



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](http://www.galileofunds.com.au)

29 August 2013

**ASX / Media Release**

### **GALILEO JAPAN TRUST - FY13 ANNUAL RESULTS**

Please find attached a Galileo Japan Trust (ASX code: "GJT") announcement relating to GJT's annual financial results for the year ended 30 June 2013. This announcement should be read in conjunction with GJT's Financial Report for the year ended 30 June 2013.

#### **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 21 Japanese real estate investments valued at approximately ¥57.38 billion (approximately \$661<sup>1</sup> million). The portfolio is diversified by both sector and geography while retaining a strong bias to Greater Tokyo.

Further information on Galileo Japan Trust is available at [www.galileofunds.com.au](http://www.galileofunds.com.au)

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<sup>1</sup> AUD/JPY exchange rate ¥86.80 as at 28 August 2013.

29 August 2013

## GALILEO JAPAN TRUST - FY13 ANNUAL 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 annual results for the year ended 30 June 2013.

Key points relating to the FY13 financial results are summarised below:

- Funds from operations ("*FFO*")<sup>2</sup> a gain of A\$8.8 million (equating to \$1.08 per unit) versus a loss in the previous corresponding period ("*pcp*") of A\$0.47 million (\$0.06 per unit)
- On a like-for-like basis (adjusted for asset sales) property net income was 0.2% higher in ¥ terms versus pcp
- Overall property net income down 2.8% to ¥3.7 billion (\$41.2 million)<sup>3</sup> versus pcp, primarily due to asset sales
- Total liabilities to total assets was 89.4%<sup>4</sup> as at 30 June 2013 versus 88.7% as at 30 June 2012
- Carrying value of the portfolio was ¥57.38 billion (\$626.1 million<sup>5</sup>) as at 30 June 2013. This represents a reduction of 0.4% compared to 30 June 2012 adjusted for asset sales in the period
- Net tangible assets at 30 June 2013 of \$8.42 per unit (\$68.3 million), 21.1% lower than 30 June 2012 (\$10.67 per unit)
- Net tangible assets as at 30 June 2013 assuming the conversion of the convertible Eurobond was \$4.59 per unit (\$5.83 per unit at 30 June 2012)
- Net tangible assets as at 30 June 2013 assuming conversion of the convertible Eurobond and using the face value of the foreign currency loan was \$4.03 per unit (\$4.67 at 30 June 2012)
- Portfolio occupancy as at 30 June 2013 was 99.0%. (98.8% at 30 June 2012)

### Financial Performance

The Trust today announced an underlying FFO gain of \$8.8 million (\$1.08 per unit) for the year ended 30 June 2013, versus pcp loss \$0.47 million (\$0.06 per unit). The primary reason for the improvement was a reduction in overall borrowing costs due to the reduced outstanding balance of the senior bank loan facility, the expiry of "out of the money" interest rate swaps on the senior loan and the partial repayment of Mezzanine Eurobonds following the sale of two assets in March 2013. FFO does not include principal amortisation on the senior loan which for the year ended 30 June 2013 amounted to \$12.5 million or \$1.54 per unit.

No distribution will be paid until further notice due to the restrictions in both the Eurobonds and foreign currency loan facilities.

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<sup>2</sup> Funds from operations represents net profit attributable to unitholders adjusted for unrealised gains and losses on financial instruments and property investments, gains and losses on asset sales and amortisation expense

<sup>3</sup> AUD/JPY average rate of ¥89.79 for the year ended 30 June 2013 (¥81.13 for the year ended 30 June 2012).

<sup>4</sup> Restated to reflect the face value of the foreign currency loan the ratio is 91.1% (Refer Slide 7 of the FY13 Annual Results Presentation for additional information).

<sup>5</sup> AUD/JPY spot rate of ¥91.64 at 30 June 2013

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## Balance Sheet

The Trust's headline NTA decreased 21.1% during the year ended 30 June 2013 to \$8.42 per unit primarily due to an adverse movement in the AUDJPY exchange rate, the write-down of two assets sold during the period and property revaluations. NTA as at 30 June 2013 assuming the conversion of the convertible Eurobonds is \$4.59 per unit. Adjusted further to reflect the face value of the foreign currency loan, the NTA would be \$4.03 per unit.

GJT's total liabilities to total assets (which are both substantially ¥ denominated) was 89.4% as at 30 June 2013 versus 88.7% as at 30 June 2012. The senior loan, Eurobonds and foreign currency loan do not contain any loan to value covenant tests.

## Property Revaluations

On a "like for like" basis adjusting for assets sold, the carrying value of the portfolio decreased by 0.4% in the 12 months to 30 June 2013. The 30 June 2013 value has been determined using independent valuations for 14 properties prepared by Savills Japan KK, representing approximately 57% of the portfolio by value. The balance of the portfolio was independently valued by Savills Japan K.K. at 31 December 2012.

The weighted average capitalisation rate for the portfolio overall currently equates to 6.06% compared to 6.22% as at 30 June 2012. Capitalisation rates remain relatively stable and the majority of valuation movements continue to reflect changes in underlying net property income.

## Portfolio Performance

As at 30 June 2013 portfolio occupancy was 99.0% (98.8% at June 2012). Portfolio occupancy has averaged 97.7% since GJT listed in December 2006.

Net property income on a like-for-like basis (adjusted for assets sold) was 0.2% higher than pcp. The proportion of the portfolio represented by "non-cancellable" leases is currently 37%<sup>6</sup> (by income) with the weighted average lease term to maturity on these leases approximately 11.9 years<sup>7</sup>.

## Senior Loan Facility

The next loan maturity scheduled for the Japanese TK business is the senior loan in March 2014. The senior bank loan has a balance at 30 June 2013 of ¥36.6 billion (\$399.1million)<sup>5</sup>

Galileo Japan K.K. continues to discuss refinancing options regarding this facility with the current senior lender and other financiers. As at the date of this announcement the directors believe there are reasonable grounds to conclude that the senior bank loan can be refinanced on terms that allow the Trust to continue as a going concern. However, at the date of this announcement there is no certainty that the senior bank loan will be refinanced with the current senior lender or other financiers.

If current negotiations with the lenders are unsuccessful, it is likely the Trust would not be able to meet its financial obligations when they fall due. As such, in the absence of a finalised agreement, there is material uncertainty that may cast significant doubt on the Trust's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. No adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts and classification of liabilities that might be necessary should the Trust not continue as a going concern.

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<sup>6</sup> 36% at 30 June 2012

<sup>7</sup> 12.4 years at 30 June 2012

## Business Strategy

Until the full repayment of the Eurobonds the Japanese TK business will not pay any distributions to the Trust, except where funds are required to cover the Trust's overhead expenses or required distributions for Australian taxation purposes.

A number of alternatives may be available to preserve and enhance unitholder value relative to the current trading price of GJT securities. The Board continues to assess a range of options for the future of the Trust's business, including refinancing with alternate lenders, a possible recapitalisation of the Trust's balance sheet or a sale of the portfolio and ultimate wind-up of GJT. GJFML remains committed to identifying and implementing a strategy that secures the Trust's long term future.

GJFML cautions that successful implementation of these strategies involves considerable risk.

## Outlook

No cash distributions can be made to unitholders (other than if required for taxation purposes) until the Eurobonds and foreign currency loan facilities have been fully repaid. There are numerous factors that could have a material impact on the potential return to unitholders including the ultimate pricing of any asset sale program or the cost or structure of any potential refinancing/recapitalisation.

The following table is a simplified summary of potential asset sale proceeds, future loan repayment obligations and the sensitivity of AUD/JPY spot rates to determine possible indicative capital returns to GJT unitholders assuming divestment of the portfolio at June 2013.

	Divestment (June 2013)		
	Exit at current BV	Implied portfolio value of \$0.70 per unit	Implied portfolio value of \$0.00 per unit
Portfolio realisation value (¥bn)	57.38	53.92	52.98
Less: selling costs (1.5%)	-	(0.81)	(0.79)
Sub-total (net proceeds)	57.38	53.11	52.20
Other net assets (¥bn)	1.61	1.61	1.61
Less: Senior bank loan debt obligations (¥bn)	(36.57)	(36.57)	(36.57)
Less: Mezzanine Eurobond debt obligations (¥bn)	(8.08)	(8.08)	(8.08)
Less: Net tenant security deposit liability (¥bn)	(2.44)	(2.44)	(2.44)
Estimated TK net surplus (¥bn)	11.89	7.62	6.71
Less: TK operator share (OEI) (¥bn)	(0.20)	(0.10)	(0.10)
Less: Forum share if converted (¥bn) - 40%	(4.70)	(3.00)	(2.60)
Less: Foreign currency loan (¥bn) <sup>1</sup>	(4.00)	(4.00)	(4.00)
Australian TK contribution refund (¥bn)	2.99	0.52	-
Australian TK contribution refund at AUD/JPY 91.64 (A\$m) <sup>2</sup>	32.67	5.68	-
<b>Estimated proceeds per unit at AUD/JPY 91.64 (A\$)</b>	<b>4.03</b>	<b>0.70</b>	<b>-</b>
<b>Exchange rate sensitivity</b>			
Proceeds per unit at AUD/JPY 80 (A\$)	4.61	0.80	-
Proceeds per unit at AUD/JPY 100 (A\$)	3.69	0.64	-

<sup>1</sup> Foreign currency loan stated at its face value of ¥4.0 billion

<sup>2</sup> Exchange rate as at 30 June 2013

The table above is provided on an indicative basis only and GJFML cannot provide any assurance that any capital return will be made to GJT unitholders in the future following the sale of the property portfolio and repayment of all liabilities.

**ENDS**