



Galileo Japan Funds Management Limited
(ACN 121 567 244) (AFSL 305 429)
as Responsible Entity for Galileo Japan Trust
(ARSN 122 465 990)

Level 9, 1 Alfred Street
Sydney NSW 2000 Australia
GPO Box 4760 Sydney NSW 2001
Telephone: (02) 9240 0333
Facsimile: (02) 9240 0300
ASX Code: GJT
Website: www.galileofunds.com.au

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ASX / Media Release

GALILEO JAPAN TRUST - FY16 INTERIM RESULTS

Please find attached a Galileo Japan Trust (ASX code: "GJT") announcement relating to GJT's interim financial results for the half-year ended 31 December 2015. This announcement should be read in conjunction with GJT's Financial Report for the half-year ended 31 December 2015.

Investor and media enquiries:

Peter Murphy
Chief Operating Officer
Phone: +61 2 9240 0308

Camelia Tan
GJT Financial Analyst
Phone: +61 2 9240 0334

About Galileo Japan Trust

The Trust is listed on the Australian Securities Exchange with an indirect beneficial interest in a portfolio of 19 Japanese real estate investments valued at approximately ¥56.55 billion (approximately \$690¹ million). The portfolio is diversified with a geographical bias to greater Tokyo, where 11 properties are located, and a sector bias to office and retail.

Further information on Galileo Japan Trust is available at www.galileofunds.com.au

¹ Based on the prevailing AUD/JPY on 26 February 2016 (being the last business day before the announcement of the Proposal) of \$1=¥82.

29 February 2015

GALILEO JAPAN TRUST - FY16 INTERIM RESULTS

Galileo Japan Funds Management Limited (“**GJFML**”, “**the Responsible Entity**”), the responsible entity for the Galileo Japan Trust (“**GJT**” or “**Trust**”), today announced the Trust’s interim results for the half-year ended 31 December 2015.

Key points relating to the FY16 interim results are summarised below:

- Funds from operations (“FFO”)² of \$10.1 million vs \$5.6 million for prior corresponding period (“pcp”)
- Net property income (“NOI”) for the period was 1.1% lower than pcp on a like-for-like basis primarily due to the lease cancellation and subsequent vacancy at Funabashi Hi-Tech. Excluding the impact of this asset, portfolio NOI was up 0.5% on pcp
- Distribution of 8.7 cents per unit (“cpu”) for the half-year ended 31 December 2015, 29.8% higher than the distribution in the pcp of 6.7 cpu
- GJFML provides distribution guidance for the six month period to 30 June 2016 of 8.7 cents per unit. This equates to a total FY16 distribution of 17.4 cents per unit, 16.8% higher than pcp
- The estimated FY16 distribution of 17.4 cents per unit equates to a distribution yield of 8.4% on the closing price of \$2.06 on 26 February 2016. This distribution will be 100% tax deferred
- Portfolio value as at 31 December 2015 of ¥56.55 billion (\$642.8 million)³, reflecting an increase of 0.5% from 30 June 2015 in Yen terms. Adjusting for a one-off write-down on Prejeal Utsubo the increase in portfolio value was 1.2% for the six months ended 31 December 2015
- Net asset value (“NAV”) of \$259.6 million (\$2.46 per unit), 7.0% higher than 30 June 2015 (\$2.29 per unit) primarily due to a favourable AUDJPY exchange rate movement
- Portfolio occupancy as at 31 December 2015 was 96.8% vs 96.0% at 30 June 2015
- Gearing was 54.9% at 31 December 2015 unchanged from 30 June 2015

Financial Performance

FFO of \$10.1 million for the half-year ended 31 December 2015 vs pcp of \$5.6 million⁴. An interim distribution of 8.7 cpu will be paid on 29 February 2015. GJFML entered into a forward foreign exchange contract on 23 February 2016 at a fixed exchange rate of \$1 = ¥79.96. The transaction will be settled using operating cash flow from the six months ending 30 June 2016 and the Australian Dollar amount equates to the estimated distribution of 8.7 cpu for this period.

Chief Operating Officer, Mr Peter Murphy, said “The six months to 31 December 2015 was a solid operating result for the Trust. The Japanese portfolio continues to perform broadly in line with expectations. In Japan, real estate market conditions, lending conditions and recent government led

² FFO represents net profit attributable to unitholders adjusted for unrealised gains/losses, net foreign exchange gains/losses and amortisation expense

³ AUD/JPY spot rate of ¥87.98 at 31 December 2015 (¥93.92 as at 30 June 2015)

⁴ FFO for the half-year ended 31 December 2014 includes one-off \$4.9 million premium paid for the early refinance of the Eurobonds

quantitative easing measures are all supportive of continued investor appetite for real estate in the near term.”

Balance Sheet

The Trust's NAV at 31 December 2015 was \$2.46 per unit vs \$2.29 per unit at 30 June 2015. The increase in NAV compared to 30 June 2015 is primarily due to a strengthening in the Japanese Yen relative to the Australian Dollar and, to a lesser degree, property revaluation uplift.

GJT's gearing (debt/total assets) was 54.9% at 31 December 2015, unchanged from 30 June 2015. The Japanese TK Business has two debt facilities, being a senior loan and mezzanine loan. Neither facility has a loan to value covenant test. The senior loan has a debt service coverage test (“DSCR”) of 1.9x assuming a fixed interest cost of 4.5%. The actual DSCR for the December 2015 quarter was 2.3x (June 2015 quarter: 2.3x).

Property Revaluations

Portfolio value was ¥56.55 billion at 31 December 2015, an increase of 0.5% vs 30 June 2015 (¥55.25 billion). All 19 assets were independently revalued at 31 December 2015.

The valuation movement for 18 of the assets excluding Prejeal Utsubo over the six months to 31 December 2015 was an increase of 1.2%.

The only asset to record a reduction in valuation was Prejeal Utsubo (¥810 million to ¥452 million), a decrease of 44.2%⁵. A seismic engineering review of all 19 assets in the portfolio found that Prejeal Utsubo does not comply with the Japanese earthquake building standards. GJKK sought and obtained a second opinion from another specialist consultant who confirmed the non-complying result.

Structural works can be undertaken to achieve compliance with the building standards. This work involves external bracing and wall panels being inserted in certain areas of the building particularly in the lower levels. The tenants occupying the apartments (64 studio apartments) have been notified of the situation and GJKK is currently endeavouring to relocate the tenants as soon as possible. The timing and cost for tenant relocation remains subject to negotiation. GJKK intends to complete this process prior to commencing any rectification works.

The independent valuation for Prejeal Utsubo at 31 December 2015 is ¥452m reflecting the structural deficiencies identified and other associated allowances to relocate tenants. The cost to rectify the structural deficiencies is estimated to be ¥200m. It is likely that the total cost of rectification will be in the range of ¥250m to ¥300m allowing for legal, tenant relocation and compensation costs. The rectification works could take up to 12 months to complete. GJKK is currently marketing the property for sale “as-is”.

When Prejeal Utsubo was acquired in 2006, GJKK relied upon an independent engineering consultant that confirmed the building was constructed in accordance with appropriate building standards. In doing so, the consultant in turn relied upon an independent certification from a designated and accredited inspection body which confirmed the building was constructed in accordance with appropriate building standards.

The property portfolio is not insured for risks arising from earthquakes. In the event of a serious earthquake Prejeal Utsubo may be more likely to sustain serious damage due to its structural deficiencies. This could result in additional costs, loss of value and potential liability to third parties, all of which are presently unquantifiable.

⁵ Prejeal Utsubo represents less than 1% of the portfolio value based on 31 December 2015 independent valuation of the portfolio

Portfolio Performance

At 31 December 2015 portfolio occupancy was 96.8% (96.0% at June 2015). Portfolio NOI was 1.1% lower than pcp on a like-for-like basis primarily due to the lease cancellation and subsequent vacancy at Funabashi Hi-Tech. Excluding the impact of this asset, portfolio NOI was up 0.5% on pcp. The single largest vacancy as at 31 December 2015 was Funabashi Hi-Tech which represents approximately 2.1% of the portfolio net rentable area and 1.5% of NOI. GJKK has recently received a letter of intent from a prospective tenant to lease the premises.

The proportion of the portfolio represented by “non-cancellable” leases is currently 38% (by income)⁶ with the weighted average lease term to maturity on these leases being approximately 10.1 years⁷. The balance of the portfolio (62% by income) is subject to standard Japanese leases which can be cancelled with six months’ notice.

Outlook

The Trust and Japanese TK Business now benefit from reduced gearing, significantly lower average cost of debt and a stable capital structure.

Japanese real estate market fundamentals are generally trending positively, lending conditions are favourable and transactional activity has been steadily rising since late 2012.

Proposal

In a separate ASX release today GJFML has announced a proposal to sell the entire Japanese Property Portfolio in which GJT has an indirect interest. The Proposal, if completed, is expected to result in the payment of special distributions to Unitholders which are estimated to be \$2.65⁸ per unit in total. If so, this would represent a:

- 28.6% premium to the last closing price of GJT Units prior to the Announcement Date;
- 32.7% premium to the one month VWAP of GJT Units up to and including 26 February 2016 (being the last trading day prior to the Announcement Date);
- 37.0% premium to the three month VWAP of GJT Units up to and including 26 February 2016 (being the last trading day prior to the Announcement Date); and
- 76.7% premium to the October 2013 recapitalisation new unit issue price of \$1.50.

The Proposal is subject to unitholder approval, and includes the following key elements:

- The proposed sale of the Japanese property portfolio for ¥57.8 billion⁹ which represents a 2.2% premium to the independent valuation of the portfolio as at 31 December 2015 via:
 - a. The sale by GJKK of 18 of the 19 properties (IPO Portfolio) for ¥57.4 billion, which is conditional on a successful capital raising and listing of the proposed purchaser (J-REIT) on the Tokyo Stock Exchange (Japanese IPO). The current timetable for the proposal anticipates the Japanese IPO occurring in August 2016.
 - b. The sale by GJKK of Prejeal Utsubo separately at its current independent valuation of ¥452 million. Prejeal Utsubo represents less than 1% of the value of the Japanese Property Portfolio. The asset has been excluded from the IPO Portfolio as a result of the due diligence process identifying a structural deficiency making it currently unsuitable for the Japanese IPO. This property is being marketed for sale on an “as is” basis and is expected to be sold prior to the completion of the Japanese IPO. If

⁶ 38% at 30 June 2015

⁷ 10.6 years at 30 June 2015

⁸ Based on the prevailing AUD/JPY exchange rate on 26 February 2016 (being the last business day before the announcement of the Proposal)

⁹ Assumes Prejeal Utsubo is sold for ¥452m (independent valuation as at 31 December 2015)

not sold prior to the Japanese IPO, the intention is that it will be sold on completion of the rectification works.

- As soon as practical following the completion of the sale of the IPO Portfolio to the J-REIT, it is the current intention that the vast majority of the net cash proceeds in Japanese Yen will be converted to Australian dollars and distributed to GJT. The Trust will then distribute such net cash proceeds and cash held by the Trust to Unitholders via an initial special distribution.
- As soon as possible after that:
 - GJT will cease trading and delist from ASX; and
 - Unitholders may also receive an additional, smaller and final special distribution at a subsequent date in conjunction with the winding up of GJT and cancellation of all GJT Units on issue.

For further information in relation to the Proposal please refer to the presentation titled “Proposed sale of portfolio and return of net proceeds to Unitholders” and the “Notice of Meeting and Explanatory Memorandum” dated 29 February 2016 released to the ASX today.

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