

galileo
JAPAN TRUST

ANNUAL REPORT 2009

GALILEO JAPAN TRUST (ARSN 122 465 990)



FINANCIAL
REPORT

For the financial year ended 30 June 2009

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Directors' Report to Unitholders

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

The directors of Galileo Japan Funds Management Limited, the responsible entity (Responsible Entity) of Galileo Japan Trust (the 'Trust'), submit here with their report together with the consolidated financial report of the Trust and its controlled entity (together the 'Consolidated Entity') for the financial year ended 30 June 2009. All amounts in this report are in Australian dollars unless otherwise stated.

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Corporate Information

The Trust was registered with the Australian Securities and Investments Commission on 10 November 2006 and listed on the Australian Securities Exchange 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.

Directors

The following persons have held office as directors of the Responsible Entity during the financial year and up to the date of this report:

- Jack Ritch – Non-Executive Chairman
- Philip Redmond – Non-Executive Director
- Frank Zipfinger – Non-Executive Director
- Neil Werrett – Managing Director and Chief Executive Officer
- Peter Murphy – Executive Director and Chief Operating Officer

During the financial year there were 20 directors meetings held and all directors were present at these meetings.

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. Jack is also Chairman of Australia Pacific Airports Corporation Limited (owner of Melbourne and Launceston airports) and Chairman of the Principal and Domain Aged Care Group operations. His other activities include Chairman of the Powerhouse Museum Foundation.

Philip Redmond, Non-Executive Director

Philip has over 20 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 of ING Management Limited, the responsible entity for ING Management Limited's Australian listed property trusts.

Frank Zipfinger, Non-Executive Director

Frank has over 25 years experience in the property industry. He is a Partner in the Property, Construction & Environment practice of the Sydney office of Mallesons Stephen Jaques where he specialises in property investment and development (however, he is acting in his personal capacity and not as a partner of Mallesons Stephen Jaques in holding office as a director of the Responsible Entity). He has been the Chairman of Mallesons Stephen Jaques since 1 February 2005. Prior to this appointment, Frank completed over five years in various roles as a Managing Partner with the firm. Frank is a Member of the Australian Institute of Company Directors and also a member of the AICD's Law Committee. He is a member of the Executive Committee of the St Joseph's College Indigenous Fund, a member of the Board of Melbourne Business School and President of the school's Alumni Council, a Director of the Australian Youth Orchestra and a Director of the Australian Chapter of the not for profit organisation Room to Read.

Directors' Report to Unitholders (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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Details of directors (continued)

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 was the founder of Galileo Japan Funds Management Limited in 2006.

Peter Murphy, Executive Director and Chief Operating Officer

Peter has over 20 years experience in the property industry in numerous capacities including valuations, as well as asset and funds management. Over the past 10 years, he has been directly involved in the management of various listed property entities. Peter was the CEO of Ronin Property Group which listed in 1996 as AMP Office Trust and had funds under management of approximately \$2 billion throughout Australia and New Zealand prior to a merger with Multiplex Group in November 2004. During his employment with Multiplex, Peter was the Group Manager, Marketing and Communications and more recently Divisional Director, Institutional Funds responsible for in excess of \$3 billion in funds under management.

Details of Company Secretary

Donna Duggan, Compliance Officer

Donna Duggan is Compliance Officer and company secretary for Galileo Japan Funds Management Limited. Donna is currently completing the Chartered Secretaries Australia's Graduate Diploma in Applied Corporate Governance.

Directors' relevant Interests in the Trust

As at 30 June 2009, the interests of the directors, held directly or indirectly, in the Trust were:

	Units Held
Jack Ritch	141,429
Philip Redmond	265,000
Frank Zipfinger	230,000
Neil Werrett*	23,751,488
Peter Murphy	840,143

* These units are owned by Galileo Japan Funds Management Limited (the Responsible Entity) and Galileo Investments Japan Pty Ltd.

There were no options given to directors.

Principal Activity of the Trust

The principal activity of the Trust is to indirectly invest in a diverse portfolio of real estate assets in Japan. There was no change in this activity during the year.

Review and Results of Operations

Results

The rapid and unanticipated dislocation in global credit markets and associated volatility in equity markets has had a material impact on the financial position and outlook for the Trust. The decline in value of the investment properties has put pressure on financial covenants in the Japanese loan documents and affected the ability to refinance the short term maturities.

Further, the sharp fall in the value of the Australian dollar against the Japanese Yen has also had a material impact on certain financial covenants of the Trust. The ongoing volatility of the spot rate has caused the foreign currency counterparty to reconsider their desire to leave their position open with the Trust.

Review and Results of Operations (continued)

The consolidated net loss attributable to unitholders of the Trust for the year ended 30 June 2009 was \$251.6 million (30 June 2008: profit - \$12.2 million).

Distributions

A distribution equal to 4.00 cents per unit was paid on 29 August 2008 relating to the six-months ended 30 June 2008. No interim distribution was paid during the year and a distribution of 0.025 cents per unit was paid on 31 August 2009 relating to the year ended 30 June 2009.

The Trust's Distribution Reinvestment Plan (DRP) is not currently in operation.

Consolidated Assets

As at 30 June 2009 the Consolidated Entity had total assets of \$1,051.0 million (30 June 2008 - \$996.3 million).

The Consolidated Entity had net assets at 30 June 2009 of \$213.6 million (30 June 2008 - \$370.9 million).

The Trust's net tangible asset backing was 52 cents per unit at 30 June 2009 (down from 90 cents per unit at 30 June 2008) primarily as a result of the reduced property investment value. The underlying cash flow from operations remained stable during the period however, the Trust's current liabilities exceeded the Trust's current assets by \$140.5 million at 30 June 2009. This deficiency is due to short term refinancing requirements in the next 12 months and due to the classification of certain financial derivatives as current liabilities.

Refer to the Events occurring after reporting date section below and Note 27 in the Financial Statements for further details on the Trust's refinancing position.

Property valuations

At 30 June 2009 the fair value of all investment property has been determined by independent third party valuations. The carrying value of investment property at 30 June 2009 was ¥76.7 billion compared to ¥93.9 billion at 30 June 2008.

The global market for many types of real estate has been severely affected by the recent volatility in global financial markets. The lower levels of liquidity and volatility in the banking sector have translated into a general weakening of market sentiment towards real estate and the number of real estate transactions has significantly reduced.

Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A "willing seller" is not a forced seller prepared to sell at any price. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

The current lack of comparable market evidence relating to pricing assumptions and market drivers means that there is less certainty in regard to valuations and the assumptions applied to valuation inputs. The period of time needed to negotiate a sale in this environment may also be prolonged.

The fair value of investment property has been adjusted to reflect market conditions at the end of the reporting period. While this represents the best estimates of fair value as at the balance sheet date, the current market uncertainty means that if investment property is sold in the future the price achieved may vary from the most recent valuation recorded in the financial statements.

Interest bearing liabilities and derivative financial instruments

As announced to the market, on 30 January 2009, the Trust repaid the outstanding balance of the loan facility which was scheduled to mature on that day amounting to ¥1.04 billion (\$16.7 million) - the original facility was ¥1.49 billion.

A notice was received from the Japanese lender on 24 February 2009 indicating that the loan to value ratio for both Loan A and Loan B exceeded the requirement as specified in the respective loan agreements, and that the lenders intention was to trap cash from 30 April 2009 to repay loan principal. Subsequently, on 1 July 2009, a Standstill Agreement had been entered into with the Japanese lenders in relation to the potential event of default as announced to the market on 11 June 2009. The terms of this agreement provided for the release of a portion of funds previously subject to the Japanese lender's cash trap to facilitate payment of forecast operating and refinancing costs.

Review and Results of Operations (continued)

As previously announced to the market, the Trust has a number of foreign exchange contracts related to its Yen denominated assets and income. The foreign exchange derivative contracts require that certain financial covenants are met during the term of the contracts. The Trust confirmed as at 1 March 2009 that it had breached the financial ratio under one of the covenants. Due to the further downward movement in property valuations at 30 June 2009 the Trust remained in breach of this financial covenant. The Responsible Entity and the counterparty to the foreign exchange contracts have been in ongoing discussions in relation to these contracts.

Refer to the Events occurring after reporting date section below and Note 27 in the Financial Statements for further details on the Trust's refinancing position.

Events occurring after reporting date

As announced to the market, on 3 July 2009, a Standstill Agreement had been entered into with the Japanese lenders in relation to the potential event of default as announced to the market on 11 June 2009. The terms of this agreement provided for the release of a portion of funds previously subject to the Japanese lender's cash trap to facilitate payment of operating costs and refinancing costs.

On 18 September 2009, the existing Loan A agreement with the Japanese lender was amended. The amendments were part of a wider refinancing strategy which has allowed the full repayment of all of the short term maturities, an extension of the maturity date of the senior loan and revision of certain key terms. As part of this refinancing arrangement the Japanese lender has agreed to a second lien on the security pool of assets for Loan A in order to allow for the introduction of new capital. This new capital will be in the form of mezzanine bonds and convertible bonds and will repay the short term debt maturities in full.

On 18 September 2009 an agreement was executed with Forum Partners ('Forum') a Global real estate investment management firm, to purchase bonds issued by the TK business. On the same day, mezzanine bonds and convertible bonds were issued by the TK business and the proceeds were used to fully repay all short term maturities. Proceeds of the bonds were also used to make a principal reduction payment on Loan A per the amended senior loan agreement. The Convertible Bonds issued to Forum are convertible at Forum's option into a fixed 40.0% of the TK equity currently held by the Trust following the full repayment of Mezzanine Bonds.

As a result of the matters discussed above, until the full repayment of the Bonds issued to Forum, the Japanese TK shall not pay any dividend distributions to the Trust, except funds required to cover overhead expenses of the Trust and to settle any tax liabilities. Accordingly, no distributions will be available to GJT unitholders until the full repayment of the Bonds. On 24 August 2009, notice was received from the counterparty to the foreign exchange contracts that they had exercised the Bermuda option right to terminate all of the contracts that were in place with the Trust. On the date of termination a fair market value calculation was performed to determine the amount owing to the counterparty under the contracts which totalled ¥4.4 billion and is payable in Japanese Yen. On 18 September 2009 a loan facility was entered into with the counterparty setting out the terms under which the ¥4.4 billion is payable. The ¥4.4 billion has been converted into a long term loan repayable in full in September 2014. As a result of the termination of all of the foreign currency hedges by the counterparty the Trust is fully exposed to fluctuations in the AUD/JPY exchange rate on the income it receives from Japan and on the net equity position of its investment in Japan. Based on recent movements in the AUD/JPY exchange rate the impact this has on the Trust could be volatile over a short period of time and movements could be material in size.

After closing of the bond issue, entering into the amended Loan A agreement with the Japanese senior lender and closing of the loan facility with the foreign currency counterparty there are no loan obligations maturing until December 2012.

The Trusts aim up to the date of this report has been to generate long term income and capital growth from investing in stabilised real estate in Japan. Post 21 September 2009 the Trust aims to maximise the capital returns for unitholders through an orderly asset sale program which will ultimately be dependent upon the realisation amount for property investments. This strategy should be considered in conjunction with the disclosures made in Note 27.

The financial effect of these events has not been brought to account at 30 June 2009.

Significant changes in the state of affairs

In the opinion of the Directors of the Responsible Entity, other than the matters discussed above, there were no significant changes in the state of affairs of the Consolidated Entity that occurred during the year ended 30 June 2009 and up to the date of this report.

Fees Paid by the Trust to the Responsible Entity

Fees paid or payable to the Responsible Entity for services provided during the period are determined in accordance with the Trust Constitution as disclosed in Note 3 of the financial statements. The base Responsible Entity fee has been waived for the year ended 30 June 2009 and for the period ended 30 June 2008 and will continue to be waived until the cash distribution yield on equity to investors exceeds 8.0% on the Initial Public Offering Application Price of \$1.00 per Unit.

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 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 their Annual Report.

Environmental regulation

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

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. Details of non-audit services provided by the Trust's auditor are set out in Note 4.

Rounding of amounts to the nearest thousand dollars

The Trust is a registered scheme of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

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



Jack Ritch

Chairman

Sydney, 21 September 2009

Auditor's Independence Declaration

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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Auditor's Independence Declaration

As lead auditor for the audit of Galileo Japan Trust for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Galileo Japan Trust and the entities it controlled during the year.

A handwritten signature in black ink that reads 'JA Dunning'.

JA Dunning
Partner
PricewaterhouseCoopers

Sydney
21 September 2009

Liability limited by a scheme approved under Professional Standards Legislation

Income Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Note	Consolidated		Trust	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Income					
Rental income		83,094	59,226	-	-
Distribution income		-	-	32,317	26,464
Net foreign exchange gain		-	-	-	1,846
Net gain on property revaluations		-	181	-	-
Interest and other income		18,832	7,465	18,737	7,380
Total income		101,926	66,872	51,054	35,690
Expenses					
Property expenses		(22,153)	(15,290)	-	-
Finance costs		(18,391)	(12,388)	-	(155)
ASX and other fees		(271)	(216)	(271)	(216)
Other expenses	5	(10,538)	(5,310)	(1,208)	(792)
Unrealised loss on derivative financial instruments		(74,888)	(13,810)	(74,888)	(13,810)
Net foreign exchange loss		(16,155)	-	(17,151)	-
Impairment on investments	8	-	-	(177,317)	-
Net loss on investment property revaluation		(218,601)	-	-	-
Total expenses		(360,997)	(47,014)	(270,835)	(14,973)
Net profit/(loss) before tax		(259,071)	19,858	(219,781)	20,717
Income tax	6	5,252	(6,813)	(2,788)	(3,345)
Net profit/(loss) after tax for the year		(253,819)	13,045	(222,569)	17,372
Net (profit)/loss attributable to minority interest	16	2,251	(843)	-	-
NET PROFIT/(LOSS) ATTRIBUTABLE TO UNITHOLDERS OF THE TRUST		(251,568)	12,202	(222,569)	17,372
Basic and diluted earnings per unit (cents)	18	(62.03)	3.07		

The Income Statements should be read in conjunction with the notes to the financial statements as set out on pages 11 to 35.

Balance Sheets

AS AT 30 JUNE 2009

	Note	Consolidated		Trust	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Assets					
Current Assets					
Cash and cash equivalents	25	56,832	46,951	557	1,936
Trade and other receivables	7	6,134	15,693	30,103	16,338
Derivative financial instruments	20	-	12,483	-	12,483
Total Current Assets		62,966	75,127	30,660	30,757
Non-Current Assets					
Investment property	9	987,843	921,220	-	-
Investment in subsidiary	8	-	-	209,232	386,489
Other assets		167	-	-	-
Total Non-Current Assets		988,010	921,220	209,232	386,489
TOTAL ASSETS		1,050,976	996,347	239,892	417,246
Liabilities					
Current Liabilities					
Trade and other payables	10	22,600	13,013	3,367	2,700
Interest bearing liabilities	12	112,595	109,086	-	-
Tenant security deposits		7,356	12,932	-	-
Derivative financial instruments	20	60,770	-	60,770	-
Provision for distribution	11	101	16,222	101	16,222
Total Current Liabilities		203,422	151,253	64,238	18,922
Non-Current Liabilities					
Interest bearing liabilities	12	576,971	436,544	-	-
Tenant security deposits		44,282	27,898	-	-
Deferred tax liability		-	8,040	-	-
Derivative financial instruments	20	12,675	1,709	-	-
Total Non-Current Liabilities		633,928	474,191	-	-
TOTAL LIABILITIES		837,350	625,444	64,238	18,922
NET ASSETS		213,626	370,903	175,654	398,324
UNITHOLDERS' EQUITY					
Parent entity interest					
Contributed equity	13	386,856	386,856	386,856	386,856
Reserves	14	72,330	(24,313)	-	-
Undistributed income	15	(249,954)	1,715	(211,202)	11,468
Total parent entity interest		209,232	364,258	175,654	398,324
Minority interest	16	4,394	6,645	-	-
TOTAL EQUITY		213,626	370,903	175,654	398,324

The Balance Sheets should be read in conjunction with the notes to the financial statements as set out on pages 11 to 35.

Statements of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Note	Consolidated		Trust	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Total equity at the beginning of the year		370,903	268,787	398,324	301,042
Net income recognised in equity:					
Net exchange differences on translation of foreign operations	14	108,110	11,180	-	-
Fair value movement on hedge instrument	14	(11,467)	(3,612)	-	-
Total net income recognised in equity		96,643	7,568	-	-
Net profit/(loss) after tax for the period		(253,819)	13,045	(222,569)	17,372
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD		(157,176)	20,613	(222,569)	17,372
Total recognised income and expense for the period attributable to:					
Unitholders		(154,925)	19,770	(222,569)	17,372
Minority interest		(2,251)	843	-	-
		(157,176)	20,613	(222,569)	17,372
Transactions with unitholders in their capacity as unitholders:					
Proceeds from units issued	13	-	115,585	-	115,585
Transaction costs	13	-	(3,231)	-	(3,231)
Profit attributable to unitholders		(154,925)	19,770	(222,569)	17,372
Distributions paid and payable	11	(101)	(32,444)	(101)	(32,444)
Total transactions with unitholders		(155,026)	99,680	(222,670)	97,282
Transactions with minority interest:					
Value of contributions	16	-	1,593	-	-
Profit/(loss) attributable to minority interest	16	(2,251)	843	-	-
Total transactions with minority interest		(2,251)	2,436	-	-
TOTAL EQUITY AT THE END OF THE YEAR		213,626	370,903	175,654	398,324
Attributable to:					
Unitholders of the Trust		209,232	364,258	175,654	398,324
Minority interest		4,394	6,645	-	-
		213,626	370,903	175,654	398,324

The Statements of Changes in Equity should be read in conjunction with the notes to the financial statements as set out on pages 11 to 35.

Cash Flow Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Note	Consolidated		Trust	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash flows from operating activities					
Rental and other property income		83,587	59,558	-	-
Property and other expenses		(22,817)	(17,916)	-	-
Realised foreign exchange gains		706	955	706	955
Interest and other income received		3,520	9,072	3,553	6,549
Borrowing costs		(15,657)	(10,640)	-	(156)
Other operating costs		(6,725)	(7,906)	(1,830)	(994)
Tenant security deposits		(2,048)	21,098	-	-
Consumption tax/GST		11,771	1,225	149	1,261
Net cash inflows from operating activities	24	52,337	55,446	2,578	7,615
Cash flows from investing activities					
Investment in subsidiary		-	-	-	(114,248)
Distributions received from investments		-	-	12,222	22,876
Payments for investments		-	-	(61)	-
Investment properties		(3,667)	(341,814)	-	-
Net cash inflows/(outflows) from investing activities		(3,667)	(341,814)	12,161	(91,372)
Cash flows from financing activities					
Proceeds from borrowings		-	224,272	-	-
Repayment of borrowings		(36,506)	-	-	-
Distributions paid		(16,117)	(27,436)	(16,118)	(27,436)
Finance costs		(376)	(2,668)	-	-
Proceeds from units issued		-	115,585	-	115,585
Transaction costs		-	(4,443)	-	(4,443)
Net cash inflows/(outflows) from financing activities		(52,999)	305,310	(16,118)	83,706
Net increase/(decrease) in cash assets held		(4,329)	18,942	(1,379)	(51)
Effect of foreign exchange movements on cash		14,210	(727)	-	-
Cash assets at the beginning of the year		46,951	28,736	1,936	1,987
CASH ASSETS AT THE END OF THE YEAR	25	56,832	46,951	557	1,936

The Cash Flow Statements should be read in conjunction with the notes to the financial statements as set out on pages 11 to 35.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Note 1. General information

This financial report covers Galileo Japan Trust (the 'Trust') as a consolidated entity. The Trust was established pursuant to the Constitution and was registered as a managed investment scheme with the Australian Securities and Investments Commission on 10 November 2006 and was listed on the Australian Securities Exchange on 18 December 2006.

The Trusts aim up to the date of this report has been to generate long term income and capital growth from investing in stabilised real estate in Japan. Post 21 September 2009 the Trust aims to maximise the capital returns for unitholders through an orderly asset sale program which will ultimately be dependent upon the realisation amount for property investments. This strategy should be considered in conjunction with the disclosures made in Note 27.

The responsible entity of the Trust is Galileo Japan Funds Management Limited (the 'Responsible Entity'). The Trust's registered address is Level 9, 1 Alfred Street, Sydney NSW. The financial statements were authorised for issue by the directors on 21 September 2009. The Responsible Entity has the power to amend and reissue this financial report.

Note 2. Summary of significant accounting policies

The significant policies which have been adopted in the preparation of this financial report for the financial year ended 30 June 2009 are set out below. These policies have been consistently applied to the year presented unless otherwise stated.

(a) Basis of preparation

The financial report, which is a general purpose financial report, has been prepared in accordance with the requirements of the Trust Constitution, Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial report has been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments and investment property at fair value through the income statement.

Critical accounting estimates

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 financial year and the amounts of revenues and expenses during the reporting period. 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 accounting policies. Note 2(d), 2(f), 2(k), Note 9 and Note 20 are the main policies where estimations of fair value are described and Note 2(q) describes the assumptions in relation to deferred tax liabilities.

Uncertainty around property valuations

The global market for many types of real estate has been severely affected by the recent volatility in global financial markets. The lower levels of liquidity and volatility in the banking sector have translated into a general weakening of market sentiment towards real estate and the number of real estate transactions has significantly reduced.

Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A "willing seller" is not a forced seller prepared to sell at any price. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

The current lack of comparable market evidence relating to pricing assumptions and market drivers means that there is less certainty in regard to valuations and the assumptions applied to valuation inputs. The period of time needed to negotiate a sale in this environment may also be prolonged. The fair value of investment property has been adjusted to reflect market conditions at the end of the reporting period. While this represents the best estimates of fair value as at the balance sheet date, the current market uncertainty means that if investment property is sold in future the price achieved may vary from the most recent valuation, or lower than the fair value recorded in the financial statements.

Note 2. Summary of significant accounting policies (continued)

(b) Going concern

The financial statements for the Trust and the entity it controlled as at 30 June 2009 have been prepared on a going concern basis as the directors of the Responsible Entity, after reviewing the Trust's going concern status, have concluded that there are reasonable grounds to believe that the Trust and the entity it controlled will be able to pay their debts as and when they become due and payable.

The going concern review was undertaken as, in the opinion of the directors of the Responsible Entity, the rapid and unanticipated dislocation in global credit markets and associated volatility in equity markets has had a material impact on the financial position and outlook for the Trust. The Trust's net tangible asset backing has decreased to 52 cents per unit at 30 June 2009 (90 cents per unit at 30 June 2008) largely as a result of the decrease in fair value of investment property. The underlying cash flow from operations remained stable during the period however, the Trust's current liabilities exceeded the Trust's current assets by \$140.5 million at 30 June 2009. This deficiency is due to short term refinancing requirements in the next 12 months and due to the classification of certain financial derivatives as current liabilities. Notwithstanding the deficiency in current assets the directors have formed the view that the Trust and the entity it controls is a going concern due to the completion of the refinancing strategy post balance date. A component of the post balance date refinancing strategy included the termination of all of the Trust's forward foreign exchange and cross currency swap contracts. On the date of termination a fair market value calculation was performed to determine the amount owing to the counterparty under the contracts which totalled ¥4.4 billion and was payable in Japanese Yen. On 18 September 2009 a loan facility was entered into with the counterparty setting out the terms under which the ¥4.4 billion is payable. The ¥4.4 billion has been converted into a long term loan repayable in full in September 2014.

After the completion of the refinancing strategy all of the current loan maturities have been paid in full and there are no loan maturities until December 2012. Refer to Note 27 of the financial statements for details of the Trust's refinancing position.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Galileo Japan Trust (the Trust) and its controlled entity Galileo Japan Trust II. Information from the financial statements of the subsidiary is included from the date the parent obtained control until such time control ceases. The parent entity's investment in the controlled subsidiary is carried at the lower of cost and recoverable amount. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. The effects of inter-entity transactions and balances and unrealised profits and losses arising have been eliminated in full.

The consolidated financial statements of the Trust incorporate the beneficial interest in 100% of the assets and liabilities arising from the contractual relationships with Central Master Godo Kaisha, which is the Tokumei Kumiai (TK) Operator. This contractual relationship is known under Japanese commercial law as a TK. Under the contractual relationships the Trust is entitled to 97% of the profits and losses of the business of the TK. Under Japanese commercial law a TK is not a legal entity but a contractual relationship or contractual relationships between one or more investors and the TK operator. Central Master Godo Kaisha has invested in the business of two separate TK operators, Central Sub Godo Kaisha and Central Sub 2 Godo Kaisha, under two separate TK Agreements. The sub TK operators will use the invested funds to acquire the trust beneficiary interests of the investment properties.

The 3% of TK profit payable to the TK Operator is shown as minority interest in the income statement. The consolidated financial statements of the Trust incorporate the results of the interests in the TK from the date the TK agreements were signed.

(d) Investment property

Investment properties are initially recorded at cost, being the acquisition price plus the costs of acquisition. All property acquisition costs are capitalised into the value of the investment properties at the time of purchase to reflect the total acquisition costs in the balance sheet. Additions and other expenditure on investment properties which are capital in nature are capitalised to the investment property as incurred. At balance date the investment properties are carried at fair value. At each reporting date the book value of the property portfolio is assessed by the directors and where the book value differs materially from the assessed fair value, an adjustment is made to the book value of the property portfolio. Fair value is determined based on either an independent market valuation or an assessment by the directors.

Note 2. Summary of significant accounting policies (continued)

Independent valuations of the investment properties are obtained whenever the Responsible Entity believes there is a significant change in fair value within the year and at a minimum at least every three years. Where a property has not been independently revalued during the reporting period the directors make an assessment of fair value.

In determining the fair value, the capitalisation of net market income method and discounting of future cash flows to their present value have been used. These approaches require assumptions and judgement in relation to the future receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements, property capitalisation rate or estimated yield and make reference to market evidence of transaction prices for similar properties. If such prices are not available then the fair value of investment properties is determined using assumptions that are mainly based on market conditions existing at each balance date. These valuations are regularly compared to market yield data, and actual transactions by the Responsible Entity and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

Gains and losses arising from changes in the fair values of investment properties from the revaluation of investment properties are included in the income statement in the period in which they arise.

(e) Foreign currency

Functional and presentation currency

Items included in the financial statements of the Consolidated Entity are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated 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 AUD at the rate of exchange at the date of the transactions or at the hedge rates where applicable. At balance date, monetary assets and liabilities denominated in foreign currencies are translated to AUD at rates of exchange current at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Foreign operations

The beneficial interest in the assets and liabilities of foreign controlled entities are translated into AUD at rates of exchange current at balance date (30 June 2009: 77.65; 30 June 2008: 101.93), while their income and expenditures are translated at the average of rates ruling during the financial year (30 June 2009: 74.29; 30 June 2008: 98.72). Foreign exchange differences arising on translation are recorded in the foreign currency translation reserve.

The Consolidated Entity's activities expose it to changes in interest rates and foreign exchange rates. There are policies and limits in respect of the use of derivative and other financial instruments to manage its risk associated with cash flows subject to interest and currency risks (refer note 20). The Consolidated Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risk, including forward exchange contracts.

(f) Derivatives and other financial instruments

The Consolidated Entity has designated certain interest rate swap derivatives as hedges of highly probable forecast cash flows relating to interest bearing liabilities. The portion of changes in the fair value of these derivatives that are designated and qualify as cash flow hedges is recognised in the equity hedging reserve. The gain or loss relating to the ineffective portion is recognised in the income statement.

The foreign exchange hedging arrangements entered into by the Trust are not be deemed to be effective hedges for accounting purposes and gains or losses are recognised in the income statement.

Note 2. Summary of significant accounting policies (continued)

(g) 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.

(h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost which is based on the invoiced amount less any impairment losses (bad debts). An estimate of provision for doubtful debts is made when collection is no longer probable. Bad debts are written off to the income statement as incurred. Receivables from related parties are carried at the nominal amount due.

(i) Trade and other payables

Trade and other payables are carried at 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 consolidated group. Payables to related parties are carried at the principal amount.

(j) Interest bearing liabilities

Interest bearing liabilities are initially recognised at the fair value of the consideration received less any directly attributable set up costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between proceeds and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(k) Impairment of assets

The directors of the Responsible Entity assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, an estimate is made of the asset's recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of determining impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

The parent entity assesses the carrying value of its investment in its subsidiary by reference to the net asset value of the underlying subsidiary. Where a net liability position exists, an impairment of investment in subsidiary is recorded in the income statement.

(l) Contributed equity

Issued and paid up units are recognised at the fair value of the consideration received or receivable by the Trust. 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. The Trust has a perpetual life unless it is being terminated which will eventually lead to full repayment of all units.

(m) Provisions

Provisions are recognised when there is a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are not recognised for future operating losses.

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 managements best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Note 2. Summary of significant accounting policies (continued)

(n) Revenue

Revenue is recognised at fair value of the consideration received net of the amounts of goods and services tax (GST) or consumption tax (CT) payable to taxation authorities. Rental revenue generated from leases is recognised in accordance with the substance of the lease contract. Where a lease contract contains fixed rental increases, rental revenue is recognised in the income statement on a straight-line basis unless another systematic basis is more representative of the time pattern in which the benefit of the leased asset is diminished. Contingent rental amounts such as CPI or turnover linked rentals are recognised on an accruals basis when earned.

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.

(o) Expenditure

Expenditure is brought to account on an accruals basis. Payments made under operating leases are expensed on a straight line basis over the term of the lease. Fees paid to the Responsible Entity are brought to account on an accruals basis.

(p) Finance costs

Finance costs incurred in establishing borrowing facilities are capitalised and amortised over the term of the facility. Finance costs incurred in drawing funds under a loan are transaction costs which are offset against the proceeds of the loan and other interest expenses are expensed as incurred. Finance costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of the asset, until such time that the asset is ready for its intended use.

(q) Taxation

i) Australian income tax

Under current Australian income tax legislation, the Trust is not liable to income tax provided unitholders are presently entitled to all of the Trust's taxable 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. Tax allowances for building, plant and equipment depreciation are distributed to unitholders in the form of tax deferred components of distributions.

ii) Japanese withholding tax

Effective as of 1 April 2002, all foreign corporations and non-resident individuals that do not have permanent establishments in Japan are subject to 20% withholding tax on the distribution of profits under TK arrangements. The 20% 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 20% withholding tax described above however, is only imposed on an actual distribution of profit to investors.

iii) Deferred Japanese tax

Deferred tax assets and liabilities are recognised for timing differences at the tax rates expected to apply when assets are recovered or liabilities are settled based on those rates which are enacted or substantially enacted in Japan. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. The relevant rate for deferred tax in relation to revaluation of TK investment properties is 20%.

Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences. Deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity. Critical accounting estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Trust and that are believed to be reasonable under the circumstances. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the deferred tax provisions in the period in which the determination is made.

Note 2. Summary of significant accounting policies (continued)

(r) 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 Balance Sheet. Cash flows are included in the statement of cash flows on a gross basis. 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.

(s) Earnings per unit

Basic and diluted earnings per unit are calculated as net profit attributable to unitholders of the parent entity, divided by the weighted average number of ordinary units.

(t) Tenant deposits

Tenant deposit liabilities are recognised at fair value based on the obligation to return the deposit to tenants. Tenant deposits are assessed at each balance sheet date and classified as current assets if it is known that repayment of the deposit is required within 12 months.

(u) 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 basis. Segment assets are assets used by segments and consist primarily of cash, receivables (net of allowances) and investments.

(v) Distributions

A provision for distribution is recognised when a constructive obligation exists. The constructive obligation exists where there is a specified amount of any distribution declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year, but not distributed at balance date.

(w) Comparative figures

The comparative figures represent the year ended 30 June 2008.

(x) Rounding of amounts

The Trust is a registered scheme of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

(y) New accounting standards

The following Australian Accounting Standards have recently been issued or amended but are not yet effective have not been adopted for the year ended 30 June 2009. The impact of these new standards and interpretations is set out below.

AASB 8 "Operating Segments" ("AASB 8") introduces the "management approach" to segment reporting. AASB 8 will require the disclosure of segment information based on the internal reports regularly reviewed by the consolidated entity's Managing Director in order to assess each segment's performance and to allocate resources to them. Currently the consolidated entity presents segment information in respect of its business and geographical segments (refer note 21). AASB 8 will become mandatory for the consolidated entity's 30 June 2010 Financial Report.

Revised AASB 101 "Presentation of Financial Statements" ("AASB 101") introduces as a financial statement (formerly "primary" statement) the "Statement of Comprehensive Income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the consolidated entity's 30 June 2010 Financial Report.

Note 2. Summary of significant accounting policies (continued)

Revised AASB 123 "Borrowing Costs" ("AASB 123") removes the option to expense borrowing costs and requires that an entity capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the consolidated entity's 30 June 2010 Financial Report.

Revised AASB 127 "Consolidated and Separate Financial Statements" ("AASB 127") changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in the Income Statement; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the consolidated entity's 30 June 2010 Financial Report.

Revised AASB 3 "Business Combinations" ("AASB 3") changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutual entities. The revised standard becomes mandatory for the consolidated entity's 30 June 2010 Financial Report.

AASB 2008-1 "Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations" ("AASB 2008-1") changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the consolidated entity's 30 June 2010 Financial Report.

AASB 2008-5 and AASB 2008-6 Amendments to Australian Accounting Standards arising from the Annual Improvement Projects: The improvement project is an annual project that provides a mechanism for making non urgent, but necessary, amendments to IFRSs. These standards will become mandatory for the consolidated entity's 30 June 2010 Financial Report.

These recently issued or amended standards are not expected to have a significant impact on the amounts recognised or disclosures made in these Financial Statements when restated for the application of these new or amended accounting standards.

Note 3. Responsible entity fees

The Responsible Entity of the Trust, Galileo Japan Funds Management Limited, is entitled to receive the following fees from the Trust under the terms of the Trust Constitution:

(a) Base fee

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 properties and other assets held in the TK Business. This fee has been waived until the annualised cash distribution yield on equity to investors exceeds 8.0% on the IPO Application Price of \$1.00 per unit.

There were no base Responsible Entity fees paid or payable to the Responsible Entity for the year ended 30 June 2009 or year ended 30 June 2008.

(b) Performance fee

The Responsible Entity is entitled to receive a performance fee in respect of each year if the performance of the Trust exceeds a stated benchmark. The performance fee is calculated by reference to a formula which is based on the Trust rate of return compared to a benchmark index. The Responsible Entity was not entitled to a performance fee for the year ended 30 June 2009 or for the year ended 30 June 2008.

(c) Sponsor's fee

A director related entity of the Responsible Entity, Galileo Management Services Trust (GMST), is entitled to a fee equal to 1.0% of the Trust's proportionate indirect interest (98.5%) in the purchase price of new properties acquired. This fee is payable to GMST out of the assets of the Trust. There were no sponsor fees paid for the year ended 30 June 2009.

The sponsor fee paid or payable by the Trust for the year ended 30 June 2008 was \$3.2 million and was capitalised as an acquisition cost.

Notes to the Financial Statements (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Note 4. Auditor's remuneration

	Consolidated		Trust	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Amounts received or receivable by the Trust's auditors for				
– Audit of the financial report of the Trust	279,444	260,375	279,444	260,375
– Audit services – Japan	314,396	200,000	-	-
– Tax services – Australia	40,500	35,000	40,500	35,000
– Tax services – Japan	512,317	150,000	-	-
– Non audit services – Australia*	-	541,500	-	541,500
– Non audit services – Japan*	-	47,893	-	-
	1,146,657	1,234,768	319,944	836,875

* These fees were paid for capital related services in respect of the initial public offering and subsequent transactions. The auditor of the Trust in Australia and the TK Business is PricewaterhouseCoopers.

Note 5. Other expenses

	Consolidated		Trust	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
TK operating costs:				
– legal fees	735	88	-	-
– valuation fees	1,095	142	-	-
– asset management fees	6,660	3,706	-	-
– other TK operating expenses	839	582	-	-
Travel and related expenditure	452	175	452	175
Legal and other professional fees	633	377	633	377
Information technology expenses	103	150	103	150
General and administration expenses	21	90	20	90
	10,538	5,310	1,208	792

Note 6. Income tax

	Consolidated		Trust	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Income tax expense/(credit):				
Deferred tax	(7,999)	4,318	41	-
Withholding tax	2,747	2,495	2,747	3,345
	(5,252)	6,813	2,788	3,345
Reconciliation of tax expense:				
Net profit/(loss) before tax for the period	(259,071)	19,858	(219,781)	20,717
Tax at the Australian rate of 30%	(77,721)	5,957	(65,934)	6,215
Tax effect of amounts that are not assessable	77,721	(5,957)	65,934	(6,215)
Japanese withholding tax on distributions from TK Business	2,747	2,495	2,747	3,345
Deferred tax	(7,999)	-	41	-
Deferred Japanese tax on investment properties	-	4,318	-	-
TOTAL INCOME TAX EXPENSE/(CREDIT)	(5,252)	6,813	2,788	3,345

Notes to the Financial Statements (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Note 7. Trade and other receivables

	Consolidated		Trust	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Trade receivables	5,473	4,565	-	-
Distribution receivable from subsidiary	-	-	29,978	12,775
Consumption tax/GST	10	6,682	10	73
Prepayments	307	346	29	44
Capital hedge income receivable	-	3,320	-	3,320
Other receivables	344	780	86	126
	6,134	15,693	30,103	16,338

Note 8. Investment in subsidiary

	Trust	
	2009 \$'000	2008 \$'000
Investment in subsidiary at the beginning of the year*	386,489	275,591
Additions during the year	60	110,898
Impairment loss	(177,317)	-
INVESTMENT IN SUBSIDIARY AT THE END OF THE YEAR	209,232	386,489

* The cost of investment in subsidiary includes \$19.5 million in acquisition costs associated with that investment.

	Class of Units	Date of Investment	Country of Incorporation	% Ownership
Subsidiaries				
Galileo Japan Trust II	Ordinary	10 November 2006	Australia	100%
TK Investment				
Central Master Godo Kaisha	Contribution	15 December 2006	Japan	98.5%

Galileo Japan Trust II is the party to the TK Agreement with Central Master Godo Kaisha* discussed in Note 2(c) above.

Central Master Godo Kaisha holds a 99.9% investment in the business of two separate TK operators, Central Sub Godo Kaisha and Central Sub 2 Godo Kaisha, under two separate TK Agreements.

Notes to the Financial Statements (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Note 9. Investment property

	Consolidated	
	2009 \$'000	2008 \$'000
Investment property at fair value	987,843	921,220
Fair value at the beginning of the year	921,220	557,507
Additions to investment property including acquisition costs	3,667	348,782
Revaluation adjustments	(218,601)	181
Foreign currency translation movements	281,557	14,750
FAIR VALUE AT THE END OF THE YEAR	987,843	921,220

The Trust holds interests in the investment properties arising from the contractual relationship between the Trust and the TK Operator. The beneficial legal ownership of the investment properties is held in the name of the TK Operator.

As at 30 June 2009 fair value has been determined via independent external valuations performed by Savills Japan K.K. In determining the fair value, the capitalisation of net market income method and discounting of future cash flows to their present value have been used. These approaches require assumptions and judgement in relation to the future receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements, property capitalisation rate or estimated yield and make reference to market evidence of transaction prices for similar properties.

Key valuation assumptions used in the determination of fair value are as follows:

	Office	Retail/Leisure	Mixed Use	Residential	Industrial	Hotel
2009						
Weighted average capitalisation rate	5.1%	6.1%	6.7%	7.4%	6.9%	7.5%
Lease vacancy rates	7.2%	1.2%	6.0%	15.0%	0.0%	0.0%
2008						
Weighted average capitalisation rate	4.6%	5.4%	5.5%	6.0%	6.2%	6.0%
Lease vacancy rates	1.4%	1.2%	1.2%	8.3%	0.0%	0.0%

Refer Note 2(d) for information on the valuation basis adopted for investment property by the Consolidated Entity, Note 12 for information on investment property pledged as security and Note 19 for information on leasing arrangements.

Note 10. Trade and other payables

	Consolidated		Trust	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Trade payables and accrued expenses	11,484	6,587	404	727
Withholding tax payable	2,628	1,035	2,628	1,035
Capital hedge interest payable	-	697	-	697
Rent received in advance	5,578	4,314	-	-
Consumption tax payable	2,445	-	-	-
Other payables	465	380	335	241
	22,600	13,013	3,367	2,700

Notes to the Financial Statements (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Note 11. Provision for distribution

	Consolidated		Trust	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Balance at beginning of the year	16,222	11,214	16,222	11,214
Distributions provided for during the year	101	32,444	101	32,444
Amount paid during the year	(16,222)	(27,436)	(16,222)	(27,436)
BALANCE AT THE END OF THE YEAR	101	16,222	101	16,222

The balance at the end of the year represents the proposed final distribution of the Trust for the year ended 30 June 2009. This amount was paid on 31 August 2009. The record date for the distribution of 0.025 cents was 30 June 2009.

Interim distribution paid (per unit) for the six-months ended 31 December 2008	nil
Final distribution (per unit) for the year ended 30 June 2009	0.025 cents

Note 12. Interest bearing liabilities

	Maturity Date	Consolidated	
		2009 \$'000	2008 \$'000
Current			
Consumption tax loan		-	8,533
Secured bank loan (Special Loan B) *	Jan 2009	-	14,635
Secured bank loan (Special Loan A) ^	Sep 2009	34,004	25,904
Secured bank loan (Loan B) ^	Dec 2009	78,947	60,142
Less: unamortised borrowing costs		(356)	(128)
Total current interest bearing liabilities		112,595	109,086
Non-Current			
Secured bank loan (Loan A)	July 2012	581,919	443,304
Less: unamortised borrowing costs		(4,948)	(6,760)
Total non-current interest bearing liabilities		576,971	436,544
TOTAL INTEREST BEARING LIABILITIES		689,566	545,630

* loan was repaid on 30 January 2009

^ this loan was classified as 'non-current' in the comparative period

In December 2008 an amount equal to ¥450 million (A\$7.19 million) was repaid against the secured bank loan maturing in January 2009. The balance of this loan totalling ¥1.04 billion (\$16.7 million) was repaid in full on 30 January 2009.

The Loan A and Loan B bank loans are secured by a pledge over the investment properties and contain cross default provisions. Bank loans are denominated in Japanese Yen and are interest only loans with principal amounts repayable on maturity. Through the use of interest rate swaps 84% of the loans are fixed at an average rate of 1.96%, with the remaining portion floating at a weighted average rate of 2.71% at year end.

At 30 June 2009 the following financing facilities were available:

	Consolidated	
	2009 \$'000	2008 \$'000
Secured bank loans	694,870	552,518
Facilities used	(694,870)	(552,518)
UNUSED FACILITIES	-	-

Refer to Note 27 for details relating to the completion of the refinancing of all of the loan facilities post 30 June 2009.

Notes to the Financial Statements (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Note 13. Contributed equity

	Consolidated		Trust	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Units on issue				
Balance at the beginning of the year	386,856	274,502	386,856	274,502
Units issued during the year	-	115,585	-	115,585
	386,856	390,087	386,856	390,087
Transaction costs	-	(3,231)	-	(3,231)
BALANCE AT THE END OF THE YEAR	386,856	386,856	386,856	386,856

	Consolidated		Trust	
	2009 Units	2008 Units	2009 Units	2008 Units
Number of units on issue				
Balance at the beginning of the year	405,558,571	283,891,000	405,558,571	283,891,000
Units issued during the year	-	121,667,571	-	121,667,571
BALANCE AT THE END OF THE YEAR	405,558,571	405,558,571	405,558,571	405,558,571

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 purposes of distributions, voting and in the event of the Trust terminating.

Note 14. Reserves

	Consolidated	
	2009 \$'000	2008 \$'000
Foreign currency translation reserve		
Balance at the beginning of the year	(23,105)	(34,285)
Foreign exchange translation movement for the year	108,110	11,180
Balance at the end of the year	85,005	(23,105)
Hedging reserve – cash flow hedge		
Balance at the beginning of the year	(1,208)	2,404
Interest rate swap	(11,467)	(3,612)
Balance at the end of the year	(12,675)	(1,208)
TOTAL RESERVES	72,330	(24,313)

Nature and purpose of foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of self-sustaining foreign operations.

Nature and purpose of hedging reserve

The hedging reserve is used to record gains or losses on a hedging instrument for a cash flow hedge that is recognised directly in equity. Amounts are recognised in the income statement when the associated hedge transaction affects profit and loss.

Notes to the Financial Statements (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Note 15. Undistributed income

	Consolidated		Trust	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Balance at beginning of the year	1,715	21,957	11,468	26,540
Net profit/(loss) attributable to unitholders of the Trust	(251,568)	12,202	(222,569)	17,372
Distributions paid and payable	(101)	(32,444)	(101)	(32,444)
BALANCE AT THE END OF THE YEAR	(249,954)	1,715	(211,202)	11,468

Note 16. Minority interest

	Consolidated	
	2009 \$'000	2008 \$'000
Balance at beginning of the year	6,645	4,209
Value of contributions	-	1,593
Net profit/(loss) attributable to minority interest	(2,251)	843
BALANCE AT THE END OF THE YEAR	4,394	6,645

Note 17. Net tangible assets

	Consolidated	
	2009 \$'000	2008 \$'000
Total tangible assets	1,050,976	996,347
Total liabilities	(837,350)	(625,444)
Net tangible assets attributable to minority interest	(4,394)	(6,645)
NET TANGIBLE ASSETS ATTRIBUTABLE TO THE UNITHOLDERS OF THE TRUST	209,232	364,258
Total number of units on issue	405,558,571	405,558,571
Net tangible asset backing per unit	\$0.52	\$0.90

Note 18. Earnings per unit

	Consolidated	
	2009 \$	2008 \$
Basic and diluted earnings (cents per unit)	(62.03)	3.07
Earnings used in the calculation of earnings per unit (\$'000)	(251,568)	12,202

The weighted average number of units used in determining basic and diluted earnings per unit (EPU) is 405,558,571 (2008: 397,472,987). There are no dilutive potential ordinary units, therefore diluted EPU is the same as basic EPU.

Note 19. Rental income under operating leases

The investment properties are leased to tenants under two main types of leases in Japan, standard leases and fixed term leases. Standard leases are usually for two years, with the tenant having the right of renewal on the lease. Fixed term leases may be cancellable or non-cancellable. Property interests held under operating leases are classified as investment properties. No contingent rents are charged. The Consolidated Entity receives rental income under operating leases. Future minimum rents are scheduled to be received under non-cancellable tenant leases as follows:

	Consolidated	
	2009 \$	2008 \$
Within one year	24,505	18,593
Later than 1 year but not later than 5 years	92,984	72,003
Later than 5 years	219,336	184,279
	336,825	274,875

Note 20. Financial risk management

The Trust undertakes transactions in a range of financial instruments including:

- cash and cash equivalents
- receivables
- investments in real estate
- payables
- real estate debt
- derivatives

These activities expose the Consolidated Entity to a variety of financial risks including capital risk, market risk (including currency risk, interest rate risk, real estate risk and refinancing risk), credit risk and liquidity risk. Risk management is carried out by executive management under policies approved by the Board of Directors of the Responsible Entity.

Derivative financial instruments that the Consolidated Entity uses to hedge risks such as interest rate and foreign currency movements include:

- interest rate swaps
- foreign currency forward exchange contracts
- cross currency swap agreements

Refer to Note 27 for details relating to the certain refinancing activities completed post 30 June 2009.

(a) Capital risk

The Responsible Entity's objective when managing capital is to maintain an optimal capital structure to reduce the cost of capital and to safeguard its ability to continue as a going concern so that it can continue to provide returns for unitholders and benefits for other stakeholders.

Capital management is monitored in two main ways:

- Balance Sheet management – achieved by maintaining an appropriate mix of equity and debt capital and ensuring the Consolidated Entity's gearing levels remain in line with the board approved policies. The Consolidated Entity is able to alter the capital mix by issuing new securities, activating the Dividend Reinvestment Plan (DRP), adjusting the amount of distributions paid to unitholders or selling assets to reduce borrowings.

Protection of the Trust's equity investments in foreign denominated currency is achieved by entering into cross currency swap contracts that minimise the fluctuation in the Australian dollar value of the equity invested.

The Consolidated Entity protects its equity in assets by taking out insurance cover with credit worthy insurers.

Note 20. Financial risk management (continued)

- ii. Income Statement management – the primary objective is to maintain and deliver a stabilised distributable earnings profile for unitholders in Australian dollars from the equity investment in foreign currency. This is achieved through the use of forward foreign exchange contracts that minimise the fluctuation in the Australian dollar distributable earnings generated from foreign operations. The Consolidated Entity also uses interest rate swap derivatives to reduce the volatility of earnings resulting from the movement in market interest rates on borrowings.

(b) Market risk

Market risk is separated into foreign exchange risk, being the effect of the movement in foreign currencies on the Consolidated Entity's operations, and interest rate risk, being the effect of the movement in interest rates on the Consolidated Entity's operations.

(i) 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 Trust's foreign currency risk arises primarily from:

- investments in foreign operations
- indirect investment in a real estate portfolio
- forecast transactions for receipt in foreign currencies and payment in Australian dollars

Protection of the Trust's equity investments in foreign denominated currency is achieved by entering into cross currency swap contracts that minimise the fluctuation in the Australian dollar value of the equity invested. The maturity of the contracts is staggered to ensure that the Trust is not exposed to all of the equity hedges maturing in any one year.

The following table details the cross currency swaps outstanding at balance date. These contracts do not qualify as hedges of net investments of foreign operations.

Maturity Date	Amount (\$)	Amount (¥)	AUD Interest rate	JPY Interest rate
Dec 2011	42,230,000	3,922,847,500	6.31%	1.38%
Dec 2012	42,090,000	4,034,410,500	6.38%	1.46%
Dec 2013	27,780,000	2,912,733,000	6.68%	1.50%
Dec 2014 ⁽¹⁾	28,200,000	2,578,044,000	6.29%	1.28%

(1) the interest rates on the December 2014 contract change to 6.49% and 1.39% on 15 August 2010.

During the year, the cash settlements under these contracts for the periods through August 2011 have been settled in full on a net present value basis, with the net income being recognised in the income statement for the year ended 30 June 2009.

At balance date none of the above foreign exchange derivatives qualify for hedge accounting and any gains or losses arising from the changes in fair value have been reflected in the income statement.

The loss for the year ended 30 June 2009 was \$48,144,552 (30 June 2008: loss of \$8,961,513). The fair value of the cross currency swap portfolio at 30 June 2009 is a liability of \$47,104,417 (30 June 2008: asset of \$1,040,135).

A 25% increase in the spot rate at balance date would result in a loss to the income statement of \$34,915,239 (30 June 2008: \$14,741,454). A 25% decrease in the spot rate at balance date would result in a gain to the income statement of \$58,192,064 (30 June 2008: \$12,060,162).

A sensitivity of 25 percent is considered reasonable given the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future movement. Unitholders should note that the sensitivity analysis is stated to provide a guide only and variations in exchange rates may exceed the range shown above.

Protection of the Trust's distributable earnings that are generated from foreign operations is achieved through the use of forward foreign exchange contracts that minimise the fluctuation in the Australian dollar distributable earnings generated in Japanese Yen.

Notes to the Financial Statements (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Note 20. Financial risk management (continued)

The following table details the forward foreign exchange contracts outstanding at balance date. These contracts do not qualify as hedges of net income of foreign operations.

Maturity Date	Amount (\$)	Weighted Average Rate (JPY per \$)
Feb 2012	14,394,482	75.0438
Aug 2012	14,394,482	74.3209
Feb 2013	11,951,660	71.2568
Aug 2013	11,951,660	69.8945
Feb 2014	12,400,817	70.5119
Aug 2014	9,300,613	67.2124
Feb 2015	9,647,587	66.1299
Aug 2015	9,647,587	64.9406
Feb 2016	10,004,970	66.0146
Aug 2016	8,337,475	63.8837
Feb 2017	8,644,228	68.7500

At balance date none of the above foreign exchange derivatives qualify for hedge accounting and any gains or losses arising from the changes in fair value have been reflected in the income statement.

The loss for the year ended 30 June 2009 was \$25,108,651 (30 June 2008: loss of \$4,848,305). The fair value of the forward foreign exchange portfolio at 30 June 2009 is a liability of \$13,665,395 (30 June 2008: asset of \$11,443,256).

A 25% decrease in the spot rate at balance date would result in a loss to the income statement of \$35,126,417 (30 June 2008: \$16,453,002). A 25% increase in the spot rate at balance date would result in a gain to the income statement of \$21,075,850 (30 June 2008: \$13,461,547).

A sensitivity of 25 percent is considered reasonable by the Responsible Entity given the current exchange rates and the volatility observed both on an historical basis and market expectations for future movement. Unitholders should note that the sensitivity analysis is to provide a guide only and variations in exchange rates may exceed the range shown above.

(ii) Interest rate risk

The Consolidated Entity is exposed to interest rate risk on its borrowings and certain derivative financial instruments. This risk is managed by maintaining an appropriate mix of fixed and floating interest rate instruments.

The policy for the level of fixed rate borrowings is set by the board of directors of the Responsible Entity. The Consolidated Entity uses derivative financial instruments to fix the rate on its borrowings to the appropriate level.

A summary of the Consolidated Entity's interest rate positions at balance date are as follows:

Interest payable

	Consolidated	
	2009 \$	2008 \$
Principal amounts of all interest bearing liabilities:		
Current interest bearing liabilities	112,951	23,168
Non current interest bearing liabilities	581,919	529,350
Cross currency swaps	140,300	140,300
Principal amounts subject to interest rate exposure	835,170	692,818
Principal amounts of fixed interest rate liabilities:		
Interest rate swap agreements	581,919	443,304
Cross currency swaps	140,300	140,300
Principal amounts on which interest rate exposure has been hedged	722,219	583,604

Notes to the Financial Statements (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Note 20. Financial risk management (continued)

At balance date the Consolidated Entity has fixed 84% of its interest payable exposure. The remaining 16% is exposed to floating rates on a principal balance of \$112,950,797 at an average interest rate of 2.71% (30 June 2008: 16% unhedged; principal balance of \$109,214,000 at an average rate of 1.65%).

An increase in the market rate of 0.5% would result in increased interest expense of \$639,454 (30 June 2008: \$546,067).

A decrease in the market rate of 0.5% would result in an decrease in interest expense of \$639,454 (30 June 2008: \$546,067).

The impact of the changes to the fair value of the derivative financial instruments is set out in Note 20(b)(i).

Interest receivable

	Consolidated	
	2009 \$	2008 \$
Principal amounts of all interest bearing assets:		
Cross currency swaps	140,300	140,300
PRINCIPAL AMOUNTS SUBJECT TO INTEREST RATE EXPOSURE	140,300	140,300
Principal amounts of fixed interest rate assets:		
Cross currency swaps	140,300	140,300
PRINCIPAL AMOUNTS ON WHICH INTEREST RATE EXPOSURE HAS BEEN HEDGED	140,300	140,300

At balance date the Trust has fixed 100% of its interest receivable exposure, therefore there is no exposure to floating rates on interest receivable (30 June 2008: 100%). The impact of the changes to the fair value of the derivative financial instruments is set out in Note 20(b)(i).

Unitholders should note that the sensitivity analysis is stated to provide a guide only and variations in interest rates may exceed the range shown above.

The Consolidated Entity's exposure to interest rate risk and the effective interest rates on financial instruments at 30 June 2009 are:

	Consolidated				
	Weighted Average Interest Rate	< 1 Year \$'000	1-5 Years \$'000	Non-interest Bearing \$'000	Total \$'000
Financial assets:					
Cash – AUD	0.25%	557	-	-	557
Cash – Japan	0.05%	56,275	-	-	56,275
Trade and other receivables		-	-	6,134	6,134
TOTAL		56,832	-	6,134	62,966
Financial liabilities:					
Borrowings	See note 12	112,951	581,919	-	694,870
Cross currency swap		-	-	47,104	47,104
Forward foreign currency contracts		-	-	13,665	13,665
Interest rate swap		-	-	12,675	12,675
Trade and other Payables		-	-	22,600	22,600
TOTAL		112,951	581,919	96,044	790,914

The Consolidated Entity manages its cash flow interest rate risk 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 the Consolidated Entity agrees 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.

Note 20. Financial risk management (continued)

The Consolidated Entity has put in place an interest rate swap with a notional value of ¥45.2 billion (\$581.9m at 30 June 2009; \$265.9m at 30 June 2008) that expires on 15 December 2011. The effect of the interest rate swap means that the Consolidated Entity pays interest on the notional amount at a fixed rate of 1.96% and receives interest at the floating rate for the corresponding period that is based on the Japan three month LIBOR rate. The changes in the fair value of these derivatives are designated and qualify as cash flow hedges are recognised in the equity hedging reserve.

The use of interest rate swaps 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 Consolidated Entity may be adversely affected during any period as a result of changing interest rates.

(c) Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations under a contract or arrangement. The Consolidated Entity's maximum exposure to credit risk at 30 June 2009 in relation to each class of recognised financial instruments is the carrying amount of those instruments in the balance sheet. Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

The Consolidated Entity has a credit policy for all tenants and rents are payable monthly in advance. In the event of default by an occupational tenant, the Consolidated Entity will suffer a rental shortfall and could incur additional related costs. Management reviews external reports on the credit quality of the Consolidated Entity's tenants and monitors rental arrears on a monthly basis. The Consolidated Entity 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 of the Consolidated Entity, which comprise cash and cash equivalents, the Consolidated Entity'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.

(d) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will encounter in realising assets or otherwise raising funds to meet its financial commitments. Investments in property are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price, even if sales should occur shortly after the valuation date.

Investments in property are relatively illiquid, however, the Consolidated Entity has tried to mitigate the associated risk by investing in desirable properties in prime locations.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, the ability to close out market positions, and the option to raise funds through the issue of new securities or distribution reinvestment plan. The Consolidated Entity's main liquidity risk is its ability to refinance its current borrowings.

The Trusts derivative contracts in relation to cross currency swaps and forward foreign currency exchange contain early termination and repayment provisions that can be exercised by either the Trust or the counterparty in August of each year until maturity. The loss position on these foreign exchange derivative contracts as at 30 June 2009 was \$60.8m. The Trust has not provided any security or collateral to the counterparty of the foreign exchange derivative contracts.

The foreign exchange derivative contracts require that the Trusts total interest bearing liabilities (including the mark to market value of the derivative contracts) to total assets should not exceed 70% for any period and should not exceed 65% for more than 90 days. These ratios are tested twice yearly based on the Trust's audited or reviewed financial statements at 30 June and 31 December balance dates. As at 30 June 2009 this ratio was 72.7% which exceeded the covenant requirement.

Notes to the Financial Statements (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Note 20. Financial risk management (continued)

On 24 August 2009, notice was received from the counterparty to the foreign exchange contracts that they had exercised the Bermuda option right to terminate all of the contracts that were in place with the Trust. On the date of termination a fair market value calculation was performed to determine the amount owing to the counterparty under the contracts which totalled ¥4.4 billion and is payable in Japanese Yen.

On 18 September 2009 an agreement was entered into with the counterparty under which the ¥4.4 billion has been converted into a long term loan repayable in full in September 2014.

The table below analyses the Consolidated Entity's financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2009				2008			
	Less than 1 year \$'000	Between 1 & 2 years \$'000	Between 2 & 5 years \$'000	Over 5 years \$'000	Less than 1 year \$'000	Between 1 & 2 years \$'000	Between 2 & 5 years \$'000	Over 5 years \$'000
Consolidated								
Interest rate swaps	-	105,590	476,329	-	-	-	443,304	-
Forward foreign currency contracts	-	-	65,063	55,582	25,034	26,186	81,823	79,935
Cross currency swap	-	-	112,100	28,200	-	-	84,320	55,980
Real estate debt	112,951	-	581,919	-	23,168	86,046	443,304	-
TOTAL	112,951	105,590	1,235,411	83,782	48,202	112,232	1,052,751	135,915
Parent								
Forward foreign currency contracts	-	-	65,063	55,582	25,034	26,186	81,823	79,935
Cross currency swaps	-	-	112,100	28,200	-	-	84,320	55,980
TOTAL	-	-	177,163	83,782	25,034	26,186	166,143	135,915

(e) Real estate risk

Real estate investments and net operating income derived from such investments are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions which may be adversely affected by industry slowdowns and other factors, local real estate conditions, changes or continued weakness in specific industry segments, construction quality, age and design, demographic factors, retroactive changes to building or similar codes, and increases in operating expenses (such as energy costs).

The Consolidated Entity minimises real estate risk by investing in a diverse portfolio of real estate, including sector, location and tenant diversification.

(f) Refinancing risk

Refinancing risk is the risk that unfavourable interest rate and credit market conditions result in an unacceptable increase in the Consolidated Entity's credit margins and interest cost. Refinancing risk arises when the Consolidated Entity is required to obtain debt to fund existing and new debt positions.

The Consolidated Entity is exposed to refinancing risks arising from the availability of finance as well as the interest rates and credit margins at which financing is available. The Consolidated Entity manages this risk by spreading maturities of borrowings, using interest rate derivatives to hedge known and forecast positions and reviewing potential transactions to understand the impact on the Consolidated Entity's credit position.

Notes to the Financial Statements (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Note 20. Financial risk management (continued)

Fair values

The Consolidated Entity's financial assets and liabilities included in current and non-current assets and liabilities on the balance sheet are carried at amounts that approximate fair value.

Valuation approach

The fair value of financial assets and financial liabilities and are determined by the Consolidated Entity on the following bases:

Monetary financial assets and liabilities not readily traded in an organised financial market are valued at present value of contractual future cash flows on amounts due from customers or due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable market yield having regard to the timing of cash flows. The carrying amounts of bank deposits, receivables, other debtors, accounts payable, and bank loans approximate net fair value.

Forward exchange contracts are either marked to market using listed prices or by discounting the contractual forward price and deducting the current spot rate. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at balance date.

Note 21. Segment information

The Trust is a listed property Trust which invests indirectly in a diverse portfolio of real estate assets in Japan and holds other assets and liabilities in Australia.

Segment income, expenditure, assets and liabilities are attributed to geographic areas based on the location of the assets deriving the revenues and the nature of that revenue, based on the business segments. Segment accounting policies are consistent with the accounting policies described in Note 2.

Geographical segments

	Consolidated			
	Total income \$'000	Profit/(loss) \$'000	Total Assets \$'000	Total Liabilities \$'000
2009				
Japan	83,190	(189,267)	1,050,296	781,151
Australia	18,736	(62,301)	680	56,199
	101,926	(251,568)	1,050,976	837,350
2008				
Japan	59,452	27,329	985,253	605,309
Australia	7,420	(15,127)	11,094	20,135
	66,872	12,202	996,347	625,444

Notes to the Financial Statements (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Note 20. Financial risk management (continued)

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Business segments

	Consolidated			
	Total income \$'000	Profit/(loss) \$'000	Total Assets \$'000	Total Liabilities \$'000
2009				
Office	28,340	(81,990)	390,173	292,809
Residential	10,318	(46,062)	96,201	77,260
Retail/leisure	32,847	(16,737)	386,846	252,567
Mixed use	6,785	(2,345)	58,628	50,479
Hotel	1,935	(2,852)	23,954	15,646
Industrial	2,869	(6,963)	33,715	20,892
Corporate*	18,832	(94,619)	61,459	127,697
	101,926	(251,568)	1,050,976	837,350
2008				
Office	19,411	14,536	377,437	227,688
Residential	7,757	5,418	92,336	56,013
Retail/leisure	23,485	16,889	349,627	208,869
Mixed use	5,115	3,171	53,105	37,029
Hotel	1,350	1,200	21,407	11,920
Industrial	2,160	1,794	29,687	15,047
Corporate*	7,594	(30,806)	72,748	68,878
	66,872	12,202	996,347	625,444

* The 'Corporate' business segment includes amounts relating to non-property operations at the TK business level and operations of the Australian parent entity.

Note 22. Related party disclosures

Responsible Entity

As the Responsible Entity, Galileo Japan Funds Management Limited is entitled to receive fees which have been disclosed in Note 3. As discussed in Note 3, no such fees were paid or payable for the year ended 30 June 2009 or for the year ended 30 June 2008.

Directors of the Responsible Entity

The names of the directors of the Responsible Entity during the year are as follows along with the number of units held, either directly or indirectly at 30 June 2009 and amount of distribution receivable at June 2009.

	Units Held	Distribution Due
Jack Ritch	141,429	\$35
Philip Redmond	265,000	\$66
Frank Zipfinger	230,000	\$58
Neil Werrett*	23,751,488	\$5,938
Peter Murphy	840,143	\$210

* These units are owned by Galileo Japan Funds Management Limited (the Responsible Entity) and Galileo Investments Japan Pty Ltd.

There are no options to buy units in the Trust held by any of the Directors of the Responsible Entity.

Notes to the Financial Statements (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Note 22. Related party disclosures (continued)

Related Party Transactions

The items below represent amounts paid or payable to related parties for the year ended 30 June 2009 and 30 June 2008.

Amounts paid and payable to related parties

	Consolidated		Trust	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Asset management fee – Galileo Japan K.K.	3,852	2,872	-	-
Debt establishment fee – Galileo Japan K.K.*	-	1,061	-	-
Due diligence fee – Galileo Japan K.K.*	-	1,663	-	-
Asset sponsor fee – Galileo Management Services Trust *	-	3,220	-	3,220
Loan to Galileo Japan K.K.^	167	128	-	-

* These amounts represent transaction costs and have been capitalised in the financial statements.

^ The loan to Galileo Japan K.K. is included in other receivables and attracts interest at a rate of 1.4% per annum and is repayable on demand.

Galileo Japan K.K. provides asset management services, due diligence services and other financial and operating support services to the TK Operator. Galileo Management Services Trust provides investment management services, due diligence services and other financial and operating support services to the Responsible Entity.

The amounts below represent outstanding balances with related parties.

Amounts Outstanding at Reporting Date

	Consolidated		Trust	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Asset management fee – Galileo Japan K.K.	2,466	772	-	-
Loan to Galileo Japan K.K.	167	128	-	-

Note 23. Key management personnel

(i) Details of Key Management Personnel

The Trust does not employ personnel in its own right. However the Responsible Entity is considered the key management personnel. The directors of the Responsible Entity are key management personnel of that entity and are listed as follows:

- Jack Ritch – Non-Executive Chairman
- Philip Redmond – Non-Executive Director
- Frank Zipfinger – Non-Executive Director
- Neil Werrett – Managing Director and Chief Executive Officer
- Peter Murphy – Executive Director and Chief Operating Officer

(ii) Remuneration of Key Management Personnel

As disclosed in Note 3, the Responsible Entity is entitled to receive fees in its capacity as the Responsible Entity of the Trust, however for the year ended 30 June 2009 and the year ended 30 June 2008 these fees have been waived.

No compensation is paid by the Trust to directors or directly to any of the key management personnel of the Responsible Entity. There were no loans granted to directors during the year.

Note 24. Reconciliation of cash flows from operating activities

	Consolidated		Trust	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Reconciliation of net profit to net cash flow from operating activities				
Net profit/(loss) after tax for the year	(253,819)	13,045	(222,569)	17,372
Adjustment for non cash items				
Net loss on financial instruments	74,888	13,810	75,884	12,919
Reclassification from operating activities to investing activities	-	-	(29,570)	(23,119)
Impairment loss on investment	-	-	177,317	-
Realised foreign exchange gains	-	955	-	-
Unrealised movements from property revaluations	218,601	(181)	-	-
Amortisation of finance costs	2,735	1,748	-	-
Net cash provided by operating activities before changes in assets and liabilities	42,405	29,377	1,062	7,172
Changes in assets and liabilities during the financial year				
Decrease/(increase) in trade and other receivables	11,928	1,231	2,535	456
Increase/(decrease) in trade and other payables	(1,996)	24,114	(1,019)	(13)
NET CASH FLOWS FROM OPERATING ACTIVITIES	52,337	55,446	2,578	7,615

Note 25. Cash and cash equivalents

	Consolidated		Trust	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Trust operating accounts	557	1,936	557	1,936
TK operating accounts	3,248	5,963	-	-
Cash reserves held by Trust Banks	36,775	35,319	-	-
Cash reserves held by Lender	16,252	3,733	-	-
	56,832	46,951	557	1,936

The above cash reserves held by Trust Banks and Lender consist of restricted cash relating to tenant security deposits, capital expenditure and other property related items.

The cash held by the lender also includes the 'cash trap' funds as a result of the notice that was received from the Japanese lender on 24 February 2009. As discussed in Note 27 below, on 3 July 2009, a Standstill Agreement had been entered into with the Japanese lenders in relation to the potential event of default as announced to the market on 11 June 2009. The terms of this agreement provided for the release of a portion of funds previously subject to the Japanese lender's cash trap to facilitate payment of forecast operating and refinancing costs.

Note 26. Commitments and contingent liabilities

Unless otherwise disclosed in the financial statements, there are no further material commitments or contingent liabilities.

Note 27. Events subsequent to balance date

As announced to the market, on 3 July 2009, a Standstill Agreement was executed with the Japanese lenders in relation to the potential event of default as announced to the market on 11 June 2009. The terms of this agreement provided for the release of a portion of funds previously subject to the Japanese lender's cash trap to facilitate payment of operating costs and refinancing costs.

On 18 September 2009, the existing Loan A agreement with the Japanese lender was amended. The amendments were part of a wider refinancing strategy which has allowed the full repayment of all of the short term maturities, an extension of the maturity date of the senior loan and revision of certain key terms. As part of this refinancing arrangement the Japanese lender has agreed to a second lien on the security pool of assets for Loan A in order to allow for the introduction of new capital. This new capital will be in the form of mezzanine bonds and convertible bonds and will repay the short term debt maturities in full.

The amended Loan A agreement includes the following key terms:

- i. Principal reduction payment of ¥1.7 billion from the Mezzanine Bonds
- ii. Term extension from July 2012 to December 2012
- iii. Increased margin from 59 basis points to 175 basis points
- iv. Mandatory amortisation of 2.3% p.a. of outstanding Loan A principal
- v. DSCR trigger covenant of 1.5x
- vi. No LTV covenant test

On 18 September 2009 an agreement was executed with Forum Partners ('Forum'), a Global real estate investment management firm, to purchase bonds issued by the TK business. On the same day, mezzanine bonds and convertible bonds were issued by the TK business and the proceeds were used to fully repay all short term maturities. Proceeds of the bonds were also used to make a principal reduction payment on Loan A per the amended senior loan agreement.

A summary of the key terms of the bonds that have been issued are as follows:

Instrument*	Amount (¥)	Term	Bond Rate	Other
Mezzanine Eurobonds	9.8 billion	5 years	10% p.a. cash coupon paid quarterly and 5% p.a. payment in kind (PIK) accrued quarterly	No prepayment penalty
Convertible Eurobonds	1.2 billion	7 years (with put option after 5 years)	15% p.a. PIK coupon accrued annually	Convertible at Forum's option into 40% the TK equity currently held by the Trust following full repayment of Mezzanine Eurobonds

* The Mezzanine and Convertible Eurobonds do not have DSCR or LTV covenant tests

On 24 August 2009, notice was received from the counterparty to the foreign exchange contracts that they had exercised the Bermuda option right to terminate all of the contracts that were in place with the Trust. On the date of termination a fair market value calculation was performed to determine the amount owing to the counterparty under the contracts which totalled ¥4.4 billion and is payable in Japanese Yen. On 18 September 2009 a loan facility was entered into with the counterparty setting out the terms under which the ¥4.4 billion is payable. The ¥4.4 billion has been converted into a long term loan repayable in full in September 2014. As a result of the termination of all of the foreign currency hedges by the counterparty the Trust is fully exposed to fluctuations in the AUD/JPY exchange rate on the income it receives from Japan and on the net equity position of its investment in Japan. Based on recent movements in the AUD/JPY exchange rate the impact this has on the Trust could be volatile over a short period of time and movements could be material in size.

Notes to the Financial Statements (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

The foreign currency loan facility includes the following key terms:

- i. Initial principal balance of ¥4.4 billion
- ii. 5 year term maturing in September 2014
- iii. Margin of 5% over Japanese Yen LIBOR for years 1 to 3, increasing to 10% thereafter
- iv. Interest payments capitalised into loan balance compounding quarterly
- v. No DSCR or LTV covenant tests

After closing of the bond issue, entering into the amended Loan A agreement with the Japanese senior lender and closing of the loan facility with the foreign currency counterparty there are no loan obligations maturing until December 2012.

The financial effect of these events has not been brought to account at 30 June 2009.

Note 28. Trust details

The principal place of business:

Galileo Japan Funds Management Limited (as Responsible Entity of the Trust)

Level 9, 1 Alfred Street

SYDNEY NSW

Tel: + 612 9240 0333

Fax: + 612 9240 0300

Directors' Declaration

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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 11 to 35 are in accordance with the Corporations Act 2001, including:
 - i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - ii. giving a true and fair view of the Trust's and Consolidated Entity's financial position as at 30 June 2009 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year on that date; and
 - b. there are reasonable grounds to believe that the Trust and Consolidated Entity will be able to pay its debts as and when they become due and payable.
2. The Trust has operated during the period in accordance with the Trust Constitution (as amended).
3. The Directors of the Responsible Entity have been given the declarations by the chief executive officer and chief financial officer for the year ended 30 June 2009 required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.



Jack Ritch
Chairman

Dated at Sydney this 21 September 2009

Independent Auditor's Report

TO THE MEMBERS OF GALILEO JAPAN TRUST



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ABN 52 780 433 757

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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 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both the Trust and the Galileo Japan Trust Group (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of Galileo Japan Funds Management Limited (the responsible entity) are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing 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, as well as evaluating the overall presentation of the financial report.

Independent Auditor's Report

TO THE MEMBERS OF GALILEO JAPAN TRUST



Independent auditor's report to the unitholders of Galileo Japan Trust (continued)

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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*.

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 and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive, stylized script.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'JA Dunning' in a cursive, stylized script.

JA Dunning
Partner

Sydney
21 September 2009

ASX Additional Information

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

1. Substantial unitholders

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

Company	Date	No. of units	% of units on issue
Aquapeel Pty Ltd	20 March 2009	58,979,257	14.54
Orbis Investments Management (Australia) Pty Ltd and its related bodies corporate	23 September 2009	39,275,098	9.68
Galileo Japan Funds Management Limited and its associated entities	27 November 2008	23,751,488	5.86

2. Twenty largest unitholders

The names of the twenty largest unitholders of quoted units as at 31 August 2009 are:

	Number of units	% of ordinary Units
Aquapeel Pty Ltd	57,302,494	14.13
National Nominees Limited	30,007,889	7.40
Citicorp Nominees Limited	27,153,058	6.70
HSBC Custody Nominees (Australia) Limited	19,316,881	4.76
Galileo Japan Funds Management Limited	14,322,329	3.53
JP Morgan Nominees Australia Limited	10,498,954	2.59
UBS Wealth Management Australia Nominees Pty Ltd	7,950,296	1.96
Citicorp Nominees Pty Limited (CFSIL Commonwealth Property 1 A/C)	5,900,747	1.45
Galileo Japan Funds Management Limited	5,893,445	1.45
HSBC Custody Nominees (Australia) Limited – A/C 3	5,873,143	1.45
ANZ Nominees Limited (Cash Income A/C)	5,164,951	1.27
Custodial Services Limited (Beneficiaries Holding A/C) – C/- Craigs Investment Partners	3,544,417	0.87
Galileo Investments Japan Pty Ltd	3,535,714	0.87
Woodduck Pty Limited	3,500,000	0.86
Endoline Pty Ltd	3,020,000	0.74
Mr Jae Yong Park & Mrs Myung Sook Park	3,000,000	0.74
Mr Graeme Little	2,591,908	0.64
Cogent Nominees Pty Limited	2,553,093	0.63
Hanhill Capital Pty Ltd	2,550,000	0.63
McNeil Nominees Pty Limited	2,500,000	0.62
	216,179,319	53.30
Total other investors	189,379,252	46.70
GRAND TOTAL	405,558,571	100.00

ASX Additional Information (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

3. Distribution of unitholders

The number of unitholders, by size and holding as at 31 August 2009 are:

	Number of holders	Number of Units
1-1,000	47	29,486
1,001-5,000	213	795,467
5,001-10,000	310	2,682,827
10,001-100,000	1,508	62,305,107
100,001 and over	410	339,745,684
	2,488	405,558,571
Number of unitholders holding less than a marketable parcel of 8,475 securities are:	379	1,631,334

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