

# galileo

JAPAN TRUST



ANNUAL REPORT 2016

GALILEO JAPAN TRUST (ARSN 122 465 990)



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GALILEO JAPAN TRUST



HIEI KUDAN

# GALILEO JAPAN TRUST

Galileo Japan Trust (the Trust) is listed on the Australian Securities Exchange, with an indirect interest in a portfolio of 18 Japanese real estate investments valued at approximately ¥57.4 billion (approximately \$752 million<sup>1</sup>).

The portfolio is diversified by both sector and geography, with a bias towards office and the Greater Tokyo region.

<sup>1</sup> Based on a ¥/A\$ exchange rate of 76.23 on 30 June 2016

Galileo Japan Funds Management Limited (GJFML) is the responsible entity of the Trust. Asset management services in Japan are undertaken by Galileo Japan K.K. and Tokyo Capital Management Co. Ltd (a wholly owned subsidiary of Nippon Kanzei Co. Ltd).

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# MANAGERS' REPORT



## ANNUAL RESULTS FY16

### COMPLETION OF SALE OF THE JAPANESE ROPEY PORTFOLIO AND FOREIGN EXCHANGE TRADE

Galileo Japan Funds Management Limited (“GJFML”), announced on 12 September 2016 that the sale of the Japanese property portfolio had completed on 9 September 2016 and the majority of the Japanese yen net sale proceeds were available for conversion into Australian dollars.

On confirmation of the sale completing, GJFML entered into a foreign exchange trade to convert ¥21.5 billion Japanese yen into Australian dollars. The actual exchange rate for this trade was A\$1 = ¥78.08, which resulted in approximately A\$275.4 million (\$2.61 per unit). This trade significantly reduced the FX related volatility for the amount available for the special distributions payable to GJT unit holders.

Following the conversion to Australian dollars of the majority of the net sale proceeds (detailed above), adjusting for post 30 June 2016 capital expenditure and allowing for the estimated wind-up costs in both Japan and Australia, GJFML’s current estimate of the total special distributions is between A\$2.68 and A\$2.69 per unit assuming an AUDJPY exchange rate of A\$1 = ¥78.08 on the residual Japanese yen denominated amount.

In addition to the special distributions, GJT expects to pay an ordinary distribution for the period from 1 July 2016 through the wind-up of GJT. This amount is currently estimated to be between 3.0 and 4.0 cents per unit.

Investors are reminded that the guidance provided relating to the estimated ordinary and total special distributions is based on information known and the exchange rate applicable at the time. The actual amount of the total special distributions remains subject to the completion of the winding up of the TK business in Japan and GJT, and the applicable exchange rates at which any remaining unhedged Japanese yen is converted into Australian dollars.

### FINANCIAL PERFORMANCE

Funds from operations (“FFO”)<sup>1</sup> of \$21.2 million for 30 June 2016, vs the prior corresponding period (“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 Notice of Meeting and Explanatory Memorandum dated 29 February 2016 (“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 has been reclassified from unitholders equity to current liability.

### 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.

<sup>1</sup> 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

## 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)<sup>1</sup> with the weighted average lease term to maturity on these leases being 9.2 years<sup>2</sup>. 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."

We would like to thank you for your continued support.



Neil Werrett  
Managing Director & Chief Executive Officer  
Galileo Japan Funds Management Limited



Peter Murphy  
Chief Operating Officer  
Galileo Japan Funds Management Limited

<sup>1</sup> 38% at 30 June 2015

<sup>2</sup> 10.2 years at 30 June 2015



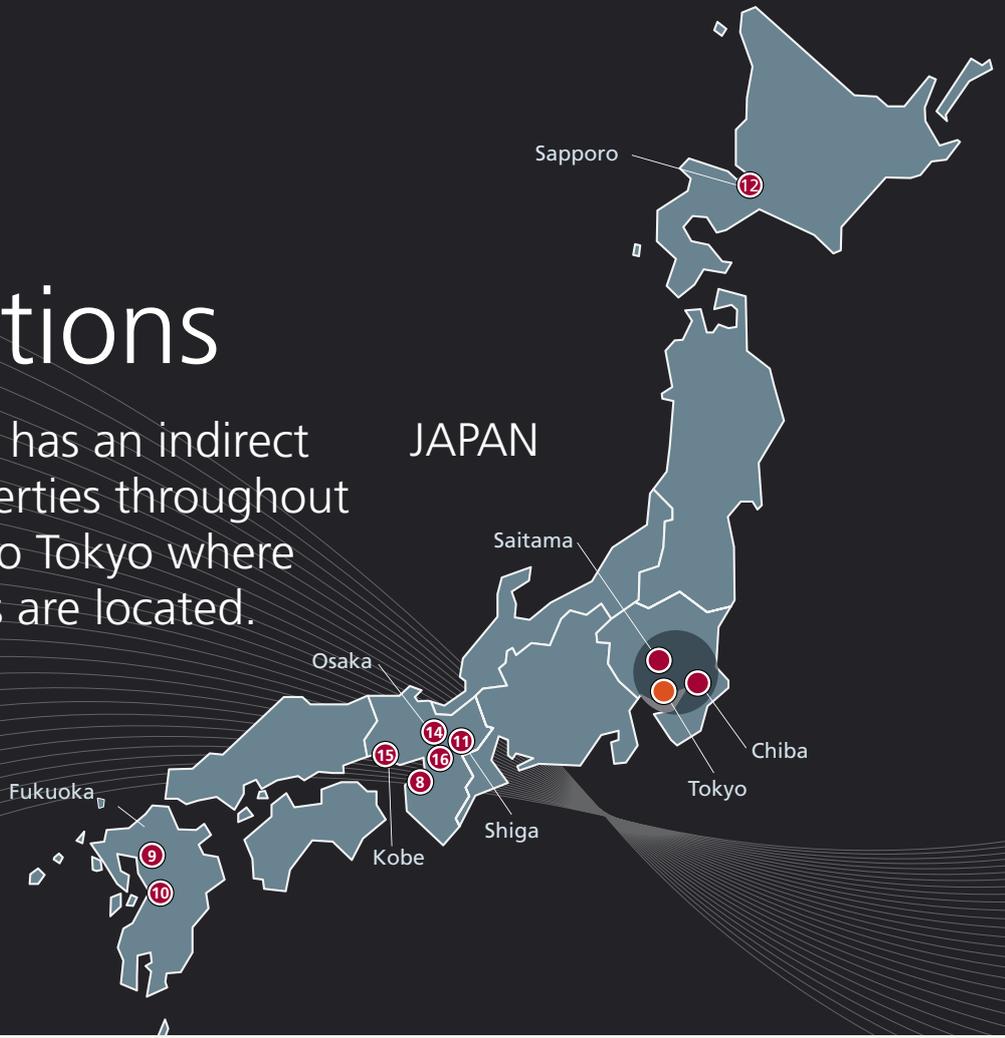
Galileo Japan Trust has an indirect beneficial interest in 18 properties valued at approximately ¥57.4 billion (\$752 million).

# PORTFOLIO OVERVIEW



# Our locations

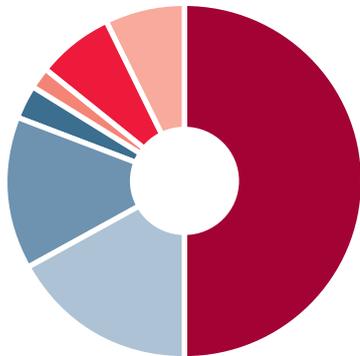
Galileo Japan Trust has an indirect interest in 18 properties throughout Japan with a bias to Tokyo where 10 of the 18 assets are located.



## In summary

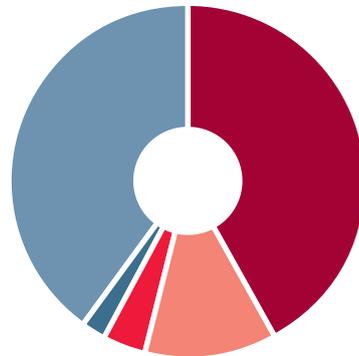
18 Properties  
 NRA – 198,140 sqm  
 Occupancy by area 96.1 %

GEOGRAPHICAL SPLIT BY VALUE



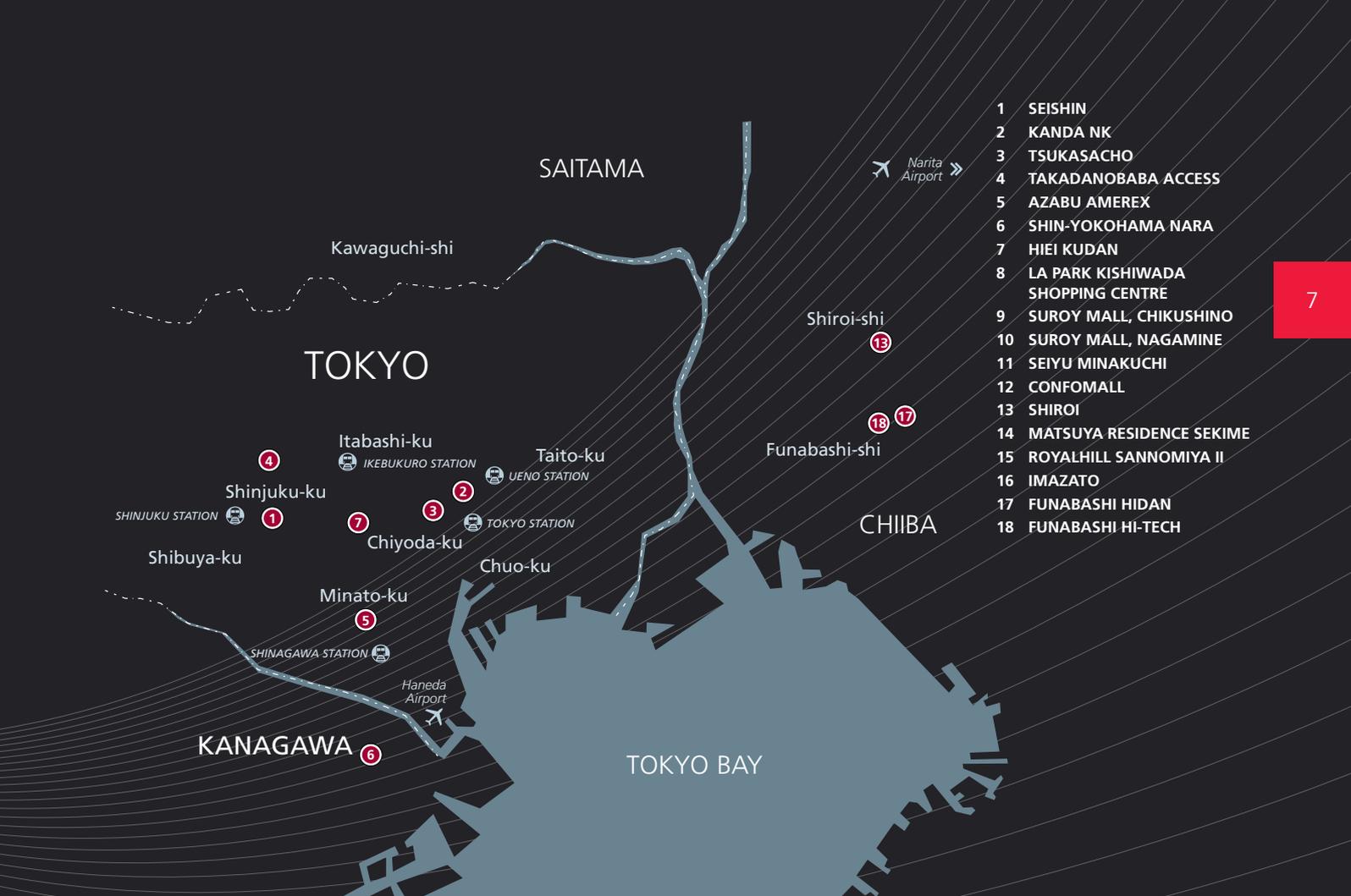
- Central and Greater Tokyo<sup>1</sup> 50%
- Osaka 17%
- Fukuoka 14%
- Kobe 3%
- Sapporo 2%
- Kumamoto 7%
- Shiga 7%

SECTOR SPLIT BY VALUE



- Office 42%
- Residential 12%
- Industrial 4%
- Mixed Use 2%
- Retail/Leisure 40%

<sup>1</sup> Greater Tokyo comprises of the metropolitan prefecture of Tokyo and the three neighbouring prefectures being Saitama, Kanagawa and Chiba.



Office Portfolio

7 properties

NRA – 24,535 sqm

42% of total portfolio by value

36% of total portfolio by income

Occupancy by area 97.3%

Retail/Mixed Use Portfolio

5 properties

NRA – 123,415 sqm

42% of total portfolio by value

47% of total portfolio by income

Occupancy by area 98.9%

Residential Portfolio

4 properties

NRA – 37,615 sqm

12% of total portfolio by value

14% of total portfolio by income

Occupancy by area 96.0%

Industrial Portfolio

2 properties

NRA – 12,575 sqm

4% of total portfolio by value

3% of total portfolio by income

Occupancy by area 66.3%

# Portfolio Summary

NO.	BUILDING NAME	ADDRESS	LOCATION	DATE ACQUIRED	AGE (YEARS)	NET RENTABLE AREA (TSUBO)	LEASED AREA AT 30 JUNE 2016	PROBABLE MAXIMUM LOSS (PML) <sup>1</sup>
<b>OFFICE</b>								
1	Seishin	2-5-10 Shinjuku, Shinjuku-ku	Tokyo	Dec 2006	27	1,699	95.5%	11.4%
2	Kanda NK	2-7-2 Sudacho Kanda, Chiyoda-ku	Tokyo	Dec 2006	25	1,027	100.0%	10.5%
3	Tsukasacho	2-6 Kanda Tsukasa-Machi, Chiyoda-ku	Tokyo	Dec 2006	28	983	100.0%	11.3%
4	Takadanobaba Access	2-20-15 Nishiwaseda, Shinjuku-ku	Tokyo	Dec 2006	22	1,117	100.0%	7.9%
5	Azabu Amerex	3-5-7 Azabudai, Minato-ku	Tokyo	Dec 2006	28	676	100.0%	11.3%
6	Shin-Yokohama Nara	2-2-8 Shin Yokohama, Kouhoku-ku, Yokohama-shi	Kanagawa	Jan 2008	24	1,225	90.0%	11.1%
7	Hiei Kudan	3-8-11 Kudan-minami, Chiyoda-ku	Tokyo	Dec 2006	25	695	100.0%	10.1%
<b>Total/Average Office<sup>2</sup></b>						<b>26</b>	<b>7,422</b>	<b>97.3%</b>
<b>RETAIL/LEISURE</b>								
8	La Park Kishiwada	21-1 Harakiwakamatsu-cho, Kishiwada-shi	Osaka	Jul 2007	22	14,793	97.5%	11.1%
9	Suroy Mall, Chikushino	836-4 Oaza Harada, Chikushino-shi	Fukuoka	Jul 2007	9	9,728	99.6%	5.7%
10	Suroy Mall, Nagamine	1-5-1 Nagamine Nishi, Kumamoto-shi	Kumamoto	Sep 2007	9	3,811	100.0%	10.9%
11	Seiyu Minakuchi	6084-1 Minakuchi, Minakuchi-cho, Koga-shi	Shiga	Jul 2007	17	7,204	100.0%	8.5%
<b>Total/Average Retail/Leisure<sup>2</sup></b>						<b>14</b>	<b>35,536</b>	<b>98.9%</b>
<b>MIXED USE</b>								
12	Confomall	1005-4 Minami 4 jyo Nishi 10 Chome, Chuo-ku, Sapporo-shi	Sapporo	Dec 2006	13	1,797	98.6%	2.8%
<b>Total/Average Mixed Use<sup>2</sup></b>						<b>13</b>	<b>1,797</b>	<b>98.6%</b>
<b>RESIDENTIAL</b>								
13	Shiroi	151-2 Fuji, Shiroi-shi	Chiba	Dec 2006	21	6,641	95.7%	10.6%
14	Matsuya Residence Sekime	6-6-24 Sekime, Jyoto-ku	Osaka	Dec 2006	27	2,350	97.2%	11.8%
15	Royalhill Sannomiya II Kobe	3-5-11 Kanoucho, Chuo-ku	Kobe	Dec 2006	12	977	98.2%	11.0%
16	Imazato	6-11-17 Shin-Imazato, ikuno-ku	Osaka	Dec 2006	25	1,411	93.9%	12.2%
<b>Total/Average Residential<sup>2</sup></b>						<b>17</b>	<b>11,379</b>	<b>96.0%</b>
<b>INDUSTRIAL</b>								
17	Funabashi Hidan	606-11 Suzumi-cho, Funabashi-shi	Chiba	Dec 2006	13	2,523	100.0%	5.9%
18	Funabashi Hi Tech	631-13 Toyotomi-cho, Funabashi-shi	Chiba	Dec 2006	15	1,281	0.0%	11.3%
<b>Total/Average Industrial<sup>2</sup></b>						<b>14</b>	<b>3,804</b>	<b>66.3%</b>
<b>TOTAL PORTFOLIO</b>						<b>20</b>	<b>59,937</b>	<b>96.1%</b>

<sup>1</sup> Real estate market utilises PML to evaluate the risk of damage to a building in the event of an earthquake.

<sup>2</sup> Averages are weighted by area (except for occupancy).



A high quality portfolio, well diversified by sector and location.

# PORTFOLIO DETAIL





## 1. Seishin

### DETAILS

Address	2-5-10 Shinjuku, Shinjuku-ku, Tokyo
Submarket	Shinjuku-ku
Sector	Office
Ownership Interest	98.5%

### STATISTICS

Land area (sqm)	875
NRA (sqm)	5,617
Year completed	1989
PML	11.4%

### TENANCY PROFILE (% of total rent)

Jorudan Co. Ltd	19%
Tomods Inc	12%
Ichijinsha Inc	10%

### DESCRIPTION

The property is a 10-storey multi-tenanted office building with a shop unit on the first storey and basement car park. Construction of this property was completed in 1989. The property is within the Shinjuku-ku sub-market and is about seven minutes walk from the Shinjuku Station. Developments in the vicinity are generally commercial in nature, having shop units on the first storey with offices on the upper floors.

## 2. Kanda NK

### DETAILS

Address	2-7-2 Sudacho, Chiyoda-ku, Tokyo
Submarket	Chiyoda-ku
Sector	Office
Ownership Interest	98.5%

### STATISTICS

Land area (sqm)	594
NRA (sqm)	3,394
Year completed	1991
PML	10.5%

### TENANCY PROFILE (% of total rent)

Vinx	87%
Wink	8%

### DESCRIPTION

The property is a 10-storey multi-tenanted office building with a basement car park and was completed in 1991. The property is within the Uchi-Kanda/Sudacho-Kanda sub-market and is about a five minute walk from the Akihabara Station. Developments in the vicinity are generally commercial in nature with shop units on the first storey with offices on the upper floors.

## 3. Tsukasacho

### DETAILS

Address	2-6 Kanda Tsukasa-Cho, Chiyoda-ku, Tokyo
Submarket	Chiyoda-ku
Sector	Office
Ownership Interest	98.5%

### STATISTICS

Land area (sqm)	709
NRA (sqm)	3,251
Year completed	1988
PML	11.3%

### TENANCY PROFILE (% of total rent)

Spectris Co. Ltd.	43%
Situs Management Inc.	28%
Japan Express Co. Ltd	20%

### DESCRIPTION

Tsukasacho is an eight-storey office building that was completed in 1988. The property is located in the Central Tokyo ward of Chiyoda-ku and is a four minute walk east of Awajicho station and a 10 minute walk north of Tokyo station. The property is located off Sotobori-dori, a major ring road which circles the Imperial Palace. The demand for small to mid-sized office space in the area is very high due to its accessibility to the other prominent office districts such as Marunouchi and Otemachi.



## 4. Takadanobaba Access

### DETAILS

Address	2-20-15 Nishiwaseda, Shinjuku-ku, Tokyo
Submarket	Shinjuku-ku
Sector	Office
Ownership Interest	98.5%

### STATISTICS

Land area (sqm)	915
NRA (sqm)	3,691
Year completed	1994
PML	7.9%

### TENANCY PROFILE (% of total rent)

Beauty Experience Inc	36%
Line Co Ltd	14%
Kaji Technology Corp.	12%
Regulus Co. Ltd	9%

### DESCRIPTION

Takadanobaba Access is a 14-storey multi-tenanted office building with a basement car park which was completed in 1994. The property is within the Takadanobaba sub-market and is about a nine minute walk from the Takadanobaba Station. Developments in the vicinity are generally commercial in nature; having shop units at street level with offices on the upper floors.

## 5. Azabu Amerex

### DETAILS

Address	3-5-7 Azabudai, Minato-ku, Tokyo
Submarket	Minato-ku
Sector	Office
Ownership Interest	98.5%

### STATISTICS

Land area (sqm)	606
NRA (sqm)	2,233
Year completed	1988
PML	11.3%

### TENANCY PROFILE (% of total rent)

Embassy of the Republic of Namibia	23%
Hoken Kagaku Co Ltd.	21%
Systems Go Corp	11%

### DESCRIPTION

The property is an eight-storey multi-tenanted office building with a restaurant/karaoke on the first storey and a basement level used for car parking. Azabu Amerex was completed in 1988 and is located in a popular diplomat precinct.

## 6. Shin-Yokohama Nara

### DETAILS

Address	2-2-8 Shin Yokohama, Kouhoku-ku, Yokohama-shi, Kanagawa
Submarket	Yokohama-shi
Sector	Office
Ownership Interest	98.5%

### STATISTICS

Land area (sqm)	701
NRA (sqm)	4,050
Year completed	1992
PML	11.1%

### TENANCY PROFILE (% of total rent)

Amphenol Japan K.K.	15%
Infinicon Co. Ltd	13%
Heichinrou Co. Ltd	13%
Marino K.K.	12%

### DESCRIPTION

Shin-Yokohama Nara is located in Yokohama City, Kanagawa Prefecture. Shin Yokohama is one of three major commercial centres in the Kanagawa Prefecture. The property is approximately 300 meters from Shin Yokohama station which is the only Shinkansen (bullet train) terminal in the Yokohama area.



## 7. Hiei Kudan

### DETAILS

Address 2-5-10 Shinjuku,  
Shinjuku-ku, Tokyo

Submarket Chiyoda-ku  
Sector Office  
Ownership Interest 98.5%

### STATISTICS

Land area (sqm) 633  
NRA (sqm) 2,299  
Year completed 1991  
PML 10.1%

### TENANCY PROFILE (% of total rent)

Japan M. Machinery Assoc. Inc 16%  
Guard Force Japan Ltd 13%  
K.K Pao 13%

### DESCRIPTION

Hiei Kudan was built in 1991 and is an 11-storey commercial building with nine parking spaces, ideally located in Central Tokyo. The property is located five minutes walk from Ichigaya Station on the JR Sobu Line. The proximity of Ichigaya Station has made this area popular among businesses that require accessibility to the major Shinjuku and Tokyo Stations. Hiei Kudan has excellent frontage along Yasukuni-dori and provides easy access to public transportation and an excellent view into the inner grounds of Yasukuni Shrine.

## 8. La Park Kishiwada Shopping Centre

### DETAILS

Address 21-1 Harakiwakamatsu-cho,  
Kishiwada-shi, Osaka

Submarket Kishiwada-shi  
Sector Retail/Leisure  
Ownership Interest 98.5%

### STATISTICS

Land area (sqm) 39,789  
NRA (sqm) 48,901  
Year completed 1994  
PML 11.1%

### TENANCY PROFILE (% of total rent)

Nagasakiya Co Ltd 36%  
Nobuta Enterprise Co Ltd 22%  
Sanki Co. Ltd 7%

### DESCRIPTION

La Park Kishiwada is a large shopping centre located 19 kilometres southwest of Osaka and 14 kilometres northeast of Kansai International Airport. The centre is anchored by Nagasakiya GMS (General Merchandise Store, a combined Department Store and Supermarket operation) and Mega Don Quijote (Discount Store). The centre also includes 30 speciality stores (known as 'KISPA'), Ten Pin Bowling Centre, Karaoke Centre, Pachinko Hall, City Council Offices and a Community/Sports Centre. The property is located 200 metres from Haruki Station which is on the JR line, which connects directly to Namba Station in the centre of Osaka. Approximately 16,000 passengers pass through Haruki Station each day.

## 9. Suroy Mall, Chikushino

### DETAILS

Address 836-4 Oaza Harada,  
Chikushino-shi, Fukuoka

Submarket Chikushino-shi  
Sector Retail/Leisure  
Ownership Interest 98.5%

### STATISTICS

Land area (sqm) 121,423  
NRA (sqm) 32,160  
Year completed 2007  
PML 5.7%

### TENANCY PROFILE (% of total rent)

Sakoda 24%  
Mr Max 21%  
Edion West 14%  
Red Cabbage 7%

### DESCRIPTION

Suroy Mall was purchased as part of a portfolio of three assets in July 2007. Suroy Mall is located approximately 20 kilometres southeast of Fukuoka. The property enjoys an excellent location on a major road, midway between the JR Harada and JR Keyakida Stations. The centre will accommodate a total of 25 tenants, and will operate as a Power Centre/Big Box retailing format, representing a new generation of retailing in the Japanese market.



## 10. Suroy Mall, Nagamine

### DETAILS

Address	1-5-1, Nagamine Nishi, Kumamoto-shi Kumamoto
Submarket	Kumamoto-shi
Sector	Retail/Leisure
Ownership Interest	98.5%

### STATISTICS

Land area (sqm)	28,546
NRA (sqm)	12,598
Year completed	2007
PML	10.9%

### TENANCY PROFILE (% of total rent)

To-sho Co. Ltd	21%
Sanki	19%
Kumamoto Halloday	16%
Arigato Service	13%

### DESCRIPTION

Suroy Mall was purchased in September 2007. The property occupies an "urban in-fill" location in an established neighbourhood surrounded by residential, commercial and industrial developments. The site is well positioned and accessible having frontage to three roads. Within the property there are 674 car parking spaces and 315 bicycle spaces.

## 11. Seiyu Minakuchi

### DETAILS

Address	6084-1 Minakuchi, Minakuchi-cho, Koga-shi, Shiga
Submarket	Koga-shi
Sector	Retail/Leisure
Ownership Interest	98.5%

### STATISTICS

Land area (sqm)	19,918
NRA (sqm)	23,815
Year completed	1999
PML	8.5%

### TENANCY PROFILE (% of total rent)

Seiyu	100%
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### DESCRIPTION

Seiyu Minakuchi was purchased as part of a portfolio of three assets in July 2007. Seiyu Minakuchi is a four storey department store/supermarket located in Minakuchi Town, which is part of the larger Shiga prefecture. The property is 100% leased to The Seiyu Corporation Co., Ltd (Seiyu), a well known GMS (General Merchandise Store) retailer in Japan which is majority owned by the Wal-Mart Corporation, the world's largest retailer as measured by sales volume.

## 12. Confomall

### DETAILS

Address	1005-4 Minami 4-ryo Nishi 10-chome, Chuo-ku Sapporo-shi, Hokkaido
Submarket	Sapporo-shi
Sector	Mixed Use
Ownership Interest	98.5%

### STATISTICS

Land area (sqm)	2,743
NRA (sqm)	5,940
Year completed	2003
PML	2.8%

### TENANCY PROFILE (% of total rent)

Central Sports	58%
Lawson	6%

### DESCRIPTION

The property is a 10-storey multi-tenanted retail and residential building. In addition, there is a basement level and a five-storey high mechanical car park station. The property is about seven minutes walk (500 metres) from the Nishi-II-chome railway station.



### 13. Shiroi

#### DETAILS

Address	151-2 Fujii, Shiroi-shi, Chiba
Submarket	Shiroi-shi
Sector	Residential
Ownership Interest	98.5%

#### STATISTICS

Land area (sqm)	12,951
NRA (sqm)	21,954
Year completed	1995
PML	10.6%

#### TENANCY PROFILE

(total number of units occupied)

Residential – Units	286
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#### DESCRIPTION

Shiroi is a 13-storey, 337 unit residential complex located in Chiba and within approximately 1.5 hours drive from Central Tokyo. The majority of units in the complex are three bedroom units. The Trust acquired 299 out of the total 337 units. Built in 1995, Shiroi offers individual parking spaces for each unit along with 340 parking spaces, 44 motorcycle parking spaces and 558 bicycle parking spaces. In addition, Shiroi includes a landscaped park and is adjacent to a large retail complex featuring a supermarket (Tobu Store) and a homewares store (Jumbo Encho).

### 14. Matsuya Residence Sekime

#### DETAILS

Address	6-6-24 Sekime, Jyoto-ku, Osaka-shi, Osaka
Submarket	Osaka-shi
Sector	Residential
Ownership Interest	98.5%

#### STATISTICS

Land area (sqm)	2,346
NRA (sqm)	7,767
Year completed	1989
PML	11.8%

#### TENANCY PROFILE

(total number of units occupied)

Residential – Units	127
---------------------	-----

#### DESCRIPTION

The property is a 15-storey apartment building that was completed in 1989. The property is within Jyoto-ku, which is to the east of Osaka Station. The property has a total of 131 one and two- bedroom apartments.

### 15. Royalhill Sannomiya II

#### DETAILS

Address	3-5-11 Kanoucho, Chuo-ku, Kobe-shi, Hyogo
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Submarket	Kobe-shi
Sector	Residential
Ownership Interest	98.5%

#### STATISTICS

Land area (sqm)	530
NRA (sqm)	3,231
Year completed	2004
PML	11.0%

#### TENANCY PROFILE

(total number of units occupied)

Residential – Units	111
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#### DESCRIPTION

The property is a 14-storey apartment building in addition to a basement level and a five-storey high mechanical car park station. The property was completed in 2004. There is a total of 112 apartments and a retail space.



## 16. Imazato

### DETAILS

Address 6-11-17 Shin-Imazato, Ikuno-ku, Osaka-shi, Osaka

Submarket Osaka-shi  
Sector Residential  
Ownership Interest 98.5%

### STATISTICS

Land area (sqm) 1,804  
NRA (sqm) 4,663  
Year completed 1991  
PML 12.2%

### TENANCY PROFILE

(total number of units occupied)

Residential – Units 64

### DESCRIPTION

The property is a 10-storey apartment building that was completed in 1991.

The property is within Ikuno-ku and has a total of 68 one and two-bedroom apartments. The apartments are located on the second to tenth storeys and a total of 34 car park lots are located at the front, side and rear compounds.

## 17. Funabashi Hidan

### DETAILS

Address 606-11 Suzumi-cho, Funabashi-shi, Chiba

Submarket Funabashi-shi  
Sector Industrial  
Ownership Interest 98.5%

### STATISTICS

Land area (sqm) 13,420  
NRA (sqm) 8,341  
Year completed 2003  
PML 5.9%

### TENANCY PROFILE (% of total rent)

Hidan 100%

### DESCRIPTION

Funabashi Hidan is a two level single-tenanted factory and distribution facility with 23 parking bays that was completed in 2003. The property is located within an inland industrial area that was purpose built in Funabashi-city given its strategic location between Tokyo and Narita (the location of Tokyo's main airport).

## 18. Funabashi Hi-Tech

### DETAILS

Address 631-13 Toyotomi-cho, Funabashi-shi, Chiba

Submarket Funabashi-shi  
Sector Industrial  
Ownership Interest 98.5%

### STATISTICS

Land area (sqm) 8,268  
NRA (sqm) 4,234  
Year completed 2001  
PML 11.3%

### TENANCY PROFILE (% of total rent)

Hidan –

### DESCRIPTION

Funabashi Hi-Tech (previously named Funabashi Tesco) is a two storey single tenanted factory. It was completed circa 2001. The property is within the Funabashi City sub market. Within the property there are approximately 58 car park bays.

Galileo Japan Trust has access to a team of professionals with extensive experience in property and asset management, development, acquisitions and divestments, and institutional funds management.

# MANAGEMENT TEAM

## Executive Team of Responsible Entity

### **NEIL WERRETT, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**

Neil is the Managing Director and Chief Executive Officer and founder of the Trust.

Neil was previously Global Head, Corporate Transactions and Product Development at AMP Henderson Global Investors (now AMP Capital Investors), where he was employed for 24 years in various roles covering property and property funds management. Neil's roles at AMP included property acquisitions and disposals, the establishment of the listed property trust business, ongoing capital raisings and participation in the management committee of the trusts.

Neil has been involved in the assessment of business and real estate opportunities in Japan since 1998 and established Galileo Japan Funds Management Limited in 2006.

### **PETER MURPHY, EXECUTIVE DIRECTOR AND CHIEF OPERATING OFFICER**

Peter has more than 20 years experience in the property industry in numerous capacities including valuations, as well as asset and funds management. Over the past 18 years, he has been directly involved in the management of various listed property entities.

Before joining Galileo Peter was at Multiplex (now Brookfield Multiplex) where he was Divisional Director, Institutional Funds responsible for in excess of \$3 billion in funds under management. He was also Group Manager, Marketing and Communication.

His role at Galileo entails development and execution of fund and portfolio strategy, acquisitions, divestments, reporting and investor communication.

### **BRETT BRADLEY, CHIEF FINANCIAL OFFICER**

Brett is the Chief Financial Officer and is responsible for financial reporting and other financial matters of the Trust. Brett was also the Chief Financial Officer of Galileo Funds Management Limited and has been with Galileo since its inception in 2003. Brett was previously a Principal in the real estate group at Ernst & Young in Sydney, where he was involved in the financial reporting and transaction support components of several listed property trusts in Australia. Prior to moving to Australia in 1996, Brett worked in the real estate group at Ernst & Young in the US.

### **GAVIN HOLMES, VICE PRESIDENT, FINANCE**

Gavin has been with Galileo since 2003 and supports the Chief Financial Officer with respect to the financial affairs of the Trust, including transaction finance, financial reporting and compliance. Gavin previously worked with Ernst & Young and has over 18 years experience in finance roles.

### **CAMELIA TAN, FINANCIAL ANALYST**

Camelia Tan is the financial analyst for the Trust. Camelia has previously worked as a financial analyst in the investment management division of Multiplex (now Brookfield Multiplex). She was involved in a range of responsibilities, including financial reporting and transaction support. Prior to that, Camelia worked in an audit role with KPMG. Camelia is a chartered accountant and speaks Japanese.

## DONNA DUGGAN, COMPANY SECRETARY AND COMPLIANCE OFFICER

Donna Duggan is company secretary and compliance officer for Galileo Japan Funds Management Limited. Donna is a lawyer and has over 20 years experience in predominantly property related matters including compliance. Donna is a member of the Governance Institute of Australia.

## Galileo Japan

Galileo Japan provides asset management services to the TK Operator and plays a coordination and management role with regard to the TK structure as a whole. Galileo Japan in particular liaises with its relationship partner Nippon Kanzai, in the provision of its asset management services.

## Japanese Relationship Partner

Management services are provided to the Japanese TK Business by Nippon Kanzai, a well credentialed Japanese property services group. Nippon Kanzai focuses on the creation and execution of value adding management strategies, portfolio level reporting and overseeing external property management service providers. Galileo Japan K.K works closely with Nippon Kanzai in order to maximise returns for the TK Business and indirectly to Unitholders.

Nippon Kanzai is an experienced and well respected real estate services provider, listed on the Tokyo Stock Exchange, with 50 years experience in the Japanese market, having been founded in 1965. Nippon Kanzai has principal offices in Tokyo and Osaka, in addition to a branch office network throughout Japan and employs approximately 7,000 people. Nippon Kanzai offers a broad variety of property related services including asset management, property management, risk management and building maintenance.

## TOKYO CAPITAL MANAGEMENT

Tokyo Capital Management is a wholly owned subsidiary of Nippon Kanzai.

Tokyo Capital Management provides management services for the following properties:

- Seishin
- Kanda NK
- Takadanobaba Access
- Azabu Amerex
- Matsuya Residence Sekime
- Royalhill Sannomiya II
- Imazato
- La Park Kishiwada
- Suroy Mall, Chikushino
- Seiyu Minakuchi
- Suroy Mall, Nagamine
- Shin-Yokohama Nara

The remaining properties are managed by Galileo Japan K.K.



The Board of Directors (the Board) of Galileo Japan Funds Management Limited (GJFML) is responsible for the corporate governance of the Trust and the determination of its strategic direction.

# CORPORATE GOVERNANCE

The Board is responsible for the corporate governance of the Trust and the determination of its strategic direction.

In accordance with the Corporations Act, the duties of the directors to unitholders of the Trust take priority over the duties of the directors to GJFML.

The Australian Securities Exchange (ASX) Corporate Governance Council's Principles and Recommendations 3rd edition (the **Recommendations**) are as follows:

- Principle 1.** Lay solid foundations for management and oversight
- Principle 2.** Structure the board to add value
- Principle 3.** Act ethically and responsibly
- Principle 4.** Safeguard integrity in corporate reporting
- Principle 5.** Make timely and balanced disclosure
- Principle 6.** Respect the rights of securityholders
- Principle 7.** Recognise and manage risk
- Principle 8.** Remunerate fairly and responsibly

Under ASX Listing Rule 4.10.3, GJFML must disclose in its annual report the extent to which it has followed the Recommendations. Where there has been a departure from the Recommendations, this fact must be disclosed, together with the reasons for the departure.

GJFML's corporate governance practices throughout the period ending 30 June 2016 are compliant with the Recommendations except that there was no internal audit function during the period.

This statement is current as at 29 August 2016 and has been approved by the Board.

For further information on corporate governance policies adopted by the Trust, refer to our website: [www.galileofunds.com.au](http://www.galileofunds.com.au)

## Structure of the Board

The skills, experience and expertise relevant to the position held by each director in office at the date of this report are included below. Directors of GJFML are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could be reasonably perceived to interfere with, the exercise of their responsibilities as directors.

In the context of director independence materiality is considered from both the company and the individual director perspective. The determination of materiality requires consideration of both qualitative and quantitative factors. Qualitative factors include whether a relationship is strategically important, the nature of the relationship and the contractual and other arrangements that govern that relationship. An item is considered to be quantitatively material if it is equal to or greater than 10% of the appropriate base amount and immaterial where it is equal to or less than 5% of the appropriate base amount.

With respect to the Trust all five of the directors have been in office for the period from 10 November 2006 (date the Trust was registered with ASIC) to 30 June 2016 and as at the date of this report. Of the five directors, the Board considers the following three directors to be external and independent directors:

NAME	POSITION	TERM IN OFFICE
Jack Ritch	Non-executive Chairman	9 years, 10 months
Philip Redmond	Non-executive Director	9 years, 10 months
Frank Zipfinger	Non-executive Director	9 years, 10 months

The two executive directors in office at the date of this report are:

NAME	POSITION	TERM IN OFFICE
Neil Werrett	Managing Director and Chief Executive Officer	9 years, 10 months
Peter Murphy	Executive Director and Chief Operating Officer	9 years, 10 months

The role of the Board includes:

- providing strategic direction and deciding upon the Trust's business strategies and objectives;
- monitoring the operational and financial position and performance of the Trust;
- identifying the principal risks faced by the Trust and monitoring the effectiveness of systems designed to provide reasonable assurance that these risks are being managed;
- taking steps to ensure that the Trust's financial and other reporting mechanisms result in adequate, accurate and timely information being provided to the Board; and
- taking steps to ensure that unitholders and the market are fully informed of all material developments.

As part of an effective organisational structure, the Board has delegated certain of its responsibilities to the Audit Compliance and Risk Management Committee and day to day management to senior executives. In order to aid them in performing their duties the individual directors are entitled to have access to all records relating to the Trust, to the executive team and management and to seek independent professional advice, at GJFML's expense.

## Board Profiles

### JACK RITCH, NON-EXECUTIVE CHAIRMAN

Jack was Non-Executive Chairman, AMP Capital Investors Limited, from April 2004 to March 2009. Prior to that, Jack was Managing Director and Chairman of the company from 1999 to April 2004. From 1987 to 1999, Jack held the position of Director, Property, during which time he was responsible for managing AMP's \$9 billion property portfolio. Prior to 1987, he held a variety of other positions within the AMP Group, which he joined in 1958.

In April 2012, Jack retired as Chairman of Australia Pacific Airports Corporation Limited (owner of Melbourne and Launceston airports). His other activities include Chairman of the Powerhouse Museum Foundation.

### FRANK ZIPFINGER, NON-EXECUTIVE DIRECTOR

Frank is Chairman of the Investor Representative Committees of the AMP Capital Wholesale Office Fund and the AMP Capital Shopping Centre Fund. Frank is also a Non-executive Director of MHPF Premium Farms (Holdings) Pty Ltd and the Northcare Foundation. Frank is a member of the Australian Institute of Company Directors. He is a member of the Executive Committee of the St Joseph's College Indigenous Fund, a council member of Macquarie University, a member of the board of Melbourne Business School and a Director of the Australian Youth Orchestra.

Frank has over 30 years experience in the property industry. He was formerly a Partner in the Property, Construction & Environment practice of the Sydney office of Mallesons Stephen Jaques where he specialised in property investment and development. Frank was also the Chairman of Mallesons Stephen Jaques from 1 February 2005 until 30 June 2010. Prior to this appointment, Frank completed over five years in various roles as a Managing Partner with the firm

### PHILIP REDMOND, NON-EXECUTIVE DIRECTOR

Philip has over 30 years experience in the real estate industry in Australia, including 12 years at UBS where he held the position of Managing Director – Head of Real Estate Australasia. Philip has played a leading role in the development of the listed property trust sector within Australia and has a comprehensive understanding of financial markets. Philip is also a Non-Executive Director with Shopping Centres Australasia Group and is a member of the Australian Institute of Company Directors.

### NEIL WERRETT, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Neil is the Managing Director and Chief Executive Officer and founder of the Trust.

Neil was previously Global Head, Corporate Transactions and Product Development at AMP Henderson Global Investors (now AMP Capital Investors), where he was employed for 24 years in various roles covering property and property funds management. Neil's roles at AMP included property acquisitions and disposals, the establishment of the listed property trust business, ongoing capital raisings and participation in the management committee of the trusts. Neil has been involved in the assessment of business and real estate opportunities in Japan since 1998 and established Galileo Japan Funds Management Limited in 2006.

### PETER MURPHY, EXECUTIVE DIRECTOR AND CHIEF OPERATING OFFICER

Peter has more than 20 years experience in the property industry in numerous capacities including valuations, as well as asset and funds management. Over the past 18 years, he has been directly involved in the management of various listed property entities.

Before joining Galileo, Peter was at Multiplex (now Brookfield Multiplex) where he was Divisional Director, Institutional Funds responsible for in excess of \$3 billion in funds under management. He was also Group Manager, Market and Communications.

His role at Galileo entails development and execution of fund and portfolio strategy, acquisitions, divestments, reporting and investor communication.

## Audit Compliance and Risk Management Committee

The board has established an Audit Compliance and Risk Management Committee (the **Committee**) under a formal charter setting out its composition, operation and responsibilities. All members of the Committee are independent, being:

- Frank Zipfinger (Chairman);
- Philip Redmond; and
- Jack Ritch.

For details of the qualifications of members of the Committee, refer to the board profiles included above.

The Committee's responsibilities include:

- reviewing the integrity of the financial statements;
- reviewing external reporting procedures including accounting policies, financial statements, analysts briefings and continuous disclosure and seeking to ensure that internal financial control systems, risk management policies and risk management systems are adequate to provide an effective assurance of the integrity of financial statements;
- assessing the independence of the external auditor, considering any request to provide non-audit services, and making recommendations in respect of the auditor's engagement;
- reviewing the propriety of, and approval of, all related party transactions;
- reviewing compliance with the Trust's compliance plan and the Corporations Act;
- reviewing any incident involving fraud or other break down of the internal control system;
- reviewing the entity's insurance program; and
- reviewing financial management, including management of the Trust's funding, hedging, liquidity and insurance coverage.

The Committee reports to the Board on the outcome of its reviews and discussions with the external auditors and its findings on matters which have or are likely to have a material effect on the operating results or financial position of the Trust.

The Committee is authorised to obtain information from any employee and has direct access to GJFML's financial advisors and lawyers.

The Committee meets not less than four times a year and at such other times as any member of the Committee shall require.

During the period ended 30 June 2015 there were 4 meetings and all members of the Committee attended all meetings.

The Committee conducted an annual review of the risk management framework and was satisfied that the framework continues to be sound.

Due to the size of GJFML's operations, there was no internal audit function during the financial year. Consequently, the Committee places greater reliance on the external auditors, the Chief Executive Officer, the Chief Financial Officer and the Compliance Officer that GJFML has a sound system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risks.

The external auditor is PricewaterhouseCoopers. The lead engagement partner and review partner are required to be rotated at least every five years, the latest rotation occurred during the period ended 30 June 2012. Any non-audit services provided by the auditor will be subject to disclosure in the financial report.

Additionally, PricewaterhouseCoopers has been engaged to audit the compliance plan. The compliance plan auditor provides an audit opinion to the board which, together with the Trust's financial report, is lodged with ASIC.

The Committee is satisfied that GJFML does not have any material exposure to economic, environmental and social sustainability risks.

## Performance

GJFML undertakes a formal review of the Board's performance each year most recently in May 2016.

Each year the Chairman is required to complete a board assessment questionnaire, based upon discussions with Board members, which analyses their performance. The questionnaire covers the following matters:

- Board contribution to developing strategy and policy as it relates to the Trust;
- interaction between the Board and management, and between Board members;
- Board processes to monitor Trust performance and compliance, control risk and evaluate management;
- Board composition and structure; and
- operation of the Board, including the conduct of the Board meetings and committee meetings.

## Remuneration

The remuneration of GJFML in its capacity as Responsible Entity is regulated by clause 32 of the Trust's Constitution. Management fees and expenses payable for the period ended 30 June 2016 are set out in note 19 of the financial statements.

The remuneration of directors is paid by GJFML, using its own funds and any of the fees payable by the Trust to GJFML. Accordingly, the Trust does not directly bear the costs of any director. The Board of GJFML may consider the remuneration payable to its independent directors from time to time. Remuneration for independent directors is approved by the Managing Director and is benchmarked to market rates.

The remuneration of executives is paid by a GJFML related entity using its own funds, such that the Trust does not directly bear the costs of any executive or employee. Remuneration of executives is determined by the Managing Director from time to time.

GJFML aims to ensure that its remuneration practices:

- are fair and reasonable;
- attract and retain high calibre staff;
- are managed to mitigate risk and be in line with corporate governance and legal requirements;
- motivate management to pursue the long term goals of the Trust; and
- demonstrate a relationship between executive performance and remuneration.

## Ethical Standards

GJFML is committed to ensuring that it acts responsibly and with integrity in relation to its dealings with the Trust and unitholders. Each director and employee is required to place the interests of unitholders above that of GJFML and to act in good faith, and with care and diligence. GJFML has a Code of Conduct and Business Ethics which must be complied with at all times. In addition, GJFML has a Director's Code of Conduct which the directors of GJFML must comply with at all times.

## Trading Policy

The Board of GJFML has adopted a securities trading policy. It provides that directors and employees of GJFML must not buy or sell securities when they are in possession of price sensitive information relating to the Trust which is not generally available to the market. To avoid any adverse inference being drawn of unfair dealing, directors and employees must not deal in the Trust's securities during the four weeks before, and for one full trading day after, the release of the half year and full year results announcements. The Board may also impose additional non-trading periods at any time by notice. Directors and employees must not buy or sell the company's securities until approval has been given by the Chairman or Chief Executive Officer.

In accordance with ASX Listing Rule 12.9, a copy of the securities trading policy has been released to the market.

## Continuous Disclosure and Communication

The Trust is a disclosing entity for the purposes of the Corporations Act and complies with the continuous disclosure regime under the ASX Listing Rules and Corporations Act. GJFML has a Continuous Disclosure Policy which must be complied with at all times. In accordance with ASX Listing Rule 4.10.19 the Trust has used cash and assets that it had at the time of listing in a manner consistent with its business objectives. GJFML has established internal systems and procedures to ensure that timely disclosure is made to the ASX to support an informed market. The Trust also provides periodic reports to unitholders and places key announcements on its website. Under the Corporations Act, the Trust is not required to hold an annual meeting with scheme members and we do not intend to have an annual meeting with respect to the financial year ended 30 June 2016.

# INVESTOR RELATIONS

## Unitholder Enquiries

**The Trust Website address is:**  
**[www.galileofunds.com.au](http://www.galileofunds.com.au)**

The site contains a variety of investor information including unit price, announcements to the ASX, and the latest financial reports.

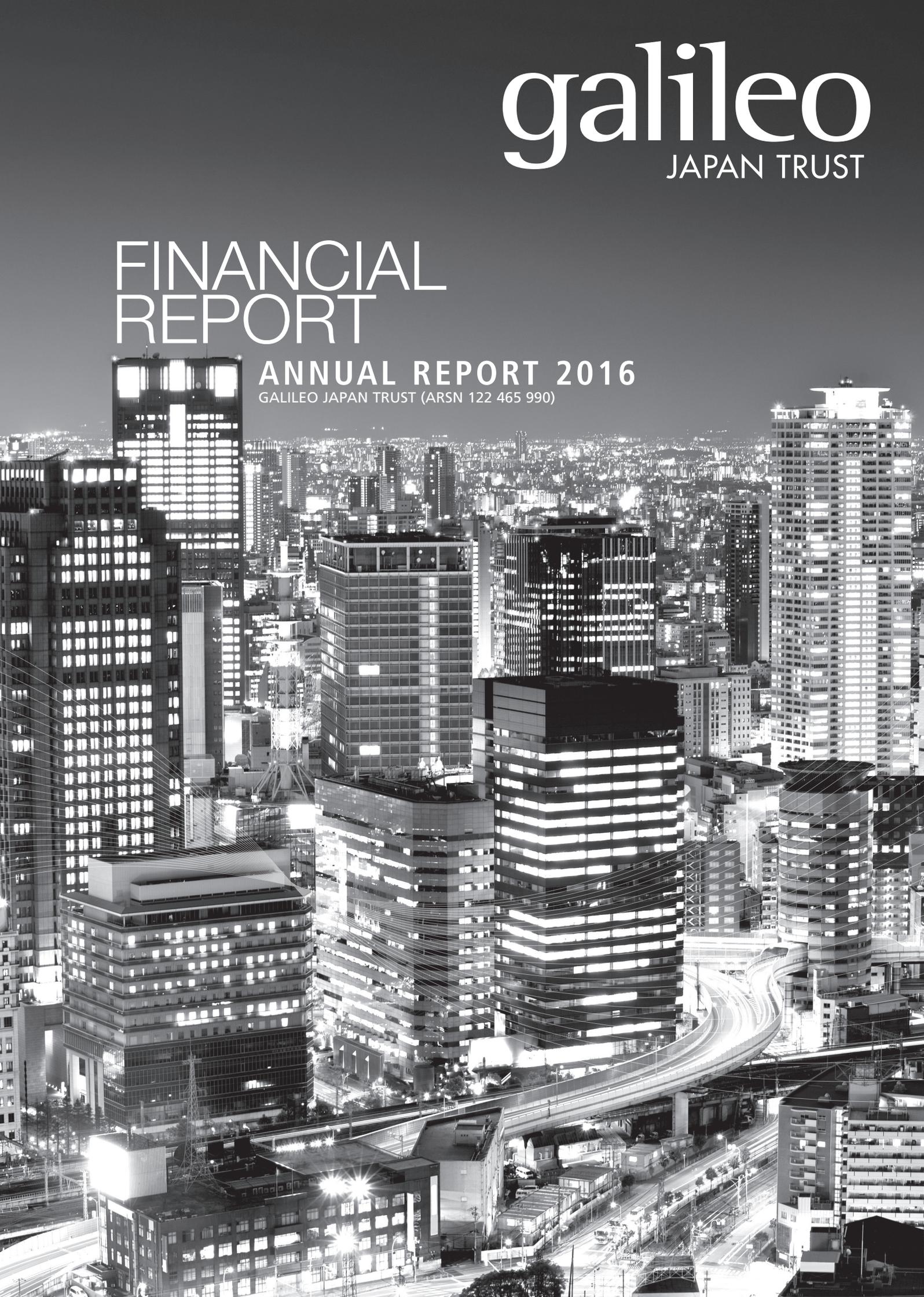
**The Trust's freecall hotline number is: 1800 709 446**

Link Market Services operates a freecall number on behalf of the Responsible Entity. Please call if you have any questions in relation to the following matters:

- change of address details of unitholder;
- request to have distributions paid by direct credit to a bank account;
- request not to receive an Annual or Half Year Report; or
- provision of Tax File Numbers.







galileo  
JAPAN TRUST

# FINANCIAL REPORT

ANNUAL REPORT 2016  
GALILEO JAPAN TRUST (ARSN 122 465 990)

## For the year ended 30 June 2016

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# Directors' Report

FOR THE YEAR ENDED 30 JUNE 2016

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 year ended 30 June 2016.

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.

## 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.

On 23 March 2016, at an extraordinary general meeting, unitholders approved the proposed sale of the Japanese property portfolio (in which the Trust has an indirect interest), the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust. The associated Notice of Meeting and Explanatory Memorandum dated 29 February 2016 ('EM') provided that the proposed sale of the Japanese property portfolio was conditional on unitholder approval (granted on 23 March 2016) and the successful listing of a new J-REIT on the Tokyo Stock Exchange ('TSE'). 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 of preparation all assets and liabilities are measured at net realisable value.

## Events subsequent to balance date

On 5 August 2016 a new J-REIT, Sakura Sogo REIT, received approval to list its investment units on the TSE. Key dates relating to the public offer are outlined below:

Official Launch	-	Friday 5 August 2016
Investor Roadshow	-	Tuesday 9 August to Monday 22 August 2016
Expected Listing Date	-	Thursday 8 September 2016

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 initial public offering ('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 net assets payable to unitholders as at 30 June 2016 is \$2.79 per unit. This is based on the foreign exchange rate at the balance date, being A\$1=¥76.23. The net assets per unit payable to unitholders is subject to fluctuations in the prevailing exchange rate. The foreign exchange rate on 31 August 2016 was A\$1=¥77.48 which equates to net assets per unit payable to unitholders of \$2.75.

As indicated in the EM, any distributions from the proposed sale of the Japanese Property Portfolio in which GJT has an indirect interest, the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust will be subject to the prevailing AUD/JPY exchange rate at the time any net sale proceeds are received by the Trust from the TK Business and converted into Australian dollars.

The Directors are not aware of any other matter or circumstance occurring since 30 June 2016 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.

# Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

## Directors

The following persons have held office as directors of the Responsible Entity during the year ended 30 June 2016 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 year ended 30 June 2016 there were 12 directors' meetings held and all directors were present. During the year ended 30 June 2016 there were also 13 meetings held by the Committee of Independent Directors.

## Details of directors

### Jack Ritch, Non-Executive Chairman

Jack was non-executive Chairman of AMP Capital Investors Limited from April 2004 to March 2009. Prior to that, Jack was Managing Director and Chairman of the company from 1999 to April 2004. From 1987 to 1999, Jack held the position of Director, Property, during which time he was responsible for managing AMP's \$9 billion property portfolio. Prior to 1987, he held a variety of other positions within the AMP Group which he joined in 1958. In April 2012 he retired as Chairman of Australia Pacific Airports Corporation Limited (owner of Melbourne and Launceston airports). His other activities include Chairman of the Powerhouse Museum Foundation.

### Philip Redmond, Non-Executive Director

Philip has over 30 years' experience in the real estate industry in Australia, including 12 years at UBS where he held the position of Managing Director – Head of Real Estate Australasia. Philip has played a leading role in the development of the listed property trust sector within Australia and has a comprehensive understanding of financial markets. Philip is also a Non-Executive Director with Shopping Centres Australasia Group and is a Member of the Australian Institute of Company Directors.

### Frank Zipfinger, Non-Executive Director

Frank is chairman of the Investor Representative Committees of the AMP Capital Wholesale Office Fund and the AMP Capital Shopping Centre Fund. Frank is also a non-executive director of MHPF Premium Farms (Holdings) Pty Ltd and the Northcare Foundation. Frank is a Member of the Australian Institute of Company Directors. He is Chairman of Oneland Programs Ltd, a member of the Executive Committee of the St Joseph's College Indigenous Fund, a council member of Macquarie University, a member of the Board of Melbourne Business School and a Director of the Australian Youth Orchestra. Frank has over 30 years' experience in the real estate industry. He was formerly a Partner in the Property, Construction & Environment practice of the Sydney office of Mallesons Stephen Jaques where he specialised in property investment and development. Frank was also the Chairman of Mallesons Stephen Jaques from 1 February 2005 until 30 June 2010. Prior to this appointment, Frank completed over five years in various roles as a Managing Partner with the firm.

### Neil Werrett, Managing Director and Chief Executive Officer

Neil is the Managing Director and Chief Executive Officer and founder of the Trust. Neil was previously Global Head, Corporate Transactions and Product Development at AMP Henderson Global Investors (now AMP Capital Investors), where he was employed for 24 years in various roles covering property and property funds management. Neil's roles at AMP included property acquisitions and disposals, the establishment of the listed property trust business, ongoing capital raisings and participation in the management committee of the trusts. Neil has been involved in the assessment of business and real estate opportunities in Japan since 1998 and established Galileo Japan Funds Management Limited in 2006.

### Peter Murphy, Executive Director and Chief Operating Officer

Peter has more than 20 years experience in the property industry in numerous capacities including valuations, as well as asset and funds management. Over the past 18 years, he has been directly involved in the management of various listed property entities. Before joining Galileo, Peter was at Multiplex (now Brookfield Multiplex) where he was Divisional Director, Institutional Funds responsible for in excess of \$3 billion in funds under management. He was also Group Manager, Marketing and Communications. His role at Galileo entails development and execution of fund and portfolio strategy, acquisitions, divestments, reporting and investor communication.

# Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

## Details of Company Secretary

### Donna Duggan, Company Secretary and Compliance Officer

Donna Duggan is Compliance Officer and Company Secretary for Galileo Japan Funds Management Limited. Donna is a lawyer and has a Governance Institute of Australia's Graduate Diploma in Applied Corporate Governance.

## Directors' relevant Interests 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 30 June 2016. There are no options to buy units in the Trust held by any of the Directors of the Responsible Entity.

	Distribution Due	Units held 30 June 2016	Units held 30 June 2015
Jack Ritch	\$1,827	21,000	9,540
Phillip Redmond	\$870	10,000	10,000
Frank Zipfinger	\$2,175	25,000	11,000
Neil Werrett*	\$334,808	3,848,364	3,848,364
Peter Murphy	\$1,462	16,803	16,803

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

## Operating and Financial Review

### Sale of Japanese TK Business investment property

On 28 April 2016, the Japanese TK business completed the sale of its beneficial interest in Utsubo, Osaka for ¥450 million (\$5.4 million). The sale price was equal to the forecast sale proceeds outlined in the EM.

### Financial results

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 of preparation all assets and liabilities are measured at net realisable value.

In addition, as the unitholders have approved the proposed sale and the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust, the units on issue have been reclassified from equity to liabilities on 23 March 2016, being the approval date.

Key points relating to the financial result for the year ended 30 June 2016 are summarised below.

- Net result for the year of \$62.4 million (30 June 2015: \$25.5 million).
- Unrealised foreign exchange gain for the year of \$58.5 million (30 June 2015: gain of \$5.5 million) as a result of the stronger Japanese yen at 30 June 2016 (\$1.00 = ¥76.23) compared to 30 June 2015 (\$1.00 = ¥93.92);
- Fair value gain on financial assets held at fair value through profit or loss for the year of \$22.5 million (30 June 2015: \$21.6 million);
- Net assets payable to unitholders of \$294.3 million or \$2.79 per unit at 30 June 2016 (net asset value per unit at 30 June 2015: \$2.29);
- The foreign exchange rate at the balance date was A\$1=¥76.23 (30 June 2015: A\$1=¥93.92) while the average foreign exchange rate for the year was A\$1=¥84.98 (30 June 2015: A\$1=¥95.55).

Through its indirect investment in the Japanese TK Business, the Trust holds a beneficial interest in 18 properties (30 June 2015: 19 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 30 June 2016 the fair value of investment property equates to ¥57.36 billion (\$752.5 million) being the agreed sale price outlined in the EM. This represents an increase of 2.0% from 30 June 2015 (¥56.25 billion; \$598.9 million) and an increase of 3.5% on a like-for-like basis (in Japanese yen terms). Investment property in Australian dollars increased by 25.6% as a result of the stronger Japanese yen at 30 June 2016.

# Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

## Distributions

4

As announced to the market on 21 June 2016 the Trust will pay a distribution for the six months ended 30 June 2016 of 8.7 cents per unit on 31 August 2016. Together with the interim distribution paid in February 2016 of 8.7 cents per unit, the total distribution for the year ended 30 June 2016 is 17.4 cents per unit. The Trust's Distribution Reinvestment Plan is not in operation.

## Fees Paid by the Trust to the Responsible Entity

Fees paid or payable to the Responsible Entity for services provided during the year are determined in accordance with the Trust Constitution and disclosed in Note 19 Related party disclosures of the financial statements. 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.

## Likely developments and expected results of operations

Other than matters already included in the Directors' Report, information on likely developments and expected results of operations have not been included in this annual financial report as the Directors believe it would be likely to result in unreasonable prejudice to the Trust.

## Rounding of amounts

The Trust is a registered scheme of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities & Investments Commission relating to the 'rounding' 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 Instrument unless otherwise indicated.

## Indemnification and insurance of directors, officers and auditors

The Responsible Entity has insured the directors and officers against liabilities incurred in their role as directors and officers of the Responsible Entity. The Trust reimburses the Responsible Entity based on the benefit it receives under the policy. The directors and officers are indemnified out of the assets of the Trust as long as they act in accordance with the Trust Constitution and the Corporations Act 2001. The auditor of the Trust is in no way indemnified out of the assets of the Trust, nor has the Trust indemnified or agreed to indemnify an auditor of the Trust against a liability incurred as an auditor.

## Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of the Responsible Entity support the principles of corporate governance. The Responsible Entity's corporate governance statement is contained in the Corporate Governance section of the Annual Report.

## Environmental regulation

To the best of the Directors' knowledge the operations of the Trust have been undertaken in compliance with the applicable environmental regulations in each jurisdiction in which the Trust operates.

## Non-audit services

The Responsible Entity may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience are important. Details of amounts paid or payable to the Trust's auditor (PricewaterhouseCoopers) for audit and non-audit services are set out in Note 4 Auditors remuneration in the financial statements. The directors of the Responsible Entity are satisfied that the provision of non-audit services by the auditor, as set out in Note 4, did not compromise the auditor independence requirements of the Corporations Act 2001 as none of the services undermine the general principals relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*.

# Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

## 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. PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

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



Jack Ritch  
Chairman

31 August 2016

# Auditor's Independence Declaration

FOR THE YEAR ENDED 30 JUNE 2016



## Auditor's Independence Declaration

As lead auditor for the audit of Galileo Japan Trust for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

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

E A Barron  
Partner  
PricewaterhouseCoopers

Sydney  
31 August 2016

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Liability limited by a scheme approved under Professional Standards Legislation.

# Income Statement

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
<b>Revenue and other income</b>			
Fair value gain on financial assets held at fair value through profit or loss	8	22,531	21,589
Unrealised foreign exchange gain		58,522	5,544
Interest income		1	7
<b>Total revenue and other income</b>		<b>81,054</b>	<b>27,140</b>
<b>Expenses</b>			
Responsible entity fees and costs	19	(676)	(630)
Auditors remuneration	4	(391)	(322)
Transaction costs and Trust wind-up costs	5	(5,298)	-
Borrowing costs (distribution)	3	(9,169)	-
Professional fees		(347)	(234)
Other expenses		(517)	(395)
Realised foreign exchange loss		(1,783)	(24)
Unrealised Financial instrument loss	10	(450)	(87)
<b>Total expenses</b>		<b>(18,631)</b>	<b>(1,692)</b>
<b>Net result before tax for the year</b>		<b>62,423</b>	<b>25,448</b>
Income tax	6	-	-
<b>Net result after tax for the year</b>		<b>62,423</b>	<b>25,448</b>
Increase in net assets attributable to unitholders	11	(16,959)	-
<b>Net profit after tax for the period from 1 July 2015 to 23 March 2016 / year</b>	<b>11/13</b>	<b>45,464</b>	<b>25,448</b>

Basic and diluted earnings per unit (dollars)

0.59

0.24

The Income Statement has been prepared on a liquidation basis and should be read in conjunction with the accompanying notes.

# Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2016

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	2016 \$'000	2015 \$'000
Net profit after tax for the period from 1 July 2015 to 23 March 2016 / year	45,464	25,448
Other comprehensive income	-	-
<b>Total comprehensive income for the period from 1 July 2015 to 23 March 2016 / year</b>	<b>45,464</b>	<b>25,448</b>

The Statement of Comprehensive Income has been prepared on a liquidation basis and should be read in conjunction with the accompanying notes.

# Balance Sheet

AS AT 30 JUNE 2016

	Note	30 June 2016 \$'000	30 June 2015 \$'000
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	17	1,422	1,797
Trade and other receivables	7	134	89
Financial asset at fair value through profit or loss (held for sale)	8	307,498	-
<b>Total Current Assets</b>		<b>309,054</b>	<b>1,886</b>
<b>Non-Current Assets</b>			
Financial asset at fair value through profit or loss (held for sale)	8	-	248,030
<b>Total Non-Current Assets</b>		<b>-</b>	<b>248,030</b>
<b>TOTAL ASSETS</b>		<b>309,054</b>	<b>249,916</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	9	5,163	169
Other liabilities	10	450	87
Accrued borrowing costs (distribution)	3	9,169	8,642
Net assets payable to unitholders	11	294,272	-
<b>Total Current Liabilities</b>		<b>309,054</b>	<b>8,898</b>
<b>TOTAL LIABILITIES</b>		<b>309,054</b>	<b>8,898</b>
<b>NET ASSETS</b>		<b>-</b>	<b>241,018</b>
<b>UNITHOLDERS' EQUITY</b>			
Contributed equity	12	-	526,378
Accumulated losses	13	-	(285,360)
<b>TOTAL EQUITY</b>		<b>-</b>	<b>241,018</b>

The Balance Sheet has been prepared on a liquidation basis and should be read in conjunction with the accompanying notes.

# Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2016

	Contributed Equity \$'000	Accumulated Losses \$'000	Total \$'000
<b>Balance at 1 July 2015</b>	<b>526,378</b>	<b>(285,360)</b>	<b>241,018</b>
Profit for the period to 23 March 2016	-	45,464	45,464
<b>Transactions with Unitholders in their capacity as unitholders:</b>			
Distribution paid or payable during the period ended 23 March 2016	-	(9,169)	(9,169)
Transfer to Net Assets Payable to Unitholders	(526,378)	249,065	(277,313)
<b>Balance at 30 June 2016</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance 1 July 2014</b>	<b>528,278</b>	<b>(295,035)</b>	<b>233,243</b>
Profit for the year	-	25,448	25,448
<b>Transactions with Unitholders in their capacity as unitholders:</b>			
Buy-back of share capital	(1,900)	-	(1,900)
Distribution paid or payable	-	(15,773)	(15,773)
<b>Balance at 30 June 2015</b>	<b>526,378</b>	<b>(285,360)</b>	<b>241,018</b>

The Statement of Changes in Equity has been prepared on a liquidation basis and should be read in conjunction with the accompanying notes.

# Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Interest received		1	7
Operating costs paid		(2,213)	(1,634)
GST received/(paid)		(67)	456
<b>Net cash outflow from operating activities</b>	<b>18</b>	<b>(2,279)</b>	<b>(1,171)</b>
<b>Cash flows from investing activities</b>			
Distributions received	<b>8</b>	19,457	14,486
<b>Net cash inflow from investing activities</b>		<b>19,457</b>	<b>14,486</b>
<b>Cash flows from financing activities</b>			
On-market unit buy-back	<b>12</b>	-	(1,900)
Distributions paid to unitholders		(17,682)	(14,650)
<b>Net cash inflow from financing activities</b>		<b>(17,682)</b>	<b>(16,550)</b>
Net decrease in cash and cash equivalents		(504)	(3,235)
Effect of foreign exchange movements on cash		129	77
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,797</b>	<b>4,955</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>17</b>	<b>1,422</b>	<b>1,797</b>

The Statement of Cash Flows has been prepared on a liquidation basis and should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

## 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.

## 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.

On 23 March 2016, at an extraordinary general meeting, unitholders approved the proposed sale of the Japanese property portfolio in which the Trust has an indirect interest, the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust. The associated Notice of Meeting and Explanatory Memorandum dated 29 February 2016 ('EM') provided that the proposed sale of the Japanese portfolio was conditional on unitholder approval (granted on 23 March 2016) and the successful listing of a new J-REIT on the Tokyo Stock Exchange ("TSE").

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of the Trust Constitution, Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. The financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. The Trust is a for-profit entity for the purpose of preparing the financial statements. The financial statements were authorised for issue by the directors of the Responsible Entity on 31 August 2016. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

When preparing financial statements, Australian Accounting Standards require the Directors of the Responsible Entity to make an assessment of the Trust's ability to continue as a going concern. Financial statements are required to be prepared on a going concern basis unless the Directors of the Responsible Entity either intend to liquidate the Trust or to cease trading, or have no realistic alternative but to do so. The Directors of the Responsible Entity have determined that the Trust will not continue as a going concern and these financial statements, therefore, have not been prepared on a going concern basis.

The Australian Accounting Standards do not prescribe the impact on, or the adjustments to be made to, the financial statements when it is determined that the going concern basis is not appropriate and, therefore, the Responsible Entity is required to consider carefully individual circumstances of the Trust to arrive at an appropriate basis. Accordingly, the Directors of the Responsible Entity have determined that the 'liquidation basis' (as explained below) is the appropriate basis on which these financial statements should be prepared.

### Liquidation basis of preparation

The Directors of the Responsible Entity have applied the requirements of paragraph 25 of AASB 101 Presentation of Financial Statements which indicates that when the financial report is not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial report is prepared and the reason why the Trust is not regarded as a going concern.

On the basis that unitholders approved the proposed sale of the Japanese property portfolio in which the Trust has an indirect interest, the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust within the next twelve months from the date of the financial report, the financial statements have been prepared on a liquidation basis as at 30 June 2016.

On 5 August 2016 a new J-REIT, Sakura Sogo REIT, received approval to list its investment units on the TSE. The expected listing date of the Sakura Sogo REIT is 8 September 2016.

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 initial public offering ('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 the Responsible Entity 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

## Note 2. Summary of significant accounting policies (continued)

### **Impact of adopting the liquidation basis of preparation on measurement, classification of assets and liabilities, and disclosures in the financial report**

Under the liquidation basis of accounting all assets and liabilities are measured at liquidation value. The liquidation value of assets is their net realisable value. With reference to the assets of the Trust, net realisable value approximates the current carrying amount of the assets measured under the relevant Australian Accounting Standards adjusted for estimated disposal costs. The liquidation value of liabilities recognised represents their estimated settlement amount. Any gains or losses resulting from measuring assets and liabilities to the liquidation value are recognised in the income statement.

Under the liquidation basis of accounting, all assets and liabilities previously classified as non-current are classified as current and expected costs arising from the liquidation process have been recorded in the results of the Trust for the period. Furthermore, as the unitholders have approved the proposed sale and the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust, the units on issue have been reclassified from equity to liabilities on 23 March 2016, being the approval date. As a result of the reclassification of equity to liabilities from 23 March 2016, the provision for distribution declared in June 2016 has been recorded as borrowing costs.

In adopting the liquidation basis, the Directors of the Responsible Entity have continued to apply the disclosure requirements of Australian Accounting Standards to the extent they are relevant to the liquidation basis, and modified them where considered appropriate.

The accounting policies adopted are consistent with those of the previous financial year. The Trust has not elected to early adopt any new Accounting Standards that have been issued but are not yet effective.

### **Significant accounting estimates, judgements and assumptions**

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 year and the amounts of revenues and expenses recognised during the year. 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 8 Financial assets at fair value through profit or loss.

### **(b) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible into cash and are subject to an insignificant risk of change in value.

### **(c) Foreign currency translation**

#### **Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Australian dollars, being the Trust's functional and presentation currency.

#### **Translation of foreign currency transactions**

Foreign currency transactions are initially translated into Australian dollars at the rate of exchange at the date of the transactions. At balance date, monetary assets and liabilities denominated in foreign currencies are translated to Australian dollars at rates of exchange current at that date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported separately in the Income Statement.

The foreign exchange rate at the balance date was A\$1=¥76.23 (30 June 2015: A\$1=¥93.92) while the average foreign exchange rate for the year ended 30 June 2016 was A\$1=¥84.98 (30 June 2015: A\$1=¥95.55). Foreign exchange differences arising on translation are recorded in the Income Statement.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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## Note 2. Summary of significant accounting policies (continued)

### (d) Trade and other receivables

Trade and other receivables are measured at net realisable value. No adjustment has been recognised on the change to liquidation basis as the net realisable value approximates the amortised cost.

### (e) Financial assets at fair value through profit or loss

The Trust classifies its investment in the TK Business as a financial asset at fair value through profit or loss. Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Trust has transferred substantially all the risks and rewards of ownership.

Given the preparation of the financial statements on a liquidation basis, financial assets at fair value through profit or loss are measured at their net realisable value. An adjustment for estimated disposal costs has been adjusted for in the measurement of these assets.

### (f) Trade and other payables

Trade and other payables are carried at amortised cost, which is the fair value of consideration to be paid in the future for the goods and services provided, whether or not billed to the Trust. Payables to related parties are carried at the principal amount. The amounts are unsecured and are usually paid within 30 days of recognition. No adjustment has been recognised on the change to liquidation basis as the net realisable value approximates the amortised cost.

### (g) Net assets payable to unitholders

Net assets payable to unitholders represents the amounts payable to unitholders and are stated at amortised cost. As a result of unitholders approving the proposed sale and the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust at an extraordinary general meeting on 23 March 2016, the units on issue have been reclassified from equity to liabilities on 23 March 2016, being the approval date.

### (h) Contributed equity

Issued and paid up units are recognised at the fair value of the consideration received or receivable. Any transaction costs arising directly from the issue of ordinary units are recognised directly in equity as a reduction of the proceeds received provided that they would not have been incurred had these instruments not been issued. In the event that the Trust is to be wound up the contributed equity at that date is to classified as a liability in net assets payable to unitholders.

### (i) Revenue

Revenue is recognised at fair value of the consideration received net of the amounts of goods and services tax or consumption tax payable to taxation authorities. Interest revenue is recognised on an accruals basis using the effective interest rate method. Distribution revenue is recognised when there is a right to receive the distribution payment.

### (j) Expenditure

All expenses, including fees paid to the Responsible Entity, are brought to account on an accruals basis.

### (k) Taxation

#### i) Australian income tax

Under current Australian income tax legislation, the Trust is not liable for income tax provided unitholders are presently entitled to all of the Trust's taxable distributable income at 30 June each year and any taxable gain derived from the sale of an asset acquired after 19 September 1985 is fully distributed to unitholders. Rather, unitholders should be subject to tax on their proportionate share of the taxable income of the Trust. Distributions received by unitholders in excess of their proportionate share of the taxable income of the Trust for an income year will be in the form of tax deferred distributions, and should be applied to reduce unitholders capital gains tax cost base of their units. Tax deferred amounts are usually attributable to allowances for building, plant and equipment depreciation are distributed to unitholders in the form of tax deferred components of distributions.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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## Note 2. Summary of significant accounting policies (continued)

### ii) Japanese withholding tax

Effective as of 1 January 2014, all foreign corporations and non-resident individuals that do not have permanent establishments in Japan are subject to 20.42% withholding tax on the distribution of profits under TK arrangements. The withholding tax is the final Japanese tax on such distributed TK profits and such profits are not subject to any other Japanese taxes (assuming that such investor is not a resident of/does not have permanent establishment in Japan). The amount of profit that is allocated to TK investors under a TK agreement is immediately deductible from the TK operator's taxable income regardless of whether a distribution to any TK investor is actually made at that time. The withholding tax described above however, is only imposed on an actual distribution of taxable income to investors.

### (l) Goods and services tax and consumption tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) or Japanese consumption tax (consumption tax), except where the amount of GST or consumption tax incurred is not recoverable from the Australian Tax Office (ATO) or Japanese tax authority ("tax authorities"). In these latter circumstances the GST or consumption tax is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST or consumption tax included. The net amount of GST or consumption tax recoverable from, or payable to, the tax authorities is included as a current asset or liability in the statement of financial position. The GST or consumption tax components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the tax authorities are classified as operating cash flows.

### (m) Earnings per unit

Basic and diluted earnings per unit are calculated as net profit after tax divided by the weighted average number of ordinary units.

### (n) Segment reporting

Segment income, expenditure, assets and liabilities are those that are directly attributed to a segment and the relevant portion that can be allocated to the segment on a reasonable and consistent basis. Segment assets are assets used by segments and consist primarily of cash, receivables (net of allowances) and investments. While the Trust's investment in the TK Business is carried at fair value through the profit or loss, the Directors believe that it is relevant to provide segment information on the underlying assets, liabilities and performance of the TK Business. Therefore, segment information is presented on the same basis as that used for internal reporting and analysis purposes, in a manner consistent with the internal reporting to the chief operating decision maker, being the Board of Directors.

### (o) Distributions

A provision for distribution is recognised as a liability when it is declared, determined or made publicly available on or before the reporting date. Provisions are measured at the present value and management's best estimate of the expenditure required to settle the present obligation at the balance date.

### (p) Rounding of amounts

The Trust is a registered scheme of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities & Investments Commission relating to the 'rounding' 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 Instrument unless otherwise indicated.

### (q) Accounting standards and interpretations issued but not yet effective

The Trust's financial statements have been prepared on a liquidation basis for the reasons outlined in Note 2(a) above. As a result, Accounting Standards and Interpretations currently on issue but not yet effective are not expected to have any impact on the Trust.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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## Note 3. Payments to unitholders (Borrowing costs and distributions)

As announced to the market on 21 June 2016 the Trust will pay a distribution for the six months ended 30 June 2016 of 8.7 cents per unit (\$9.2 million) on 31 August 2016. Together with the interim distribution paid in February 2016 of 8.7 cents per unit (\$9.2 million), the distribution for the year ended 30 June 2016 is 17.4 cents per unit (\$18.4 million).

As discussed in Note 2(a) above, on 23 March 2016 unitholders approved the proposed sale of the Japanese property portfolio in which the Trust has an indirect interest, the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust. From that date Australian Accounting Standards require that equity of the Trust be reclassified as a liability (Net assets payable to unitholders) and the associated distribution of \$9.2 million be reclassified as Borrowing Costs.

## Note 4. Auditor's remuneration

The auditor of the trust in Australia is PricewaterhouseCoopers and amounts paid or payable to the Trust's audit firm are summarised below:

	2016 \$	2015 \$
- Audit of the financial report	224,348	274,610
- Audit of the Trust compliance plan	11,500	11,500
- Tax services (statutory services)	37,921	36,054
	273,769	322,164
- Other non-audit related services*	51,000	-
- Other non-statutory tax services*	66,300	-
	117,300	-
	<b>391,069</b>	<b>322,164</b>

\* relates to the proposed sale of the Japanese property portfolio in which the Trust has an indirect interest, the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust as discussed in Note 2(a).

## Note 5. Transaction costs and Trust wind-up costs

	2016 \$'000	2015 \$'000
Transaction costs and Trust wind-up costs	5,298	-
	<b>5,298</b>	-

Transaction costs and Trust wind-up costs include advisory, tax and accounting professional fees and regulatory costs associated with the proposal adopted by unitholders at the extraordinary general meeting held on 23 March 2016 as discussed in Note 2(a).

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

## Note 6. Income tax

	2016 \$'000	2015 \$'000
<i>Reconciliation of tax:</i>		
Net result before tax for the year	62,423	25,448
Tax at the Australian rate of 30% (2015: 30%)	(18,727)	(7,634)
Tax effect of tax credits not taken into account	18,727	7,634
	-	-

Japanese withholding tax is only imposed on the distribution of taxable income from the TK Business to the Trust. Distributions made to the Trust by the TK Business during the year were not subject to Japanese withholding tax as they did not constitute a distribution of taxable income.

As a result of the proposed sale of the Japanese property portfolio in which the Trust has an indirect interest, the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust, it is expected that any existing Australian tax revenue losses of the Trust and its subsidiaries carried forward from prior income years will not be available to offset any taxable income derived by the Trust and its subsidiaries in the income year which it completes the proposed sale of the 18 properties and any subsequent income years. As a result, the Trust may be in a net taxable income position for that income year and subsequent income years. To the extent the Trust is in a net taxable income position for any particular income year, the taxable income will be allocated to Unitholders as a component of the income distribution made in relation to that income year.

## Note 7. Trade and other receivables

	2016 \$'000	2015 \$'000
GST	91	24
Prepayments	24	65
Other receivables	19	-
	<b>134</b>	<b>89</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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## Note 8. Financial asset at fair value through profit or loss (held for sale)

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%.

### Net realisable value

On 23 March 2016, at an extraordinary general meeting, unitholders approved the proposed sale of the Japanese property portfolio in which the Trust has an indirect interest, the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust. The associated EM provided that the proposed sale of the Japanese property portfolio was conditional on unitholder approval (granted on 23 March 2016) and the successful listing of a new J-REIT on the TSE.

Accordingly, the financial asset at fair value through profit or loss has been measured at net realisable value, being the net assets of the TK Business, prepared on a liquidation basis, translated into Australian dollars at the foreign exchange rate at balance date of A\$1=¥76.23

As a result of unitholders approving (at an extraordinary general meeting held on 23 March 2016) the proposed sale and the subsequent distribution of net equity proceeds and the winding up of the Trust, the unlisted investment held by the Trust has been classified as 'held for sale'.

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

	2016 \$'000	2015 \$'000
Unlisted investments (Current)	307,498	-
Unlisted investments (Non-Current)	-	248,030

The following table shows a reconciliation of the unlisted investment. The net realisable value of the unlisted investment is determined in Japanese yen and translated at the relevant period end foreign exchange rate.

	2016 \$'000	2015 \$'000
Unlisted investment - balance at the beginning of the year	248,030	235,416
Fair value gain recognised in income statement	22,531	21,589
Distributions from TK Business	(19,457)	(14,486)
Foreign exchange movements	56,394	5,511
<b>Unlisted investment - balance at the end of the year</b>	<b>307,498</b>	<b>248,030</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

## Note 8. Financial asset at fair value through profit or loss (held for sale)

The fair value gain recognised in the income statement includes an unrealised gain of \$14.2 million relating to investment property revaluations and an unrealised loss of \$1.8 million relating to the mark-to-market of the interest rate swap in the TK Business (30 June 2015: unrealised gain \$6.5 million relating to investment property revaluations and \$0.5 million unrealised gain relating to the mark-to-market of the interest rate swap).

The fair value gain recognised in the income statement for the year ended 30 June 2016 includes \$11.1 million relating to the costs associated with the proposed sale of the Japanese property portfolio in which the Trust has an indirect interest as discussed in Note 2(a). Estimated selling and wind-up costs comprise professional fees paid or payable to lawyers and advisors to effect the sale of the investment properties as well as disposal fees payable upon the sale of the property portfolio and an estimate of costs to wind-up the TK Business.

The net realisable value of the investment in the TK Business at balance date has been 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.

### (i) Investment property

The carrying value of investment property at 30 June 2016 is ¥57.36 billion, being the agreed sale price outlined in the EM.

The table below shows the movement in the TK Business investment properties from the previous year. The revaluation adjustment reflects the adjustment required to record the investment properties in the TK Business at the agreed sale price.

	2016 \$'000	2015 \$'000
Fair value at the beginning of the year	598,914	613,015
Additions to investment property	6,609	2,244
Sold during the year	(5,426)	(33,026)
Revaluation adjustments	14,237	6,646
Foreign currency translation movements	138,126	10,035
<b>Fair value at the end of the year</b>	<b>752,460</b>	<b>598,914</b>

### (ii) Borrowings (TK Business)

The TK Business has three borrowing facilities which are all subject to floating interest rates and carried at amortised cost. The balance of each facility at 30 June 2016 approximates fair value. No adjustment has been recognised on the change to liquidation basis as the net realisable value approximates fair value. Further details of these borrowings are included in Note 15 Segment information.

## Note 9. Trade and other payables

	2016 \$'000	2015 \$'000
Trade payables	182	58
Accrued expenses (operations)	157	111
Accrued expenses (estimated transaction costs and Trust wind-up costs)*	4,824	-
	<b>5,163</b>	<b>169</b>

\* The accrual for estimated transaction costs and Trust liquidation costs includes legal, tax, accounting and other professional advisors, regulatory and statutory fees.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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## Note 10. Other liabilities

	2016 \$'000	2015 \$'000
<b>Financial instrument - foreign currency liability (mark-to-market)</b>	<b>450</b>	<b>87</b>

The foreign currency liability at 30 June 2016 represents the mark-to-market value of the forward foreign currency trade completed on 22 February 2016 for ¥735.6 million which settled on 18 August 2016 for \$9.2 million and will be used to pay the June 2016 distribution and provide working capital for the Trust.

## Note 11. Net assets payable to unitholders

As discussed in Note 2(a) above, on 23 March 2016 unitholders approved the proposed sale of the Japanese property portfolio in which the Trust has an indirect interest, the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust. From that date Australian Accounting Standards require that equity of the Trust be reclassified as a liability (net assets payable to unitholders). A further result of this reclassification from equity to liabilities is the separate disclosure in the income statement of profit for the period from 1 July 2015 to 23 March 2016 and changes in net assets for the period from 24 March 2016 to 30 June 2016.

	2016 \$'000	2015 \$'000
<b>Net assets payable to unitholders</b>	<b>294,272</b>	-

The table below shows the movement in net assets payable to unitholders during the year.

	2016 \$'000	2015 \$'000
Net assets payable to unitholders at the beginning of the year	-	-
Reclassification from contributed equity	526,378	-
Reclassification from accumulated losses	(249,065)	-
Changes in net assets for the period from 24 March 2016 to 30 June 2016	16,959	-
<b>Net assets payable to unitholders at the end of the year</b>	<b>294,272</b>	-

Net assets payable to unitholders of \$294.27 million equates to \$2.79 per unit on issue.

The table below provides a sensitivity analysis showing the impact of the AUD/JPY exchange rate on the net assets payable to unitholders per unit based on the 30 June 2016 balance sheet.

	Adjusted for 10% decrease in AUDJPY \$1 = ¥68.61	AUDJPY \$1 = ¥76.23	Adjusted for 10% increase in AUDJPY \$1 = ¥83.85
<b>Net asset value payable to unitholders per unit</b>	<b>\$3.08</b>	<b>\$2.79</b>	<b>\$2.55</b>

A sensitivity of 10% is considered reasonable given the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future exchange rate movements. Unitholders should note that this sensitivity analysis is provided as a guide only and variations in actual exchange rates may exceed the range shown above.

The foreign exchange rate on 31 August 2016 was A\$1=¥77.48 which equates to net assets per unit payable to unitholders of \$2.75.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

## Note 12. Contributed equity

As discussed in Note 11, on 23 March 2016 unitholders approved the proposed sale of the Japanese property portfolio in which the Trust has an indirect interest, the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust. From that date Australian Accounting Standards require that equity of the Trust be reclassified as a liability (Borrowings) and the associated distribution be reclassified as Borrowing Costs.

	2016 \$'000	2015 \$'000
Contributed equity at the beginning of the year	526,378	528,278
Equity bought back during the year	-	(1,900)
Equity reclassified to liabilities on 23 March 2016	(526,378)	-
<b>Contributed equity at the end of the year</b>	<b>-</b>	<b>526,378</b>

### Units on issue

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.

	2016 (units)	2015 (units)
Number of units on issue at the beginning of the year	105,385,415	106,444,665
Number of units bought back during the year	-	(1,059,250)
<b>Number of units on issue at the end of the year</b>	<b>105,385,415</b>	<b>105,385,415</b>

## Note 13. Accumulated losses

	2016 \$'000	2015 \$'000
Balance at beginning of the year	(285,360)	(295,035)
Net profit after tax for the period to 23 March 2016 / year	45,464	25,448
Distributions paid/payable during the period to 23 March 2016 / year	(9,169)	(15,773)
<b>Accumulated losses as at 23 March 2016</b>	<b>(249,065)</b>	-
Reclassification of accumulated losses to liabilities	249,065	-
<b>Balance at the end of the year</b>	<b>-</b>	<b>(285,360)</b>

## Note 14. Earnings per unit

	2016	2015
Basic and diluted earnings (\$ per unit)	0.59	0.24
Result used in the calculation of earnings per unit (\$ '000)	62,423	25,448

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 105,385,415 (2015: 106,225,533).

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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## Note 15. Segment information

As disclosed in Note 8 Financial asset at fair value through profit or loss (held for sale), 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 only 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 (net realisable value)

	2016 \$'000	2015 \$'000
<b>TK Business assets</b>		
Cash and cash equivalents	15,964	20,216
Restricted cash	48,347	38,586
Other TK Business assets	5,273	5,732
Investment property (refer Note 8 for details)	752,460	598,914
<b>Total TK Business assets</b>	<b>822,044</b>	<b>663,448</b>
<b>TK Business liabilities</b>		
Other TK Business liabilities*	(22,631)	(11,264)
Tenant security deposits	(39,868)	(32,204)
Interest rate swap liability	(4,769)	(2,254)
Borrowings (refer below for details)	(442,638)	(365,747)
<b>Total TK Business liabilities</b>	<b>(509,906)</b>	<b>(411,469)</b>
<b>TK Business net assets</b>	<b>312,138</b>	<b>251,979</b>
Non-controlling interest share of TK Business net assets	(4,640)	(3,949)
<b>Investment in TK Business</b>	<b>307,498</b>	<b>248,030</b>
Trust assets	1,556	1,886
<b>Total Trust assets</b>	<b>309,054</b>	<b>249,916</b>

\* Other TK Business liabilities includes accrued estimated selling and wind-up costs of \$9.6 million.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

## Note 15. Segment information (continued)

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### TK Business borrowings

	Maturity date	2016 \$'000	2015 \$'000
Senior bank loan (i)	October 2018	366,162	302,555
Mezzanine loan - senior (ii)	October 2018	38,238	31,596
Mezzanine loan - junior (iii)	October 2018	38,238	31,596
<b>Total TK Business borrowings</b>		<b>442,638</b>	<b>365,747</b>

The TK Business borrowing facilities are all subject to floating interest rates and carried at amortised cost. The balance of each facility at 30 June 2016 approximates fair value. No adjustment has been recognised on the change to liquidation basis as the net realisable value approximates fair value and there is no penalty for early repayment. The borrowing facilities will be repaid from the net sale proceeds of the proposed sale of the TK Business investment properties. Details of the TK Business loan facilities are included below.

#### (i) Senior bank loan

This ¥27.9 billion loan facility is denominated in Japanese yen, is secured by a mortgage over 18 investment properties and contains cross default provisions with the Mezzanine loans. The loan balance at 30 June 2016 is ¥27.9 billion (\$366.2 million) (June 2015: ¥28.4 billion - \$302.6 million) following a partial repayment using proceeds from the investment property sold in April 2016. The loan matures on 11 October 2018 and 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 covenant test. There is a quarterly DSCR covenant test using a threshold of 1.9x. The actual DSCR for the June 2016 quarter was 2.3x (June 2015 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 1.60% for the year ended 30 June 2016. Any interest rate swap liability existing at the date of the TK Business borrowing facilities being repaid will also be repaid from the net sale proceeds of the proposed sale of the TK Business investment properties.

#### (ii) Mezzanine loan - senior

This loan is a Japanese yen denominated loan with a balance at 30 June 2016 of ¥2.91 billion (\$38.2 million) (30 June 2015: ¥2.97 billion - \$31.6 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 1.43% for year ended 30 June 2016.

#### (iii) Mezzanine loan - junior

This loan is a Japanese yen denominated loan with a balance at 30 June 2016 of ¥2.91 billion (\$38.2 million) (30 June 2015: ¥2.97 billion - \$31.6 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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## Note 15. Segment information (continued)

### Interest rate risk management

The Trust is exposed to interest rate risk on its cash assets as well as the cash assets, borrowings and certain derivative financial instruments of the TK Business. The policy for the level of fixed rate borrowings is set by the board of directors of the Responsible Entity. This risk is managed by ensuring that the Trust and the TK Business maintain an appropriate mix of fixed and floating interest rate instruments and to enter into interest rate derivatives when considered necessary after careful analysis. Cash flow interest rate risk can be managed by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps it is agreed with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating interest amounts calculated by reference to agreed notional principal amounts.

The use of interest rate swap contracts to hedge interest-bearing liabilities carries certain risks, including the risk that losses on a hedge position will reduce the funds available for payments to unitholders and that such losses may exceed the amount invested in such instruments. The profitability of the Trust may be adversely affected during any period as a result of changing interest rates.

Interest rate swap contracts to fix the interest rate on certain of its borrowings can be used by the Trust and the TK Business. The requirements for hedge accounting could not be met and therefore the interest rate swap contracts do not qualify for hedge accounting. As a result any movement in the fair market value of the interest rate swap derivatives held by the TK Business is recorded in the income statement as part of the fair value gain on financial assets. The fair market value of the interest rate swap contract is included in the carrying value of the financial asset in the balance sheet.

The TK Business has interest rate swap agreements in place, the details of which are disclosed above.

### 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.

	2016 \$'000	2015 \$'000
<b>TK Business operating performance</b>		
Rental income	56,458	52,925
Other income	10	55
Property expenses	(19,675)	(18,087)
Finance costs	(7,721)	(7,889)
Amortisation of finance costs	(580)	(2,098)
Write-off of balance of amortised finance costs	(1,375)	-
Premium on Eurobond repayment	-	(5,158)
Unrealised gain/(loss) interest rate swap	(1,787)	465
Investment property revaluations	14,237	6,646
Operating expenses	(5,301)	(4,678)
Estimated selling and wind-up costs	(11,045)	-
Non-controlling interest	(690)	(592)
<b>Fair value gain recognised in the income statement</b>	<b>22,531</b>	<b>21,589</b>
Trust operating income	58,523	5,551
Trust operating expenses	(18,631)	(1,692)
<b>Net result before income tax for the year</b>	<b>62,423</b>	<b>25,448</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

## Note 16. Capital and financial risk management

During the year ended 30 June 2016 the Trust, either directly or via its investment in the TK Business, undertook transactions in a range of financial instruments including:

- > cash and cash equivalents
- > receivables
- > unlisted investments
- > payables
- > borrowings
- > derivatives

These activities expose the Trust to a variety of financial risks including capital risk, market risk, credit risk and liquidity risk. The Trust uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates, foreign exchange and other price risks and aging analysis for credit risk.

Risk management is carried out by executive management under policies approved by the Board of Directors of the Responsible Entity.

As discussed in Note 2(a) above, on 23 March 2016 unitholders approved the proposed sale of the Japanese property portfolio in which GJT has an indirect interest, the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust. From that date the key risks to be managed by the Trust include transaction execution risk, foreign exchange risk and credit risk, each of which are discussed below.

### (i) Proposed sale and Trust wind-up execution risk

On 5 August 2016 a new J-REIT, Sakura Sogo REIT, received approval to list its investment units on the TSE. Key dates relating to the public offer are outlined below:

Official Launch - Friday 5 August 2016

Investor Roadshow - Tuesday 9 August to Monday 22 August 2016

Expected Listing Date - Thursday 8 September 2016

On 31 August 2016 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 the Responsible Entity 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.

### (ii) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Trust's functional currency. The risk is measured using sensitivity analysis and cashflow forecasting. The Trust's foreign currency risk arises primarily from:

- > net investments in foreign operations
- > forecast transactions for receipt in foreign currencies and payment in Australian dollars

### June 2016 distribution

The Trust has entered into a forward foreign currency contract with regards to the distribution for the six months ended 30 June 2016. The foreign currency liability at 30 June 2016 represents the mark-to-market value of the forward foreign currency trade completed on 22 February 2016 for ¥735.6 million which settled on 18 August 2016 for \$9.2 million and will be used to pay the June 2016 distribution and provide working capital for the Trust.

### Distributions to unitholders from the proposed sale and Trust winding up

As indicated in the EM any distributions from the proposed sale of the Japanese Property Portfolio in which GJT has an indirect interest, the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust will be subject to the prevailing AUD/JPY exchange rate at the time any net sale proceeds are received by the Trust from the TK Business and converted into Australian dollars.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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## Note 16. Capital and financial risk management (continued)

### (iii) Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations under a contract or arrangement. The Trust's maximum exposure to credit risk at 30 June 2016 in relation to each class of recognised financial instruments is the carrying amount of those instruments in the statement of financial position. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The TK Business has a credit policy for all tenants and rents are payable monthly in advance. In the event of default by an occupational tenant, the TK Business will suffer a rental shortfall and could incur additional related costs. TK Business management review external reports on the credit quality of tenants and monitors rental arrears on a monthly basis. Any rental arrears that are greater than 30 days old are provided for in the financial statements. Amounts that are less than 30 days old are assessed on a case by case basis. The TK Business has no significant concentration of credit risk as the exposure is spread over a large number of tenants. With respect to credit risk arising from other financial assets, which comprise cash and cash equivalents, the Trust's exposure to credit arises from default of the counterparty with a maximum exposure equal to the carrying value of these instruments. The credit risk on cash and cash equivalents is mitigated as all cash is placed with reputable banking institutions.

## Note 17. Cash and cash equivalents

	2016 \$'000	2015 \$'000
Cash at bank	1,422	1,797
	<b>1,422</b>	<b>1,797</b>

## Note 18. Reconciliation of cash flows from operating activities

	2016 \$'000	2015 \$'000
Net result after tax	62,423	25,448
Fair value gain on Financial Assets through profit or loss	(22,531)	(21,589)
Realised foreign exchange loss relating to investing activities	1,783	24
Net unrealised foreign exchange gain	(58,072)	(5,457)
<b>Net cash used by operating activities before changes in assets and liabilities</b>	<b>(16,397)</b>	<b>(1,574)</b>
<i>Changes in assets and liabilities during the year:</i>		
Decrease/(increase) in trade and other receivables	(45)	482
Increase/(Decrease) in trade and other payables	14,163	(79)
<b>Net cash outflow from operating activities</b>	<b>(2,279)</b>	<b>(1,171)</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

## Note 19. Related party disclosures

### Responsible entity fees

	2016 \$'000	2015 \$'000
Responsible entity fee	676	630

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.

### Related party transactions

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

	2016 \$'000	2015 \$'000
Fund management fee (TK operator services) - Galileo Japan K.K.	2,255	1,928
Asset Management fee (specific asset management - Galileo Japan K.K.)	399	246
Disposition fee - Galileo Japan K.K.	7,579	328
Debt arrangement fee - Galileo Japan KK	-	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 year ended 30 June 2016 relates to the sale of Utsubo, Osaka and includes a provision for the fee relating to the proposed sale of the portfolio as discussed in Note 2(a).

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 year ended 30 June 2015 relates to the refinancing of the Eurobonds with ¥6.0 billion in new mezzanine loans.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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## Note 19. Related party disclosures (continued)

### Proposed sale of the Japanese Property Portfolio

As discussed in Note 2(a) above, on 23 March 2016 unitholders approved the proposed sale of the Japanese property portfolio in which the Trust has an indirect interest, the subsequent distribution of net equity proceeds to unitholders and the winding up of the Trust.

No Directors have a material personal interest in the outcome of the proposal (other than as Unitholders), other than Mr Neil Werrett (Chief Executive Officer and Executive Director of the Responsible Entity) and Mr Peter Murphy (Chief Operating Officer and Executive Director of GJFML) as described below.

Neil Werrett is associated with the proposed manager of Sakura Sogo REIT in that he is a director of the proposed manager of Sakaru Sogo REIT and entities he controls (and/or is associated with) will:

- a. subscribe for approximately 2.7% in Sakura Sogo REIT shares under the Japanese IPO.
- b. hold 100% of the ordinary shares of the proposed manager of Sakura Sogo REIT which will receive the following fees:
  - i. an acquisition fee equal to 0.5% of the purchase price of the portfolio; and
  - ii. on-going asset management fees for providing asset management services to Sakura Sogo REIT.

Peter Murphy is associated with the proposed manager of Sakura Sogo REIT in that he is a director of the proposed manager of Sakura Sogo REIT.

Accordingly, Neil Werrett and Peter Murphy were considered to be conflicted in relation to the proposed sale described throughout this report. To ensure that decisions and recommendations in relation to the proposed sale were made independently, the Directors who have no conflict formed a committee of non-associated directors which made a recommendation to unitholders at the extraordinary general meeting held on 23 March 2016.

## Note 20. 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 21. Events subsequent to balance date

On 5 August 2016 a new J-REIT, Sakura Sogo REIT, received approval to list its investment units on the TSE. Key dates relating to the public offer are outlined below:

Official Launch - Friday 5 August 2016  
Investor Roadshow - Tuesday 9 August to Monday 22 August 2016  
Expected Listing Date - Thursday 8 September 2016

On 31 August 2016 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 the Responsible Entity 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 net assets payable to unitholders as at 30 June 2016 is \$2.79 per unit. This is based on the foreign exchange rate at the balance date, being A\$1=¥76.23. The net assets per unit payable to unitholders is subject to fluctuations in the prevailing exchange rate. The foreign exchange rate on 31 August 2016 was A\$1=¥77.48 which equates to net assets per unit payable to unitholders of \$2.75.

The Directors are not aware of any other matter or circumstance occurring since 30 June 2016 not otherwise dealt with in the financial report that has significantly or may significantly alter the operations of the Trust, the results of its operations or the state of affairs of the Trust in subsequent financial periods.

# Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2016

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 28 are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards as they apply on a liquidation basis, the Corporations Regulations 2001, its Constitution and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Trust's financial position as at 30 June 2016 and of its performance for the 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. Note 2(a) confirms that the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board as they apply on a liquidation basis.

3. The Directors have been given declarations by the Chief Executive Officer and Chief Financial Officer as required by Section 295A of the Corporations Act 2001.

Without qualifying the above conclusion, the Directors draw attention to the basis of preparation of the financial report set out in Note 2(a).

Signed in accordance with a resolution of the Directors.



Jack Ritch  
Chairman

Dated 31 August 2016



## **Independent auditor's report to the unitholders of Galileo Japan Trust**

### ***Report on the financial report***

We have audited the accompanying financial report of Galileo Japan Trust (the Trust), which comprises the balance sheet as at 30 June 2016, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors of responsible entity's declaration.

### ***Directors' responsibility for the financial report***

The directors of Galileo Japan Funds Management Limited (the responsible entity of the Trust) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors of responsible entity also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of responsible entity, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Independence***

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

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
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# Independent Auditor's Report (continued)

TO THE MEMBERS OF GALILEO JAPAN TRUST



## *Auditor's opinion*

In our opinion:

- (a) the financial report of Galileo Japan Trust is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Trust's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the Trust's financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

## *Emphasis of matter— going concern no longer appropriate*

Without modifying our opinion, we draw attention to the following matter. As indicated in Note 2(a) to the financial statements, the directors of the responsible entity have determined that the Trust will not continue as a going concern as the unitholders approved the proposed sale of the Japanese Property Portfolio, the subsequent distribution of net equity proceeds to the unitholders and the winding up of the Trust within the next twelve months from the date of the financial report. As a result, the financial report has been prepared on a liquidation basis and not on a going concern basis.

A handwritten signature in black ink, appearing to read 'E A Barron', written over the printed name.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'E A Barron', written over the printed name.

E A Barron  
Partner

Sydney  
31 August 2016

# ASX Additional Information

FOR THE YEAR ENDED 30 JUNE 2016

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## 1. Substantial unitholders

The names of substantial unitholders who have notified the Manager in accordance with section 671B of the Corporations Act 2001 as at 14 September 2016 are:

Company	Date	No. of units	% of units on issue
Allan Gray Australia Pty Ltd	17 January 2014	20,218,500	19.19
Mitsubishi UFJ Financial Group, Inc	7 March 2016	11,155,586	10.59
Quest Asset Partners Pty Ltd	14 December 2015	10,318,708	9.79
Milford Asset Management Limited	11 May 2016	8,688,723	8.29
Coronation Asset Management Pty Ltd	3 March 2016	8,408,377	7.98
National Nominees as Custodian for Unisuper Ltd	24 July 2015	7,016,045	6.66
Credit Suisse Holdings (Australia) Limited	2 September 2016	6,623,716	6.32

## 2. Twenty largest unitholders

The names of the twenty largest unitholders of quoted units as at 14 September 2016 are:

	No. of units	% of ordinary units
CITICORP NOMINEES PTY LIMITED	27,325,492	25.93
J P MORGAN NOMINEES AUSTRALIA LIMITED	20,678,316	19.62
NATIONAL NOMINEES LIMITED	11,605,254	11.01
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	10,980,871	10.42
BNP PARIBAS NOMINEES PTY LTD	6,527,828	6.19
BUTTONWOOD NOMINEES PTY LTD	3,787,801	3.59
CS FOURTH NOMINEES PTY LIMITED	3,525,705	3.35
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	2,051,112	1.95
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	1,995,527	1.89
JOHN E GILL TRADING PTY LTD	1,521,467	1.44
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,072,178	1.02
MR PHILIP ANTHONY FEITELSON	913,150	0.87
MCNEIL NOMINEES PTY LIMITED	700,000	0.66
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	660,690	0.63
BNP PARIBAS NOMS PTY LTD	657,769	0.62
INVIA CUSTODIAN PTY LIMITED	449,316	0.43
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	402,623	0.38
UBS NOMINEES PTY LTD	392,886	0.37
MONEX BOOM SECURITIES (HK) LTD	304,778	0.29
BFA SUPER PTY LTD	300,000	0.28
	95,852,763	90.95
Total other investors	9,532,652	9.05
<b>Grand Total</b>	<b>105,385,415</b>	<b>100.00</b>

# ASX Additional Information (continued)

FOR THE YEAR ENDED 30 JUNE 2016

## 3. Distribution of unitholders

The number of unitholders, by size and holding as at 14 September 2016 are:

	Number of holders	Number of units
1-1,000	800	308,095
1,001-5,000	341	836,514
5,001-10,000	120	921,281
10,001-50,000	161	3,548,431
50,001-100,000	26	1,898,713
100,001 and over	32	97,872,381
	<b>1,480</b>	<b>105,385,415</b>
Number of unitholders holding less than a marketable parcel of securities are:	256	15,398

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