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as Responsible Entity for Galileo Japan Trust
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2 March 2009

ASX / Media Release

GALILEO JAPAN TRUST REPORTS INTERIM DISTRIBUTABLE EARNINGS OF A\$17.53 MILLION¹ OR 4.32 CENTS PER UNIT AN INCREASE OF 2.4%, NET TANGIBLE ASSETS UP 4.4%, CARRYING VALUE OF PROPERTY PORTFOLIO DOWN 6.1%

Please find attached a Galileo Japan Trust (ASX code: GJT) announcement relating to the Trust's interim financial results for the six month period ended 31 December 2008.

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About Galileo Japan Trust

The Trust is listed on the Australian Stock Exchange with an indirect beneficial interest in a portfolio of 26 Japanese Real Estate investments valued at approximately ¥88.2 billion (approximately A\$1.41 billion)². The portfolio is well diversified by both sector and geography while retaining a strong bias to Greater Tokyo.

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

¹ Represents the net profit attributable to unitholders after adjusting for the effect of AIFRS and amortisation

² A\$/¥ exchange rate of ¥62.56 as at 31 December 2008

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Galileo Japan Funds Management Limited ("GJFML"), the responsible entity for the Galileo Japan Trust ("GJT" or "the Trust"), today announced the Trust's interim results for the six month period ended 31 December 2008.

Key points relating to this announcement are as follows:

- Distributable earnings of \$17.53 million (4.32 cpu), 2.4% above the previous corresponding period ("pcp")
- December 2008 half distributable earnings retained and utilised to fully repay loan maturing 30 January 2009 of ¥1.49 billion (A\$23.8 million)²
- NTA of 94 cpu, an increase of 4.4% from 30 June 2008
- The aggregate of independent valuations and Directors' valuations across the total portfolio has resulted in a reduction of 6.1% (¥5.7 billion) from the June 2008 book value to ¥88.15 billion as at 31 December 2008
- Revaluation of the portfolio has resulted in the LTV test under foreign exchange derivative contracts having a ratio of 68.1% as at 31 December 2008. This exceeds the threshold under the test being 65%. GJFML and the counterparty have in principle agreed to a waiver of this test relating to the 31 December 2008 financial statements³
- The Japanese lender notified GJFML on 24 February 2009 that appraisals sought by the lender to test compliance with LTV tests will result in failure of those tests for both senior loan facilities on the next calculation date being 16 April 2009
- If the loan balance outstanding under these facilities remains above the LTV test level at 16 April 2009 the lender intends to trap cash from the TK effective from 30 April 2009 (the next quarterly payment date) and apply this cash to repay principal. Once the balance outstanding on each loan falls below the LTV test, cash would once again be released to the borrower
- Failure under this test does not give the lender rights to reprice the loan facilities or accelerate term
- 84% of borrowings subject to fixed rate and mature July 2012⁴
- Portfolio occupancy remains high at 96.8% (June 2008 97.6%)
- 32% of office space subject to rent review in the period resulting in an average increase in passing rent of 6.1%

Financial performance

The Trust today announced distributable earnings for the half year ended 31 December 2008 of \$17.53 million¹ equating to 4.32 cents per unit, 2.4% above pcp. The earnings exceeded the previous period primarily due to like for like property income growth of approximately 1% and more favourable translation of the Trust's ¥ denominated earnings under GJT's existing income hedge contracts.

¹ Represents the net profit attributable to unitholders after adjusting for the effect of AIFRS and amortisation

² A\$/¥ exchange rate of ¥62.56 as at 31 December 2008

³ The waiver is conditional upon GJT remaining compliant with all loan covenant tests

⁴ Post repayment of a loan maturing on 30 January 2009

GJFML announced a series of initiatives in November 2008 to facilitate a reduction in the Trust's balance sheet leverage. One of these initiatives was to withhold the distributable earnings available for the December 2008 half year and utilise this and other cash available to repay a loan facility of ¥1.49 billion (A\$23.8 million)⁵ maturing 30 January 2009. This facility was repaid in full post the balance date and has resulted in the Trust's debt to total assets ratio reducing from 58.8% at 31 December 2008 to 58.3%⁵.

A net loss after tax of \$A194.6 million was reported for the interim period. This includes non-cash components principally relating to unrealised losses arising on the mark to market of foreign exchange contracts (A\$137.7 million) and an adjustment to the fair market value of the Trust's property portfolio (A\$82.6 million).

Neil Werrett, Managing Director and CEO of GJFML said, "Operationally the property portfolio has continued to perform in line with expectations. However, with global and Japanese domestic economic conditions continuing to deteriorate, the immediate outlook is expected to be more challenging."

Capital Management

GJFML has previously signalled its intention to implement a series of capital management initiatives intended to reduce leverage in the Trust's balance sheet.

Key elements of this strategy to reduce Trust liabilities as outlined in earlier announcements include:-

- Utilisation of distributable earnings;
- Pursuit of asset sales and release of existing equity ; and
- Introducing new sources of capital.

GJFML's immediate focus is to ensure the Trust can repay or refinance its loan maturities in FY10 and is also working closely with the counterparty to GJT's foreign exchange contracts to appropriately manage both the Trust's and the counterparty's position under those contracts.

Two loan facilities mature in FY10 for a total amount of ¥8.77 billion (A\$140.2 million)² being September 2009 ¥2.64 billion and December 2009 ¥6.13 billion. Beyond this the only loan maturing is a facility in July 2012 of ¥45.2 billion (A\$722 million)² representing 84% of the Trust's total borrowings.

If the Trust is unable to secure a refinancing, extension or a new capital source to repay these facilities it may be necessary to realise a significant portion of the investment portfolio. Should such a sale occur in an abbreviated sale period and having regard to current market conditions, the Trust may not realise the values stated in the financial statements.

Balance Sheet

Total assets in A\$ terms increased 49% during the period to approximately A\$1.5 billion. The Trust's net assets also increased during the period by 4.4% to A\$380 million (94 cents per unit). Both movements were primarily due to the significant appreciation of the ¥ relative to the A\$ since 30 June 2008.

GJT has approximately 35% of its Japanese equity investment hedged and the significant increase in the A\$ denominated value of the Trust's assets (A\$236.3 million) has more than offset the negative impact of the fair market value of the property portfolio (A\$82.6 million) and the mark to market movement in the fair value of the Trust's foreign exchange derivative contracts (A\$137.7 million).

The Trust's gearing ratio (debt to total assets) as at 31 December 2008 was 58.8%. However, this reduced to 58.3% following the full repayment of a loan maturity at 30 January 2009 of approximately A\$23.8 million⁵. The repayment of this loan was funded with retained distributable earnings for the December 2008 half year and other cash available.

The Trust's debt service coverage ratio at 31 December 2008 was approximately 3.4 times, net of income sourced

⁵ The total loan amount was A\$23.8 million, partial repayment of A\$7.1 million was made on 26 December 2008 with the balance A\$16.7 million paid 30 January 2009

from GJT's capital hedges.⁶

Foreign Exchange Hedges

As highlighted in the ASX announcement dated 2 February 2009, a reduction in the ¥ carrying value of the portfolio through revaluations as at 31 December 2008 was expected to result in the 65% covenant relating to GJT's foreign exchange derivative contracts being exceeded with the actual ratio being 68.1%.

GJFML and the counterparty have in principle agreed to a waiver of this test relating to the 31 December 2008 financial statements. The waiver is conditional upon GJT remaining compliant with all loan covenant tests. Despite receiving a waiver for the current reporting date GJFML remains committed to initiatives which can reduce both the Trust's and the counterparty's position under its foreign exchange derivative contracts including asset sales and/or introducing new sources of capital.

GJT's foreign exchange contracts relate to both capital and income hedges with a total mark to market value of A\$125.3 million out of the money at 31 December 2008. Of this total A\$54.5 million relates to the Trust's income hedges which fully expire in December 2016. The capital hedges representing A\$70.8 million of the total mature in four tranches commencing December 2011, then annually thereafter through December 2014. The first of these maturities (December 2011) had a value at 31 December 2008 of A\$19.7 million or approximately 5% of GJT's net assets which may change subject to the A\$/¥ exchange rate at maturity.

Revaluations

GJFML's valuation policy is to complete independent external valuations on each of the assets within the portfolio at least every 3 years. For the period ended 31 December 2008, twelve assets representing approximately 50% of the portfolio (by value) have been subject to independent appraisal. The results of these independent valuations are outlined in the table below.

Independent external valuations as at 31 December 2008

	Location	Sector	Date of last Ind. Val'n	Last Ind. Val'n (¥bn)	Book value Jun'08 (¥bn)	Reval'n Dec'08 (¥bn)	Change vs Jun'08 Book value (%)
Seishin ^A	Tokyo	Office	Dec'07	10.39	10.39	9.25	(10.9)
Takadanobaba ^B	Tokyo	Office	Nov'06	4.22	4.70	4.21	(10.4)
Irifune ^A	Tokyo	Office	Nov'06	2.23	2.26	2.10	(7.0)
Nara 2 ^B	Yokohama	Office	Jan'08	3.45	3.52	3.13	(11.2)
Shiroi ^B	Greater Tokyo	Resid.	Nov'06	3.33	2.96	2.70	(8.7)
Prejeal ^B	Osaka	Resid.	Nov'06	0.91	0.91	0.86	(5.5)
Shimbashi Redbrick ^B	Tokyo	Retail	Nov'06	4.90	4.62	4.49	(2.9)
Suroy Mall ^C	Fukuoka	Retail	Jun'07	9.20	9.07	8.65	(4.6)
Seiyu ^C	Minakuchi	Retail	Jun'07	4.40	4.40	4.27	(3.0)
Lions Square ^B	Greater Tokyo	Mixed	Nov'06	2.64	2.43	2.30	(5.5)
Itabashi Belle ^A	Tokyo	Mixed	Jun'08	1.52	1.52	1.40	(7.9)
Funabashi Hi-tech ^A	Greater Tokyo	Ind.	Jun'08	1.02	1.02	0.91	(10.8)
Total				48.21	47.80	44.27	(7.4)

^A Revaluation completed by Savills Japan K.K.

^B Revaluation completed by Chika Riron Research Institute Co. Ltd.

^C Revaluation completed by TOEI Real Estate Appraisal Inc.

The valuations have been undertaken by three certified independent appraisal firms using the same form of instruction as has previously been utilised by GJFML. The valuation instructions include specific reference to the definition of "market value" according to the Japanese Real Estate Appraisal Standards which is consistent with the definition advocated by the Royal Institute of Chartered Surveyors.

⁶ Interest cover is EBITDA of the TK divided by interest expense

The independent valuations have resulted in a reduction in the carrying value of those assets of ¥3.5 billion or 7.4%. Included in these valuations were six assets which had previously not been revalued independently since purchase in December 2006. The movements in value primarily reflect an easing of capitalisation rates and, in the case of office assets, a reduction in assessed market rents reflecting recent increases in vacancy in Central Tokyo, albeit still at relatively modest levels compared to the last vacancy peak in 2003.

Consistent with the approach taken at previous balance dates, Directors' valuations have been made on the balance of the portfolio to ensure that all properties are carried at fair market value as at each statutory reporting date.

Directors' valuations as at 31 December 2008

	Location	Sector	Date of last Ind. Val'n	Last Ind. Val'n (¥bn)	Book value Jun'08 (¥bn)	Dir. Val'n Dec'08 (¥bn)	Change vs Jun'08 Book value (%)
Kanda	Tokyo	Office	Dec'07	5.64	5.64	5.25	(6.9)
Tsukasacho	Tokyo	Office	Jun'08	4.90	4.90	4.66	(4.9)
Azabu Amerex	Tokyo	Office	Dec'07	3.60	3.60	3.35	(6.9)
Hiei Kudan	Tokyo	Office	Jun'08	2.50	2.50	2.45	(2.0)
Doshoumachi	Osaka	Office	Jun'08	0.93	0.93	0.88	(5.4)
Matsuya Residence	Osaka	Resid.	Dec'07	2.53	2.33	2.25	(3.4)
Royalhill Sannomiya	Kobe	Resid.	Jun'08	1.90	1.90	1.83	(3.7)
Imazato	Osaka	Resid.	Dec'07	1.35	1.24	1.16	(6.5)
La Park Kishiwada	Osaka	Retail	Jun'07	10.80	10.80	10.30	(4.6)
Daimyo 247	Fukuoka	Retail	Jun'08	2.05	2.05	1.95	(4.9)
Suroy Mall	Kumamoto	Retail	Jun'07	4.70	4.56	4.30	(5.7)
Confomall	Sapporo	Mixed	Jun'08	1.45	1.45	1.45	0.0
Funabashi Hidan	Greater Tokyo	Ind.	Jun'08	2.00	2.00	2.00	0.0
Asakusa Vista	Tokyo	Hotel	Jul'07	2.27	2.18	2.05	(6.0)
Total				46.62	46.08	43.88	(4.8)

The Directors' valuations relate primarily to assets valued independently in the last 12 months with half having been independently valued in June 2008. The Directors' valuations have had regard to the key valuation benchmarks derived from independent valuations completed for the period including but not limited to movement in capitalisation rates, market rents and discount rates. In aggregate the Directors' valuations have resulted in a reduction in the carrying value of those assets of ¥2.2 billion or 4.8%. This combined with the independent external valuations outlined above has resulted in an overall reduction in the carrying value of the portfolio from June 2008 of ¥5.7 billion or 6.1%.

Weighted average capitalisation rates based on the most recent independent valuations for the various asset classes in the portfolio are Office 4.79%, Retail 5.48%, Residential 6.15%, Mixed use 6.08%, Industrial 6.44% and Hotel 6.05%.

Compliance with Japanese lender loan LTV test

As noted in GJT's ASX announcement on 2 February 2009 the Japanese lender holding security over the Japanese property portfolio instructed a valuer to conduct appraisals in order to ascertain compliance with loan to value tests in the loan documents.

The lender issued a notice on 24 February 2009 outlining the results of their appraisals which indicate that each of the Trust's senior loan facilities will have an LTV higher than the permitted thresholds at the next calculation date being 16 April 2009.

The individual loan facilities, LTV thresholds and respective valuations conducted by both the lender and GJFML are summarised in the table below:-

Loan Facility	LTV Test %	Loan Amount (¥bn)	Threshold Valuation (¥bn)	Lender's Appraisals (¥bn)	Lender's LTV (%)	GJFML Valuation (¥bn)	GJFML LTV (%)
Loan A	65	45.2	69.53	66.97	67.5	77.55	58.3
Loan B	70	6.1	8.71	8.57	71.2	10.63	57.4

The lender instructed CB Richard Ellis to undertake appraisals for its purposes. GJFML notes that CB Richard Ellis has completed all valuations⁷ for GJFML since IPO including all those relied upon for acquisition, loan approval and subsequent balance sheet reporting purposes. GJFML has requested a copy of the instructions to CB Richard Ellis for the lender's appraisals however, to date, this has not been provided to GJFML.

GJFML has also not been provided with the final appraisals. However, GJFML believes that the appraisals may not include reference to the "market value" definition present in all previous valuations undertaken for GJFML to date and in the valuations used for these 31 December 2008 accounts.

As GJFML has not seen or approved the lender's instructions to CB Richard Ellis, has not seen the final appraisals and has not had an acceptable involvement in the appraisal process, GJFML does not accept the appraisals as representing "market value" as that term has been used consistently in the past by GJFML.

As a result of the notice received by the lender on 24 February 2009:-

- if at the next TK quarterly calculation date (16 April 2009) the current loan balance outstanding remains above the LTV test level the borrower will have failed the lender's LTV test under both loan facilities
- in these circumstances the lender intends to trap the cash which would otherwise be released to the borrower from the TK and apply this cash to repay loan principal
- The amount of loan principal required to be repaid either prior to the calculation date or after to satisfy the LTV test (based on the lender's appraisals) would be approximately ¥1.6bn for Loan A and ¥130m for Loan B.

GJFML confirms that the content of the notice received does not constitute a default under the loans and does not give the lender rights to reprice the loan facilities or accelerate term.

Performance of Investment Portfolio

The property portfolio continues to perform in line with expectations maintaining high occupancy levels and demonstrating some growth in underlying cash flows. Key points for the period include:-

- 32% of the office portfolio was subject to rent review during the period with an average increase in passing rent of 6.1%
- 8 new leases completed in the office portfolio representing approximately 1% of the portfolio's total net rentable area with the average increase in passing rent of 25%
- Occupancy levels remain high at 96.8% (June 2008 97.6%)
- On a like for like basis passing rent for the total portfolio increased approximately 1% over pcp
- The weighted average lease term to expiry of GJT's "non-cancellable" leases (representing 34% of property income) exceeds 13 years
- Cancellation notices received for approximately 875 tsubo which will impact the second half of FY09 and FY10. This area represents approximately 1.3% of the portfolio's net rentable area and 3% of gross income.

Peter Murphy, Chief Operating Officer of GJFML said, "Galileo's asset management team has been successful in maintaining high levels of occupancy and achieving growth in rents particularly within the Central Tokyo office market. The immediate focus in the period ahead will be to preserve occupancy levels ensuring stability of earnings at a property level."

⁷ Except the valuation for purchase relating to Nara 2 in January 2008 which was completed by Chika Riron research Institute Co. Ltd.

Outlook

GJFML believes the Trust can still deliver distributable earnings of at least 8.0 cents per unit in FY09 in the absence of any early refinancing of FY10 loan maturities

GJFML had previously indicated its intention to pay a distribution of 1.5 cents per unit for the six months ending 30 June 2009 (subject to trading and market conditions). Having received the notice by the Japanese lender on 24 February 2009 and in the absence of a definitive repayment plan or terms agreed for the refinancing of FY10 loan maturities GJFML has concluded that it is in the best interests of all unitholders not to declare a distribution for the June 2009 half year period and apply these funds to reduce liabilities of the Trust.

In suspending the payment of distribution in FY09, GJFML has been mindful that unitholders may have a potential tax liability even though no distribution is paid in FY09. Given the significant downward movement in the A\$/¥ exchange rate during the period it is anticipated that GJT's taxable income in FY09 will be substantially lower than in prior periods due to realised losses on the settlement of income hedge contracts. This should mitigate any potential tax liability being transferred to unit holders.

GJFML will review the level of distribution payable to unitholders for FY10 and beyond once the immediate priorities of short term loan maturities and foreign exchange contracts have been resolved.

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