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18 November 2008

## ASX / Media Release

### GALILEO JAPAN TRUST REVISED DISTRIBUTION & CAPITAL MANAGEMENT INITIATIVES

Please find attached a Galileo Japan Trust (ASX code: GJT) announcement.

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#### About Galileo Japan Trust

The Trust is listed on the Australian Securities Exchange with an indirect interest in a portfolio of 26 Japanese Real Estate investments valued at approximately ¥94.8 billion (approximately A\$1.5 billion)<sup>1</sup>. The portfolio is diversified by both sector and geography, however, retains a bias to Tokyo.

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

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<sup>1</sup> AUDJPY exchange rate of ¥63.4 as at 14 November 2008

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**GALILEO JAPAN TRUST  
REVISED DISTRIBUTION & CAPITAL MANAGEMENT INITIATIVES**

Galileo Japan Funds Management Limited ("GJFML") the Manager of Galileo Japan Trust ("GJT" or "the Trust") today announced the implementation of a strategy to de-leverage and strengthen GJT's balance sheet.

This strategy has been developed having regard to the current uncertainty and volatility in credit markets arising from the global financial crisis.

Key elements of the proposal are as follows:

- No distribution will be paid for the December 2008 half year;
- It is intended that the distribution payable for the six month period ending 30 June 2009 will be reduced to 1.5 cents per unit (subject to trading and market conditions);
- The cash retained under this strategy will be applied to reduce liabilities;
- Retention of the December 2008 distribution should add about 4 cents per unit to NTA;
- An asset sales program with targeted sales of at least ¥2.5 billion (approximately A\$40<sup>1</sup> million) in calendar year 2009.

GJFML acknowledges that this reduction in distribution will disappoint many investors. However, it strongly believes this approach will provide the most equitable treatment for all investors and leave the Trust better placed to deal with these challenging market conditions.

Despite recent market volatility, the property portfolio has continued to generate a reliable income stream and this underpins the strategy to utilise a portion of the distributable earnings<sup>2</sup> to reduce liabilities (refer separate ASX announcement dated 18 November 2008 for September quarter 2008 operational update).

In August 2008, GJFML indicated that it believed GJT was well positioned to achieve distributable earnings<sup>2</sup> of at least 8.0 cents per unit in FY09. GJFML remains confident that GJT will meet this guidance for FY09. However, the level of distribution paid to unitholders during the period ending 30 June 2009 will be reduced for the reasons as set out above.

<sup>1</sup> AUDJPY exchange rate of ¥63.4 as at 14 November 2008

<sup>2</sup> Net profit after adjusting for the effect of AIFRS and amortisation

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## Loan Maturities

A primary focus of this strategy is to deal with the portfolio's loan maturities in FY2009 and FY2010. Beyond this the only loan maturing is a facility in July 2012 of ¥45.2 billion (A\$713<sup>1</sup> million) which represents 81.5% of total borrowings.

GJFML confirms that no loan covenants have been breached and there is no covenant with respect to GJT's market capitalisation.

The only loan maturing in FY09 is a facility of ¥1.49 billion (A\$23.5<sup>1</sup> million) scheduled for 30 January 2009. The facility represents approximately 2.7% of the total loan portfolio.

It is the current intention to fully repay the January 2009 loan maturity by applying the retained distribution for the period to 31 December 2008 together with other existing cash amounts.

Repayment of this facility will reduce the overall debt to total assets ratio by approximately 1.2% and will increase NTA by about 4 cents.

Two loan facilities mature in FY10 for a total amount of ¥8.8 billion (A\$138.8<sup>1</sup> million) being September 2009 ¥2.64 billion and December 2009 ¥6.13 billion. These facilities represent 15.8% of the total loan portfolio. A number of initiatives continue to be pursued to deal with these facilities which may include any, or a combination, of the following:-

- Refinancing with the existing lender
- Refinancing with an alternate lender or lenders
- Repayment from proceeds released from asset sales
- Introducing an alternate source of funding to replace debt
- Utilising distributable earnings to assist in refinancing

Each of these alternatives is being actively pursued.

## Asset Disposals

In August 2008 GJFML stated that the potential existed for asset sales to be concluded before the end of December 2008. Whilst this remains a possibility GJFML believes the prospect of concluding a sale before 31 December 2008 is now unlikely.

Asset sales continue to be a key focus and discussions are ongoing with a number of potential buyers.

Under the proposal outlined above asset sales are being targeted of at least ¥2.5 billion (approximately A\$40<sup>1</sup> million) in calendar year 2009.

## Foreign Exchange Rate Hedges

GJT has a number of foreign exchange contracts related to its Yen denominated assets and income streams. These are used primarily to manage or reduce volatility in GJT's A\$ earnings and net tangible asset backing caused by movements in the AUDJPY exchange rate.

Since June 2008, foreign currency markets have experienced unprecedented volatility with the spot AUDJPY exchange rate falling from ¥102 at 30 June 2008 to ¥63.4 at the close of trading on Friday, 14 November 2008. This movement is extraordinary in terms of the speed with which it occurred and the magnitude of the change.

### AUDJPY Exchange Rate From IPO to 14 November 2008



These movements have material consequences for GJT investors both positive and negative.

The positive is the Net Asset Value per unit of GJT in Australian dollars has increased significantly from A\$0.90 at 30 June 2008 to an estimated A\$1.12\* at the close of trading on Friday, 14 November 2008. This represents a favourable movement of approximately A\$91.9 million.

	Pro forma* 31 December 2008	Audited 30 June 2008
Net asset value in A\$ (million)	456.2	364.3
NTA per unit (cents)	112	90
Spot rate (AUDJPY)	63.4	101.93
MTM of Derivative contracts A\$ (million)	(127.3)	12.5
Gearing (%)	55.4	54.6
Gearing including FX (%)	64.1	54.8

\* The pro forma balance sheet represents the audited 30 June 2008 balance sheet adjusted for:-

- i) the payment of the June 2008 distribution of 4 cents per unit
- ii) repayment of consumption tax loans of ¥870 million
- iii) the retention of the December 2008 distribution
- iv) Adjusted to the spot AUDJPY exchange rate at 14 November 2008

The negative is that total liabilities including the mark to market ("MTM") of derivative contracts have also increased materially. The fair market value of GJT's derivative contracts is estimated to have moved from a positive of \$A12.5 million at 30 June 2008 to a negative of approximately A\$127.3 million as at 14 November 2008.

The current apportionment of the MTM value of the derivative contracts is approximately A\$59.9 million to the income hedges and the balance being capital hedges, which have maturities in four tranches between 2011 and 2014.

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The foreign exchange derivative contracts require GJT's total interest bearing liabilities (including MTM) to Total Assets should not exceed 70% and should not exceed 65% for more than 90 days. These ratios are tested twice yearly based on the release of the Trust's audited financial accounts at the 30 June and 31 December balance dates.

If the 65% covenant is breached, GJT has 90 days to remedy and reduce LTV below the threshold. Once breached, a favourable movement in the spot rate during this period would not be deemed a satisfactory cure. Should this occur, it is anticipated the reduction below 65% would need to occur via the strategy of retaining distributions and pursuing asset sales.

As a guide to the sensitivity of these ratios, it is currently estimated that a spot exchange rate at the 31 December 2008 balance date of A\$1.00 = ¥60 would likely breach the 65% covenant and a A\$1.00 = ¥44 would likely breach the 70% covenant, all things being equal. A change in the carrying value of assets at the balance date would affect these ratios.

GJFML confirms that no derivative covenants have been breached and there is no covenant with respect to GJT's market capitalisation.

### **Conclusion**

Management and the Board of GJFML believe this strategy represents the best of the available options for all stakeholders in a market which is clearly favouring investment entities that have a lower level of borrowings. GJFML continues to be focussed on acting in the best interest of GJT unitholders and we believe this strategy is consistent with this objective.