such as capitalisation rates and market rents. Where a property has not been independently revalued during the reporting period the Directors make an assessment of fair value and if that assessment results in the fair value movement being greater than 5% of the previous carrying value, a valuation adjustment is recorded.

The fair value of investment property is primarily determined by reference to the capitalisation of income method and the discounted cashflow method. These methods require assumptions and judgement in relation to the future receipt of contractual rents, expected future market rents, rental void periods, maintenance requirements, property capitalisation rates or estimated yields and make reference to market evidence of transaction prices for similar properties. If such prices are not available then the fair value of investment properties is determined using assumptions that are mainly based on market conditions existing at each balance date.

Six investment properties have been independently valued by DTZ Debenham Tie Leung KK (DTZ) at 31 December 2014.

GALILEO JAPAN TRUST
Notes to the Financial Statements
For the half-year ended 31 December 2014

Note 4. Financial asset at fair value through profit or loss (continued)

The table below shows the movement in the TK Business investment properties from the previous reporting period.

	31 December 2014	30 June 2014
	\$'000	\$'000
Fair value at the beginning of the period	613,015	626,146
Additions to investment property	727	2,708
Sold during the period	(33,026)	-
Revaluation adjustments	4,729	9,028
Foreign currency translation movements	(14,760)	(24,867)
Fair value at the end of the period	570,685	613,015

The table below summarises (by property segment) the fair value of the TK Business investment properties.

TK Business investment properties	Fair Value	Fair Value
	31 December 2014	30 June 2014
	\$'000	\$'000
Retail/Leisure	222,766	227,392
Office	233,272	243,110
Residential	78,845	79,849
Mixed Use (Confomall)	13,770	14,199
Mixed Use (Lions Square)	-	24,992
Industrial	22,032	23,473
Total	570,685	613,015

(ii) Borrowings (TK Business)

The TK Business has three borrowing facilities which are carried at amortised cost. The balance of each facility at 31 December 2014 approximates fair value. Further details of these borrowings are included in Note 7 *Segment information*.

Note 5. Contributed equity

	31 December 2014	30 June 2014
	\$'000	\$'000
Contributed equity at the beginning of the period	528,278	386,856
Equity issued during the period	-	147,500
	528,278	534,356
Costs incurred in relation to the equity issued during the period	-	(6,078)
Contributed equity at the end of the period	528,278	528,278

	31 December 2014	30 June 2014
	(Units)	(Units)
Number of units on issue at the beginning of the period	106,444,665	8,111,332
Number of units issued during the period	-	98,333,333
Number of units on issue at the end of the period	106,444,665	106,444,665

As stipulated in the Trust Constitution, each unit represents the right to an individual share in the Trust and does not extend to a right to the underlying assets of the Trust. There are no separate classes of units. Each unit issued ranks equally for the purpose of distributions, voting and in the event of termination of the Trust.

The Trust announced to the market on 12 December 2014 that it was initiating an on-market unit buy-back. Refer Note 11 *Events subsequent to balance date* for further details.

GALILEO JAPAN TRUST
Notes to the Financial Statements
For the half-year ended 31 December 2014

Note 6. Earnings per unit

	31 December 2014	31 December 2013
Basic and diluted earnings (per unit)	\$0.03	\$0.44
Profit used in the calculation of earnings per unit (\$'000)	\$2,822	\$22,841

There are no dilutive potential ordinary units, therefore diluted EPU is the same as basic EPU. The weighted average number of units used in determining basic and diluted loss per unit (EPU) is 106,444,665 (2013: 52,468,216).

Note 7. Segment information

As disclosed in Note 4 *Financial asset at fair value through profit or loss*, the Trust has an indirect investment in a TK Business in Japan. The TK Business owns a diverse portfolio of real estate assets in Japan, has borrowings and other assets and liabilities. The TK Business is the key reporting segment that management analyse in assessing the underlying components of the Trust's investment.

The figures in this segment note represent 100% of the operating results and net assets of the TK Business. The contractual arrangement between the Trust and the TK Business entitles the Trust to 97% of the profits and losses of the TK Business and 98.5% of the TK Business net assets.

TK Business assets and liabilities

	31 December 2014 \$'000	30 June 2014 \$'000
TK Business assets		
Cash and cash equivalents	16,199	10,216
Restricted cash	37,695	34,658
Other TK Business assets	4,461	5,888
Investment property (refer Note 4 for details)	570,685	613,015
Total TK Business assets	629,040	663,777
TK Business liabilities		
Other TK Business liabilities	(9,699)	(10,384)
Tenant security deposits	(31,703)	(34,566)
Interest rate swap liability	(2,617)	(2,684)
Borrowings (refer below for details)	(350,377)	(377,369)
Total TK Business liabilities	394,396	(425,003)
TK Business net assets	234,644	238,774
Non-controlling interest share of TK Business net assets	(3,576)	(3,358)
Investment in TK Business	231,068	235,416
Trust assets	5,301	5,526
Total Trust assets	236,369	240,942

Note 7. Segment information (continued)

TK Business borrowings

	Maturity date	31 December 2014	30 June 2014
		\$'000	\$'000
Non-Current			
Senior bank loan (i)	October 2018	289,841	314,367
Mezzanine loan – senior (ii)	October 2018	30,268	-
Mezzanine loan – junior (iii)	October 2018	30,268	-
Eurobonds (iv)		-	63,002
Total TK Business borrowings		350,377	377,369

As announced to the market in October 2014 the Japanese TK Business completed an early refinance of the Eurobonds ("Refinance") that were issued in October 2013. The Refinance was funded with new mezzanine loans totalling ¥6.00 billion (A\$62.9 million) as well as the net cash proceeds released from the sale of Lions Square in July 2014.

Details of the TK Business loan facilities are included below.

(i) Senior bank loan

This ¥30.0 billion loan facility is denominated in Japanese yen, is secured by a mortgage over 19 investment properties and contains cross default provisions with the Mezzanine loans. The loan balance at 31 December 2014 is ¥28.4 billion (\$289.8 million) (June 2014: ¥30.0 billion) following a partial repayment using proceeds from the two investment properties sold during the half-year ended 31 December 2014. The maturity date is 11 October 2018 and the loan has an interest rate margin of 1.25% over 3-month Japanese LIBOR. There are no undrawn amounts for this facility and no loan to value (LTV) covenant test. There is a quarterly DSCR covenant test using a threshold of 1.9x. The actual DSCR for the December 2014 quarter was 2.3x (June 2014 quarter 2.3x).

There is a coterminous interest rate swap associated with this loan facility to swap floating interest rate payments to fixed interest rate payments. The notional value of the interest rate swap is ¥24.0 billion and the fixed rate payable under the swap agreement is 0.4%. Through the use of this interest rate swap the effective interest rate per annum on this loan was 1.61% for the half-year ended 31 December 2014.

(ii) Mezzanine loan - senior

This ¥3.0 billion loan was entered into as part of the refinance undertaken in October 2014. It is a Japanese yen denominated loan with a balance at 31 December 2014 of ¥2.97 billion (\$30.3 million) following a partial repayment using proceeds from the investment property sold in December 2014. The loan has a maturity date of 11 October 2018 and an interest rate of 1.25% over 3-month Japanese LIBOR. There is no principal amortisation requirement and no loan to value covenants. There is no DSCR test for this loan.

There is a coterminous interest rate swap associated with this Mezzanine loan facility to swap floating interest rate payments to fixed interest rate payments. The notional value of the interest rate swap is ¥2.0 billion and the fixed rate payable under the swap agreement is 0.24%. Through the use of this interest rate swap the effective interest rate per annum on this loan was 1.45% for the half-year ended 31 December 2014.

Note 7. Segment information (continued)

TK Business borrowings

(iii) Mezzanine loan - junior

This ¥3.0 billion loan was entered into as part of the refinance undertaken in October 2014. It is a Japanese yen denominated loan with a balance at 31 December 2014 of ¥2.97 billion (\$30.3 million) following a partial repayment using proceeds from the investment property sold in December 2014. The loan has a maturity date of 11 October 2018 and an interest rate of 5.05% over 3-month Japanese LIBOR. There is no principal amortisation requirement and no loan to value covenants. There is no DSCR test for this loan.

(iv) Eurobonds

The Eurobonds were repaid as part of the refinance undertaken in October 2014. The Eurobonds were issued in October 2013 at a par value of ¥6.12 billion (A\$64.2 million), a fixed interest coupon of 8.0% per annum, and a maturity date of October 2020. The par value immediately prior to repayment was ¥5.90 billion (A\$61.8 million). The Eurobonds had a three year lock out period during which early repayment was not permitted, other than when assets were sold. The Japanese TK Business negotiated to pay ¥6.49 billion (A\$68.0 million) to acquire all the Eurobonds effective 24 October 2014.

TK Business operating result

The executive team measures and evaluates the performance of the Trust's investment in the TK Business on a fair value basis and also reviews the underlying operating performance of the TK Business. Additional information on the underlying operating performance of the TK Business as well as the fair value adjustments recorded by the Trust is noted below.

	31 December 2014 \$'000	31 December 2013 \$'000
TK Business operating performance		
Rental income	27,364	28,357
Other income	36	12
Property expenses	(9,237)	(10,111)
Finance costs	(4,398)	(9,062)
Amortisation of finance costs	(1,818)	(733)
Premium on Eurobond repayment	(5,082)	-
Unrealised loss interest rate swap	(5)	(1,048)
Investment property revaluations	4,729	407
Operating expenses	(2,289)	(2,455)
Non-controlling interest	(222)	(166)
Fair value gain recognised in the income statement	9,078	5,201
Trust operating income	129	26,072
Trust operating expenses	(6,385)	(8,432)
Net profit before income tax for the period	2,822	22,841

GALILEO JAPAN TRUST
Notes to the Financial Statements
For the half-year ended 31 December 2014

Note 8. Cash and cash equivalents

	31 December 2014	30 June 2014
	\$'000	\$'000
Trust operating accounts	5,031	4,955
	5,031	4,955

Note 9. Related party disclosures

Responsible Entity Fees

	31 December 2014	31 December 2013
	\$'000	\$'000
Responsible entity fee	317	148
Cost recovery charge	-	167
Total amount paid/payable to the Responsible Entity	317	315

Under the terms of the Trust Constitution, the Responsible Entity is entitled to receive a base responsible entity fee up to 0.4% per annum of the Trust's direct and indirect proportionate interest (i.e. 98.5%) in the investment properties and other assets held in the TK Business. As the Galileo asset manager in Japan charges a fund management fee of 0.3% per annum, the Responsible Entity fee charged in Australia is 0.1% per annum.

Directors interest in the Trust

The number of units held, either directly or indirectly, by the directors of the Responsible Entity at balance date is outlined below along with their entitlement to the estimated distribution for the six months ended 31 December 2014. There are no options to buy units in the Trust held by any of the Directors of the Responsible Entity.

	Distribution Due	Units held 31 December 2014	Units held 30 June 2014
Jack Ritch	\$1,407	21,000	9,540
Philip Redmond	\$670	10,000	10,000
Frank Zipfinger	\$1,340	20,000	11,000
Neil Werrett*	\$257,840	3,848,364	3,848,364
Peter Murphy	\$1,126	16,803	16,803

* These units are owned by Galileo Japan Funds Management Limited and Galileo Investments Japan Pty Ltd.

Note 9. Related party disclosures (continued)

Related Party Transactions

The items below represent amounts paid or payable to related parties.

	31 December 2014 \$'000	31 December 2013 \$'000
Fund management fee (TK operator services) – Galileo Japan K.K.	954	1,009
Asset management fee (specific asset management) – Galileo Japan K.K.	122	154
Disposition fee – Galileo Japan K.K.	328	-
Debt arrangement fee – Galileo Japan K.K.	309	-

Details of related party services

Galileo Japan K.K. provides fund management services, due diligence services and other financial and operating support services to the TK Operator and receives a fee equivalent to 0.30% per annum of gross assets for providing these services.

Galileo Japan K.K. provides specific asset management services and other financial and operating support services relating to specific investment properties in the TK Business and receives a fee equivalent to 0.30% per annum of the asset fair value for providing these services.

Galileo Japan K.K. is entitled to a disposition fee equivalent to 1.0% of the sale price of properties sold. The fee payable during the half-year ended 31 December 2014 relates to the sale of Lions Square and Doshoumachi.

Galileo Japan K.K. is entitled to a debt arrangement fee equivalent to 0.50% of the principal amount of the debt arranged. The fee payable during the half-year ended 31 December 2014 relates to the refinancing of the Eurobonds with ¥6.0 billion in new mezzanine loans.

Note 10. Commitments and contingent liabilities

The Directors of the Responsible Entity are not aware of any commitments or contingent liabilities in relation to the Trust which should be brought to the attention of Unitholders as at the date of this report.

Note 11. Events subsequent to balance date

The Trust announced to the market on 12 December 2014 that it was initiating an on-market unit buy-back. Should market conditions permit, the Trust intends to buy back up to the lesser of \$1.9 million and 10% of the issued capital (106,444,665) of the Trust. The on-market unit buy-back commenced on 5 January 2015 and as at the date of this report 306,748 units have been bought back by the Trust for \$517,437 and subsequently cancelled, resulting in units on issue for the Trust at the date of this report being 106,137,917.

The Directors are not aware of any matter or circumstance occurring since 31 December 2014 not otherwise dealt with in the financial report that has significantly or may significantly alter the operations of the Trust, the results of those operations or the state of affairs of the Trust in subsequent financial periods.

GALILEO JAPAN TRUST

Directors' Declaration

1. In the opinion of the directors of Galileo Japan Funds Management Limited, the Responsible Entity for Galileo Japan Trust (the "Trust"):
 - (a) the financial statements and notes set out on pages 7 to 21 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Trust's financial position as at 31 December 2014 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and
 - (b) there are reasonable grounds to believe that, as at the date of this report, the Trust will be able to pay its debts as and when they become due and payable.
2. The Trust has operated during the period in accordance with the Trust Constitution (as amended).

Signed in accordance with a resolution of the Directors.



Jack Ritch
Chairman

Dated at Sydney this 26 February 2015

Independent auditor's review report to the members of Galileo Japan Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Galileo Japan Trust (the Company), which comprises the balance sheet as at 31 December 2014, the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of Galileo Japan Funds Management Limited (the responsible entity) are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Galileo Japan Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Galileo Japan Trust is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read "E A Barron", with a stylized flourish extending to the right.

E A Barron
Partner

Sydney
26 February 2015