



Galileo Japan Funds Management Limited
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as Responsible Entity for Galileo Japan Trust
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ASX / Media Release

GALILEO JAPAN TRUST – UPDATE ON PROPOSED SALE OF THE JAPANESE PROPERTY PORTFOLIO AND FY16 ANNUAL RESULTS

Please find attached a Galileo Japan Trust (ASX code: "GJT") announcement relating to the proposed sale of the Japanese property portfolio and GJT's annual financial results for the year ended 30 June 2016. This announcement should be read in conjunction with GJT's Financial Report for the year ended 30 June 2016.

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About Galileo Japan Trust

The Trust is listed on the Australian Securities Exchange with an indirect beneficial interest in a portfolio of 18 Japanese real estate investments valued at approximately ¥57.36 billion (approximately \$740.3¹ million). The portfolio is diversified by both sector and geography while retaining a bias to Greater Tokyo.

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

¹ AUDJPY exchange rate ¥77.48 as at 31 August 2016.

31 August 2016

GALILEO JAPAN TRUST – UPDATE ON PROPOSED SALE OF THE JAPANESE PROPERTY PORTFOLIO AND FY16 ANNUAL RESULTS

Galileo Japan Funds Management Limited (“**GJFML**” or “**the Responsible Entity**”), the responsible entity for the Galileo Japan Trust (“**GJT**” or “**Trust**”), today announced an update on the proposed sale of the Japanese property portfolio and the Trust’s annual results for the year ended 30 June 2016.

Update on proposed sale of the Japanese property portfolio

On 23 March 2016, unitholders approved the sale of the Japanese property portfolio, subsequent distribution of net equity proceeds to unitholders and the winding up of GJT.

The Notice of Meeting and Explanatory Memorandum dated 29 February 2016 (“EM”) provided that the proposed sale was conditional on the successful listing of a new J-REIT on the Tokyo Stock Exchange (“TSE”). On 5 August 2016 a new J-REIT, Sakura Sogo REIT, received approval from the TSE to list its investment units.

On 31 August 2016 Sakura Real Estate Funds Management Inc. (“SREFM”), the asset manager for Sakura Sogo REIT, announced to the TSE the final issue price and number of new securities relating to the proposed IPO. SREFM also confirmed the target listing date of 8 September 2016 and that an underwriting agreement has been executed with SMBC Nikko Securities Inc. Based on the current timetable it is anticipated that GJFML will announce the record date and amount of the initial special distribution in late September 2016. The IPO of Sakura Sogo J-REIT remains subject to market and execution risks.

The EM indicated total special distributions of \$2.65 per unit. This amount was determined using the 31 December 2015 balance sheet adjusted for known transaction costs and using the AUDJPY exchange rate of A\$1= ¥82.0. Using the 30 June 2016 balance sheet, which accounts for all known selling costs, an estimate for wind up costs, and applying the AUDJPY exchange rate as at 30 June 2016 (A\$1= ¥76.2), the estimated total special distributions equate to \$2.79² per unit.

Factors impacting the estimated total special distributions compared to the EM are as follows:

- favourable movement in the AUDJPY exchange rate (+\$0.20 cpu);
- earthquake repair works required after the April 2016 earthquake in Kumamoto prefecture of ¥130 million (-\$0.02 cpu);
- capital expenditure incurred during the six months to 30 June 2016 funded from reserves of ¥120 million (-\$0.02 cpu);
- unfavourable movement in the interest rate swap in the Japanese TK business of ¥116 million (-\$0.01 cpu); and
- write off of unamortised debt costs as at 30 June 2016 of ¥105 million (-\$0.01 cpu)

The actual total of the special distributions remain subject to foreign exchange rate movements and the proposal completing as outlined in the EM.

In addition to the special distributions, the Trust expects to pay an ordinary distribution for the period from 1 July 2016 up until completion of the proposed sale.

² \$2.75 per unit based on AUDJPY of ¥77.48 the rate applicable on 31 August 2016

Annual results FY16

Key points

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

- Funds from operations (“FFO”)³ for the year ended 30 June 2016 of A\$21.2⁴ million (20.2 cents per unit “cpu”) vs A\$15.0 million (14.1 cpu) for the prior corresponding period (“pcp”). FFO for FY15 adjusted for the “one-off” \$5.0 million premium paid to refinance the Eurobonds was A\$20.0 million (18.8 cpu)
- Distribution of 17.4 cpu in FY16, up 16.8% vs FY15 (14.9 cpu). FY16 distribution equates to a yield of 6.5% on the closing price of A\$2.67 on 31 August 2016
- Carrying value of the portfolio was ¥57.36 billion (A\$752.5 million)⁵ as at 30 June 2016, an increase of 3.5% over pcp on a “like for like” basis in Japanese Yen terms
- Fair value of investment property represents the sale price outlined in the EM
- Gearing (debt/total assets) was 53.7% at 30 June 2016 vs 54.9% at 30 June 2015
- Net property income (“NOI”) for the year was 0.1% higher than pcp on a “like for like” basis
- Portfolio occupancy as at 30 June 2016 was 96.1%. (96.0% at 30 June 2015).

Financial Performance

FFO of \$21.2 million for 30 June 2016, vs pcp of \$15.0 million. FY15 FFO includes the \$5.0 million premium paid for the early refinance of the Eurobonds. Adjusting for this one-off item the FFO for the year ended 30 June 2015 was \$20.0 million.

The Japanese TK Business sold Prejeal Utsubo on 28 April 2016 for ¥450 million. The sale price was consistent with independent appraisal and the forecast sale proceeds outlined in the EM.

Balance Sheet

GJT’s gearing (debt/total assets) was 53.7% at 30 June 2016, lower than 30 June 2015 (54.9%).

The proposed sale of the property portfolio, winding up of the TK Business and ultimate wind up of GJT has resulted in significant changes in the measurement and disclosure of certain items in the Trusts’ financial statements for the year ended 30 June 2016. As a result of the proposal approved by unitholders at the extraordinary general meeting on 23 March 2016 it has been determined that, in accordance with Australian Accounting Standards, the going concern basis of preparation of the financial statements is not appropriate and the financial statements have therefore been prepared on a liquidation basis. Under the liquidation basis all assets and liabilities are measured at net realisable value. Further, as the unitholders have approved the proposed sale and the subsequent distribution of the net equity proceeds to unitholders and winding up of the Trust, the value of the units on issue have been reclassified from unitholders equity to current liabilities.

Property Revaluations

The fair value of the investment portfolio at 30 June 2016 equates to the agreed sale price outlined in the EM. Portfolio value was ¥57.36 billion at 30 June 2016, an increase of 3.5% vs 30 June 2015 (¥56.25 billion), excluding assets sold during the year.

³ FFO represents net profit attributable to unitholders adjusted for unrealised gains and losses, amortisation expense and one-off costs relating to the proposed sale and wind up funded from working capital or from the sale proceeds

⁴ Average AUDJPY rate of ¥84.98 for the year ended 30 June 2016 (¥95.55 for FY15)

⁵ AUDJPY spot rate of ¥76.23 at 30 June 2016

Portfolio Performance

At 30 June 2016 portfolio occupancy was 96.1% (96.0% at June 2015). Movement in vacancy within sectors during the period was less than 1% with modest gains in retail and mixed use assets, partially offset with a slight decrease in office and residential occupancy.

Portfolio occupancy has averaged 97.5% since GJT listed in December 2006. Occupancy is expected to increase closer to that level in the near term with commercial terms agreed for a new tenant at Funabashi Hi-Tech, representing approximately 1.5% of portfolio lettable area.

Upward rent revisions have been negotiated on approximately 9% of the office portfolio's net rentable area in FY16 with the average increase being 16.2%.

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 9.2 years⁷. The balance of the portfolio (62% by income) is subject to standard Japanese leases which can be terminated with six months' notice.

Chief Operating Officer, Mr Peter Murphy said, "FY16 has been a positive year for the Trust with stable underlying revenues, modest gains on the carrying value of the portfolio and a strengthening Japanese Yen over the period resulting in an increase in estimated total special distributions to GJT unitholders."

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⁶ 38% at 30 June 2015

⁷ 10.2 years at 30 June 2015