galileo JAPAN TRUST

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as Responsible Entity for Galileo Japan Trust
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ASX / Media Release

GALILEO JAPAN TRUST - FY10 ANNUAL RESULTS

Please find attached a Galileo Japan Trust (ASX code: "GJT") announcement relating to the Trust's annual financial results for the year ended 30 June 2010.

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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 26 Japanese real estate investments valued at approximately ¥72.5 billion (approximately A$961[1] 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

[1] AUD/JPY exchange rate of ¥75.46 as at 30 June 2010

31 August 2010

GALILEO JAPAN TRUST - FY10 ANNUAL RESULTS

Galileo Japan Funds Management Limited ("*GJFML*"), the responsible entity for the Galileo Japan Trust ("*GJT*" or "*Trust*"), today announced the Trust's annual result for the year ended 30 June 2010.

The Trust's result for the year has been impacted significantly by the debt refinancing that was completed in September 2009 (details were contained in the ASX announcement dated 22 September 2009). The refinancing resulted in significant changes to the Trust's operations including, a substantial increase in cash requirements to service the Japanese TK business borrowings, restrictions on the payment of distributions and a revised business strategy involving the likely divestment of the portfolio over a period of up to 4 years.

Key points relating to this announcement are as follows:

Annual Results FY10

- Property net income down 10.1% to ¥4.07 billion (A$50.45 million)[2]
- Post the September 2009 refinancing, interest expense increased 180%[3] or ¥2.1 billion on an annualised basis
- Mandatory amortisation under the revised senior loan document commenced in the December 2009 quarter. Annual repayment of loan principal equates to 2.3% of the outstanding loan balance, approximately ¥1.0 billion (A$12.9 million)
- Funds from operations[4] of A$6.97 million equating to 1.72 cents per unit ("*cpu*") significantly lower than FY09 due to substantial increases in debt service costs and reduction in property net income
- Net tangible assets of 40 cpu, 23% lower than June 2009
- Net tangible assets, if restated, as at 30 June 2010 to reflect the potential conversion of Forum's convertible Eurobond would be 20 cpu

Portfolio Performance

- Underlying property portfolio performance was solid given weak market conditions during the financial year
- Portfolio occupancy increased slightly to 95.6% (95.4% at June 2009)
- Market conditions particularly for office have continued to be challenging, vacancies higher than previous peaks in 2003 and market rents have trended lower throughout FY10
- Revaluations, both independent and Directors' valuations have resulted in the carrying value of the portfolio reducing 5.5% to ¥72.5 billion at 30 June 2010 (¥76.7 billion at 30 June 2009)

Business Strategy Unchanged

- The Japanese TK manager (GJKK) has a strategy to complete an orderly sale of assets which is expected to occur over the next 4 years to optimise GJT unitholder returns
- Divestment program has commenced but has been slow due primarily to the low level of transactional activity in Japan relative to historical levels

[2] AUD/JPY average rate of ¥80.68 for the year ended 30 June 2010

[3] For the year ended 30 June 2010 the actual increase in borrowings costs was 142% or ¥1.6billion

[4] Funds from operations represents net profit attributable to unitholders adjusted for unrealised gains and losses and amortisation expense

- No income distributions (other than required for taxation purposes) will be paid to GJT unitholders until Forum (Eurobond holder) and UBS (FX Derivative counterparty) debts have been fully repaid
- Given the costs associated with the September 2009 refinancing it is anticipated that GJT unitholders will not have any taxable income for the foreseeable future
- Surplus cash flow, if any, will be utilised to reduce liabilities
- Optimise capital return by continued strong focus on asset management and leasing

Annual Results FY10

Financial Performance

The Trust today announced underlying funds from operations for the year ended 30 June 2010 of A$6.97 million (1.72cpu), significantly below the previous corresponding period ("*pcp*"). The decrease compared to the pcp (A$33.3 million FY09) was primarily due to substantial increases in debt service costs and reduction in property net income.

A net loss of A$62.2 million was reported for the full year primarily as a result of the devaluation of the property investment portfolio.

No distribution will be paid in FY10 due to the restrictions in both the Forum and UBS debt agreements. Given the costs associated with the September 2009 refinancing it is anticipated that GJT unitholders will not have any taxable income for the foreseeable future.

Chief Operating Officer of GJFML, Mr Peter Murphy said, "Continued weakness in the recovery of the Japanese economy and in particular worsening conditions in the Tokyo office market throughout FY10 resulted in downward pressure on both property net income and asset valuations. Despite these challenging market conditions it was pleasing to see the occupancy of the portfolio increase by 20 basis points during the year to 95.6% as at 30 June 2010."

Balance Sheet

The Trust's total assets decreased 2.0% during the 12 months ended 30 June 2010 to approximately A$1.03 billion.

The Trust's NTA decreased 23% during the 12 months ended 30 June 2010 to 40 cpu[5] with the revaluation decrement partially offset by gains on the appreciation of the ¥ against the A$.

GJT's total liabilities to total assets were 83.7% as at 30 June 2010, higher than the pcp (79.7%) primarily due to property devaluations. The Trust's senior loan and Eurobond facilities do not contain any loan to value covenant tests.

Property Revaluations

In recognition of changing market conditions, particularly meaningful changes in underlying cash flows for certain assets, GJKK appointed independent valuers, Savills Japan KK to revalue seven assets in the property portfolio as at 30 June 2010.

The assets re-valued by Savills Japan KK represent approximately 30% of the portfolio by value, four being Tokyo office assets where movements in underlying cash flows have been impacted by a reduction in office market rents throughout FY10. The overall decrease in carrying value for these seven assets was 10.6% or ¥2.3 billion. The average movement in capitalisation rates from these seven independent valuations was an increase of 10 basis points, suggesting that risks associated with any further increases in property yields may be easing. Savills Japan KK noted in their valuations that the majority of value movement experienced in Japan during FY10 has been the result of downward pressure on underlying cash flows as opposed to further easing in property yields.

Director's valuations on the balance of the portfolio resulted in a further write-down of ¥1.9 billion or 3.4%. The weighted average capitalisation rate adopted for the current valuations equates to 6.05% compared to

[5] NTA if restated as at 30 June 2010 to reflect the potential conversion of Forum's convertible Eurobond would be 20 cpu

5.96% as at 30 June 2009. Over 70% of the reduction in the portfolio's carrying value in FY10 is attributed to a decrease in the value of the Tokyo office portfolio, due to weakening office market conditions.

COO of GJFML Mr Murphy said, "The negative momentum in the Tokyo office market in respect of vacancies and market rents has eased more recently. We are hopeful that this will result in a less volatile outlook for asset values in the year ahead."

The current carrying value of the portfolio, ¥72.5 billion represents a decline of approximately 25% from the peak valuation of ¥96.6 billion as at 31 December 2007.

Portfolio Performance

Economic and real estate market conditions remained challenging throughout the year. In particular vacancies increased and office market rents declined throughout FY10. Despite these negative pressures the portfolio performed reasonably well in the circumstances. Overall portfolio occupancy increased by 20 basis points during the year to be 95.6% at 30 June 2010.

Net property income was 10.1% lower than FY09 largely resulting from the following key factors:-

- The office portfolio had an average occupancy of 89% during FY10 (96% in FY09)
- Average passing rents in the office portfolio reduced by 8% in FY10 due to both new leases and lease renewals at lower market rent levels
- Income support that related to certain residential assets was fully utilised by 30 June 2009
- Tenant default at the single tenanted Funabashi Hi-tech in June 2009 led to an unexpected income void. This asset was subsequently re-leased at June 2010 on a 10 year lease at a rental approximately 25% lower than previous passing rent

While office market conditions are not expected to recover rapidly, there are signs that both vacancy and market rents movements have begun to stabilise. Given this outlook GJKK expect FY11 net property income to be relatively stable compared to FY10.

The proportion of the portfolio represented by "non-cancellable" leases is currently 36%[6] (by income) with the weighted average lease term to maturity on these leases approximately 12[7] years.

Business Strategy Unchanged

Until the full repayment of the Eurobonds issued to Forum and the facility with UBS, the Japanese TK business will not pay any distributions to the Trust, except funds required to cover the Trust's overhead expenses and required distributions for taxation purposes.

The Directors recognise that the absence of distributions until the repayment of these facilities is disappointing. However, we believe the best prospect of maximising the value of unitholders' current investment is through continued active management by GJKK, an orderly sale of assets and the potential wind-up of GJT.

GJFML's expectation is that there will be sufficient time for both property and credit markets to stabilise, and potentially improve, such that GJT unitholders realise a better outcome than if a sale of the portfolio were forced in the current environment.

The September 2009 refinancing resulted in a significant increase in the cash required to service the Japanese TK business borrowings (interest and principal amortisation). Asset sales in the next 12 to 18 months may be necessary to ensure the Japanese TK business continues to have adequate working capital reserves to remain a going concern. In the absence of any asset sales the Japanese TK manager will be reliant on either outperformance in property net income or other refinancing initiatives to improve operational cash flows.

[6] 35% at 30 June 2009

[7] 13 years at 30 June 2009

Outlook

GJT remains primarily a capital return investment as no cash distributions will be made to unitholders (other than required for taxation purposes) until the Forum and UBS facilities have been fully repaid. There are numerous factors that could have a material impact on the potential return of unitholders' capital at the completion of the asset sale program.

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 in September 2013.

		DIVESTMENT (SEPTEMBER 2013) [8,9]		
	Exit as at 30 June 2010 at current book value	Exit at 10% discount to current book value	Exit at current book value	Exit at 10% premium to current book value
Forecast portfolio realisation (net of selling costs) (¥bn)	72.5	65.2	72.5	79.8
Other Net Assets (¥bn)	1.5	1.5	1.5	1.5
Less: Total Senior bank loan debt obligations (¥bn)[10]	(42.9)	(39.8)	(39.8)	(39.8)
Less: Total Mezzanine Eurobond debt obligations (¥bn)	(10.2)	(11.9)	(11.9)	(11.9)
Less: Net Tenant Security Deposit liability (¥bn)	(2.7)	(2.7)	(2.7)	(2.7)
Estimated TK net surplus (¥bn)	18.2	12.3	19.6	26.9
Less: TK Operator share (OEI) (¥bn)	(0.3)	(0.2)	(0.3)	(0.4)
Less: Forum share if converted (¥bn)	(7.1)	(4.8)	(7.7)	(10.6)
Less: UBS Derivative loan (¥bn)	(4.6)	(5.8)	(5.8)	(5.8)
Australian TK contribution refund (¥bn)	6.2	1.5	5.8	10.1
Australian TK contribution refund at AUD/JPY 75.5[1] (A$m)	81.5	19.8	76.6	133.4
Estimated proceeds per unit at AUD/JPY 75.5[1] (A$)	0.20	0.05	0.19	0.33
Exchange rate sensitivity				
Proceeds per unit at AUD/JPY 55 (A$)		0.07	0.26	0.45
Proceeds per unit at AUD/JPY 95 (A$)		0.04	0.15	0.26

The projections above are provided on an indicative basis only and GJFML cannot provide any assurance that any of these projections will be realised, or that any capital return will be made to GJT unitholders following the sale of the property portfolio and repayment of all liabilities.

ENDS

[8] Simplified summary– assumes constant exchange rate and application of all operating cash flows and asset sale proceeds to operating costs and debt servicing and repayment obligation

[9] Includes accrued PIK coupon for Mezzanine Eurobond and UBS derivative loan and the impact of amortisation on senior bank loan

[10] Assumes the terms of the senior debt remain unchanged at expiry in December 2012