

## APPENDIX 4E

### Preliminary Final Report For the year ended 30 June 2010

<b>Entity:</b>	Galileo Japan Trust (ARSN 122 465 990)
<b>Current period:</b>	1 July 2009 – 30 June 2010
<b>Previous corresponding period:</b>	1 July 2008 – 30 June 2009

#### Results for announcement to the Market

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

					(\$ '000)
Revenues from ordinary activities	Down	23.1%	to	78,391	
Loss from ordinary activities attributable to unitholders of the Trust	Down	75.3%	to	(62,236)	
Net loss for the year attributable to unitholders of the Trust	Down	75.3%	to	(62,236)	

The net loss for the year ended 30 June 2010 included the following significant items of expenditure:

- i) Investment property revaluation loss of \$58.1 million;
- ii) Write off of finance costs equivalent to \$7.6m in accordance with *AASB139 Financial Instruments: Recognition and Measurement*. The refinance of the senior bank loan on 18 September 2009 was deemed to be an 'extinguishment' of a financial liability under that standard. Accordingly, the unamortised financing costs relating to the senior bank loan and all costs incurred in the current year relating to the refinance of that senior bank loan were written off through the profit and loss; and
- iii) Write off of interest rate swap hedging reserve equivalent to \$12.2 million in accordance with *AASB139 Financial Instruments: Recognition and Measurement*. The refinance of the senior bank loan on 18 September 2009 caused the interest rate swap derivatives to become "ineffective" hedges under that standard. Accordingly, the balance in the interest rate swap hedging reserve as at the date of the refinancing was written off through the profit and loss.

For personal use only

Distributions to unitholders	\$ (cents per unit)
<i>Current period:</i>	
Interim distribution	Nil
Final distribution	Nil
<i>Previous corresponding period:</i>	
Interim distribution	Nil
Final distribution	0.025cpu
Record date to determine entitlement to final distribution	N/A

### Distribution reinvestment plan (DRP)

The Trust's Distribution Reinvestment Plan (DRP) was not in operation during the year.

### Explanation and discussion of the above results

Refer to the associated ASX results presentation and related announcement.

### Accumulated losses

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Balance at beginning of the year	(249,954)	1,715
Net loss attributable to unitholders of the Trust	(62,236)	(251,568)
Distributions paid and payable	-	(101)
<b>Balance at the end of the year</b>	<b>(312,190)</b>	<b>(249,954)</b>

### Net Tangible Assets

	30 June 2010	30 June 2009
Net tangible asset backing per unit	\$0.40	\$0.52

If the Convertible Eurobonds had been converted into an interest in the Japanese TK at 30 June 2010 the net tangible asset per unit would have reduced to \$0.20 (Refer to note 15 in the 30 June 2010 financial statements).

### Details of controlled entities and associates

There were no new entities over which control was gained during the year, or any Associates or Joint Venture Entities that became part of the consolidated group during the year.



Galileo Japan Funds Management Limited  
(ACN 121 567 244) (AFSL 305 429)  
as Responsible Entity for Galileo Japan Trust  
(ARSN 122 465 990)

Level 9, 1 Alfred Street  
Sydney NSW 2000 Australia  
GPO Box 4760 Sydney NSW 2001  
Telephone: (02) 9240 0333  
Facsimile: (02) 9240 0300  
ASX Code: GJT  
Website: [www.galileofunds.com.au](http://www.galileofunds.com.au)

### **Accounting standards used by foreign entities**

Refer to Note 2 'Summary of significant accounting policies' in the attached financial statements.

### **Financial report of the Trust for the year ended 30 June 2010**

The financial report of the Trust for the year ended 30 June 2010 is attached to this announcement.

### **Other significant information**

Refer to the Directors' report which is attached to this announcement.

### **Compliance statement**

This Appendix 4E is based on the financial statements of the Trust for the year ended 30 June 2010 which have been audited by PricewaterhouseCoopers. Refer to the 30 June 2010 financial statements for a copy of their audit report.

For personal use only

**GALILEO JAPAN TRUST**

**ARSN 122 465 990**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2010**

For personal use only

**GALILEO JAPAN TRUST**  
**Financial Report**  
**For the year ended 30 June 2010**

---

**Contents:**

Directors' Report	3
Auditor's Independence Declaration	8
Consolidated Statement of Comprehensive Income	9
Consolidated Statement of Financial Position	10
Consolidated Statement Changes in Equity	11
Consolidated Statement of Cash Flows	12
Notes to the Consolidated Financial Statements	13
Directors' Declaration	39
Independent Auditors' Report to Unitholders	40

**GALILEO JAPAN TRUST**  
**Directors' Report**  
**For the year ended 30 June 2010**

---

The Directors of Galileo Japan Funds Management Limited, the responsible entity (Responsible Entity) of Galileo Japan Trust submit herewith their consolidated financial report of Galileo Japan Trust and its controlled entity (together the 'Trust') for the year ended 30 June 2010.

All amounts in this report are in Australian dollars unless otherwise stated.

**Corporate Information**

The Trust was registered with the Australian Securities and Investments Commission on 10 November 2006 and listed on the Australian Securities Exchange 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 23 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.

**Frank Zipfinger, Non-Executive Director**

Frank has over 25 years experience in the property industry. He was formerly a Partner in the Property, Construction & Environment practice of the Sydney office of Mallesons Stephen Jaques where he specialised in property investment and development. Frank was also the Chairman of Mallesons Stephen Jaques from 1 February 2005 until 30 June 2010. Prior to this appointment, Frank completed over five years in various roles as a Managing Partner with the firm. 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 Boards of the international not for profit organisations Room to Read and Grameen Australia.

**Directors' Report to Unitholders (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. Until 2007, Neil was also Managing Director and Chief Executive Officer of Galileo Shopping America Trust which he established in 2003. 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, asset and funds management. Over the past 15 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 Group Manager, Marketing and Communications and 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 2010, the interests of the directors, held directly or indirectly, in the Trust were:

	<u>Units Held</u>
Jack Ritch	141,429
Philip Redmond	265,000
Frank Zipfinger	230,000
Neil Werrett*	24,814,488
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.

**Directors' Report to Unitholders (continued)**

**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. Up until 21 September 2009, the Trust's aim was 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 returns for unitholders through an orderly asset sale program to ensure sufficient working capital exists to meet its financial commitments, the success of which will ultimately be dependent upon the realisation amount for property investments.

**Review and Results of Operations**

*Financial results for the year*

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

Key points relating to the financial result for the year ended 30 June 2010 are:

- Property net income down 10.1% to ¥4.07 billion (A\$50.45 million);
- Significant increase in finance costs as a result of the September 2009 refinance;
- Mandatory amortisation, equivalent to 2.3% per annum of the outstanding loan balance, under the revised senior loan document commenced in the December 2009 quarter;
- Investment property revaluations, both independent and Directors' valuations, have resulted in the carrying value of the portfolio reducing 5.5% to ¥72.5 billion at 30 June 2010 (¥76.7 billion at 30 June 2009);
- Net tangible assets of 40cpu, 23% lower than June 2009; and
- Net tangible assets, if restated, as at 30 June 2010 to reflect the potential conversion of Forum's convertible Eurobond would be 20 cpu.

*Distributions*

No distribution has been paid or is payable for the year ended 30 June 2010. The Trust's Distribution Reinvestment Plan (DRP) is not in operation.

*Property valuations*

Independent valuations of the investment properties are obtained at least every three years or whenever the Responsible Entity believes there is a significant change in fair value within the period. Where a property has not been independently revalued during the reporting period the Directors make an assessment of fair value. The Directors' assessment of fair value primarily considers the contractual rentals, expected future market rentals, letting-up periods, capital expenditure requirements and appropriate discount rates. These fair value estimations are regularly assessed against available market information and actual market transactions.

At 30 June 2010 the fair value of investment property equated to ¥72.53 billion which is down 5.5% from 30 June 2009. The 30 June 2010 value is based upon seven properties being independently valued by Savills Japan Co. Limited, with the remainder of the portfolio being the Directors' assessment of fair value.

**Directors' Report to Unitholders (continued)**

*Refinancing*

In September 2009 a refinancing strategy was completed for the Trust which included:

- raising new capital in the form of mezzanine Eurobonds and convertible Eurobonds to allow for the full repayment of all short term maturities that existed at 30 June 2009;
- as well as the amendment of certain key terms and extension of the maturity date of the senior loan; and
- conversion of the foreign currency liability due to the counterparty into a long term loan payable in full in September 2014.

After closing of the Eurobond issue, entering into the amended senior loan 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.

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.

**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 Trust that occurred during the year ended 30 June 2010 and up to the date of this report.

**Events occurring after reporting date**

The Directors are not aware of any matter or circumstance occurring since 30 June 2010 not otherwise dealt with in the financial report that has significantly or may significantly alter the operations of the Trust, the results of those operations or the state of affairs of the Trust in subsequent financial periods.

**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 and disclosed in Note 20 of the financial statements. 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.

As a part of the refinancing that took place during the year ended 30 June 2010, the Responsible Entity has agreed to permanently waive its share (0.1%) of any base Responsible Entity fee and any performance fee in lieu of an operating cost recovery arrangement. The Trust will reimburse the Responsible Entity for operating costs of up to \$50,000 per month for costs relating to ongoing management of the Trust. The payment of these costs will be deferred until all outstanding obligations to the Eurobond holders and the foreign currency facility lender have been repaid in full. During the year ended 30 June 2010 cost recovery charges of \$50,000 per month from the date of the completion of the refinancing (September 2009) were accrued by the Trust for payment to the Responsible Entity.

**Directors' Report to Unitholders (continued)**

**Indemnification and insurance of directors, officers and auditors**

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

**Corporate governance**

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

**Environmental regulation**

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

**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 statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

**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 8.

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



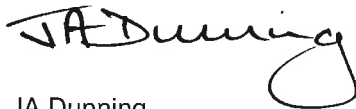
Jack Ritch  
Chairman  
Sydney, 30 August 2010

## Auditors' Independence Declaration

As lead auditor for the audit of Galileo Japan Trust for the year ended 30 June 2010, 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 period.



JA Dunning  
Partner  
PricewaterhouseCoopers

Sydney  
30 August 2010

For personal use only

**GALILEO JAPAN TRUST**  
**Consolidated Statement of Comprehensive Income**  
**For the year ended 30 June 2010**

	Note	Consolidated	
		2010 \$'000	2009 \$'000
<b>Revenue</b>			
Rental income		71,110	83,094
		<u>71,110</u>	<u>83,094</u>
<b>Other income</b>			
Foreign exchange gain		5,197	-
Gain on derivative financial instruments		2,049	-
Interest and other income		35	18,832
		<u>7,281</u>	<u>18,832</u>
<b>Total revenue and other income</b>		<b><u>78,391</u></b>	<b><u>101,926</u></b>
<b>Expenses</b>			
Property expenses		(20,660)	(22,153)
Finance costs	3(i)	(54,587)	(18,391)
ASX and other fees		(194)	(271)
Loss on derivative financial instruments		-	(74,888)
Foreign exchange loss		-	(16,155)
Loss on investment property revaluation		(58,103)	(218,601)
Other expenses	3(ii)	(8,175)	(10,538)
<b>Total expenses</b>		<b><u>(141,719)</u></b>	<b><u>(360,997)</u></b>
<b>Loss before tax for the year</b>		<b><u>(63,328)</u></b>	<b><u>(259,071)</u></b>
Income tax credit	5	-	5,252
<b>Loss after tax for the year</b>		<b><u>(63,328)</u></b>	<b><u>(253,819)</u></b>
<b>Other comprehensive income</b>			
Foreign exchange translation adjustments	12	4,435	108,110
Fair value movement on hedge instrument	12	12,675	(11,467)
		<u>17,110</u>	<u>96,643</u>
<b>Total comprehensive loss for the year</b>		<b><u>(46,218)</u></b>	<b><u>(157,176)</u></b>
<b>Loss attributable to:</b>			
- Unitholders of the Trust		(62,236)	(251,568)
- Non-controlling interest	14	(1,092)	(2,251)
		<u>(63,328)</u>	<u>(253,819)</u>
<b>Total comprehensive loss attributable to:</b>			
- Unitholders of the Trust		(45,126)	(154,925)
- Non-controlling interest	14	(1,092)	(2,251)
		<u>(46,218)</u>	<u>(157,176)</u>
Basic and diluted earnings per unit (cents)	16	(15.35)	(62.03)

The Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**GALILEO JAPAN TRUST**  
**Consolidated Statement of Financial Position**  
**As at 30 June 2010**

	Note	Consolidated	
		2010 \$'000	2009 \$'000
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	23	57,196	56,832
Trade and other receivables	6	7,780	6,134
<b>Total Current Assets</b>		<b>64,976</b>	<b>62,966</b>
<b>Non-Current Assets</b>			
Investment property	7	961,164	987,843
Other assets		172	167
<b>Total Non-Current Assets</b>		<b>961,336</b>	<b>988,010</b>
<b>TOTAL ASSETS</b>		<b>1,026,312</b>	<b>1,050,976</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	8	17,665	22,600
Interest bearing liabilities	10	12,958	112,595
Tenant security deposits		15,636	7,356
Derivative financial instruments	18	531	60,770
Provision for distribution	9	-	101
<b>Total Current Liabilities</b>		<b>46,790</b>	<b>203,422</b>
<b>Non-Current Liabilities</b>			
Interest bearing liabilities	10	764,874	576,971
Tenant security deposits		36,450	44,282
Derivative financial instruments	18	10,320	12,675
Other		470	-
<b>Total Non-Current Liabilities</b>		<b>812,114</b>	<b>633,928</b>
<b>TOTAL LIABILITIES</b>		<b>858,904</b>	<b>837,350</b>
<b>NET ASSETS</b>		<b>167,408</b>	<b>213,626</b>
<b>UNITHOLDERS' EQUITY</b>			
Parent entity interest			
Contributed equity	11	386,856	386,856
Reserves	12	89,440	72,330
Accumulated losses	13	(312,190)	(249,954)
Total parent entity interest		164,106	209,232
Non-controlling interest	14	3,302	4,394
<b>TOTAL EQUITY</b>		<b>167,408</b>	<b>213,626</b>

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

**GALILEO JAPAN TRUST**  
**Consolidated Statement of Changes in Equity**  
**For the year ended 30 June 2010**

	Consolidated Entity					Total Equity \$'000
	Contributed Equity \$'000	Reserves \$'000	Accumulated Losses \$'000	Total \$'000	Non-controlling interest \$'000	
<b>Balance 1 July 2008</b>	<b>386,856</b>	<b>(24,313)</b>	<b>1,715</b>	<b>364,258</b>	<b>6,645</b>	<b>370,903</b>
Movement in foreign currency translation reserve	-	108,110	-	108,110	-	108,110
Movement in hedging reserve	-	(11,467)	-	(11,467)	-	(11,467)
<b>Net income/(loss) recognised directly in equity</b>	-	72,330	-	460,901	-	467,546
Profit/(loss) for the year	-	-	(251,568)	(251,568)	(2,251)	(253,819)
<b>Total comprehensive income/(loss) for the year</b>	-	72,330	(251,568)	209,333	4,394	213,727
<b>Transactions with Unitholders in their capacity as unitholders:</b>						
Issue of share capital	-	-	-	-	-	-
Distribution paid or payable	-	-	(101)	(101)	-	(101)
<b>Balance 30 June 2009</b>	<b>386,856</b>	<b>72,330</b>	<b>(249,954)</b>	<b>209,232</b>	<b>4,394</b>	<b>213,626</b>
<b>Balance 1 July 2009</b>	<b>386,856</b>	<b>72,330</b>	<b>(249,954)</b>	<b>209,232</b>	<b>4,394</b>	<b>213,626</b>
Movement in foreign currency translation reserve	-	4,435	-	4,435	-	4,435
Movement in hedging reserve	-	12,675	-	12,675	-	12,675
<b>Net income/(loss) recognised directly in equity</b>	-	89,440	-	226,342	-	230,736
Profit/(loss) for the year	-	-	(62,236)	(62,236)	(1,092)	(63,328)
<b>Total comprehensive income/(loss) for the year</b>	-	89,440	(62,236)	164,106	3,302	167,408
<b>Transactions with Unitholders in their capacity as unitholders:</b>						
Issue of share capital	-	-	-	-	-	-
Distribution paid or payable	-	-	-	-	-	-
<b>Balance 30 June 2010</b>	<b>386,856</b>	<b>89,440</b>	<b>(312,190)</b>	<b>164,106</b>	<b>3,302</b>	<b>167,408</b>

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**GALILEO JAPAN TRUST**  
**Consolidated Statement of Cash Flows**  
**For the year ended 30 June 2010**

	Note	Consolidated	
		2010 \$'000	2009 \$'000
<b>Cash flows from operating activities</b>			
Rental and other property income		69,223	83,587
Property and other expenses		(21,122)	(22,817)
Foreign exchange loss		-	706
Interest and other income received		35	3,520
Borrowing costs		(23,715)	(15,657)
Other operating costs		(11,706)	(6,725)
Tenant security deposits		(982)	(2,048)
Consumption tax/GST received/(paid)		(2,662)	11,771
<b>Net cash inflow from operating activities</b>	<b>22</b>	<b>9,071</b>	<b>52,337</b>
<b>Cash flows from investing activities</b>			
Investment properties		(2,760)	(3,667)
<b>Net cash outflow from investing activities</b>		<b>(2,760)</b>	<b>(3,667)</b>
<b>Cash flows from financing activities</b>			
Proceeds from Eurobond issue		140,056	-
Repayment of borrowings		(140,958)	(36,506)
Distributions paid		(266)	(16,117)
Finance costs paid		(6,336)	(376)
<b>Net cash outflow from financing activities</b>		<b>(7,504)</b>	<b>(52,999)</b>
Net decrease in cash assets held		(1,193)	(4,329)
Effect of foreign exchange movements on cash		1,557	14,210
<b>Cash assets at the beginning of the year</b>		<b>56,832</b>	<b>46,951</b>
<b>Cash assets at the end of the year</b>	<b>23</b>	<b>57,196</b>	<b>56,832</b>

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

## **Note 1. General information**

These consolidated financial statements cover Galileo Japan Trust and its subsidiary (Galileo Japan Trust II) as a consolidated entity (the 'Trust'). 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 Trust aims to maximise the returns for unitholders through an orderly asset sale program to ensure sufficient working capital exists to meet its financial commitments, the success of which will ultimately be dependent upon the realisation amount for property investments.

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 30 August 2010. The Responsible Entity has the power to amend and reissue these financial statements.

## **Note 2. Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented unless otherwise stated.

### **(a) Basis of preparation**

These general purpose financial statements have been prepared in accordance with the requirements of the Trust Constitution, Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. The consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

These consolidated financial statements have been prepared under the historical cost convention, with the exception of derivative financial instruments and investment property, which are carried at fair value through profit or loss.

#### *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 recognised 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(c), 2(e), 2(j), Note 7 and Note 18 are the main policies where estimations of fair value are described and Note 2(p) describes the assumptions in relation to deferred tax liabilities.

#### *New accounting standards and interpretations*

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, apart from the adoption of the following Standards as a result of new or revised accounting standards which became operative for the annual reporting period commencing 1 July 2009.

- Australian Accounting Standards newly released or existing standards to which amendments have been made in the past year are: 1, 2, 4, 5, 7, 8, 101, 102, 107, 108, 110, 111, 116, 118, 119, 120, 121, 123, 127, 128, 129, 131, 132, 134, 136, 138, 139, 140, 141, 1023, 1038, 1039 and 1049.
- UIG Interpretations newly released or amended are: 1, 12, 13, 15 and 16.

## Note 2. Summary of significant accounting policies

### (a) Basis of preparation (continued)

The adoption of the Standards and Interpretations above that have a significant impact on the financial statements or performance of the Trust in the financial year are:

- *AASB 7 Financial Instruments: Disclosures* - The amended Standard requires additional disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level using a three-level fair value measurement hierarchy. It also requires disclosure of remaining contractual maturities of derivatives if the maturities are essential for an understanding of the timing of the cashflows. The entity also has to disclose a maturity analysis of financial assets it holds for managing liquidity risk if relevant to evaluate the nature and extent of liquidity risk. The adoption of this amendment does not impact on profit but results in additional disclosures presented in Note 18;
- *AASB 8 Operating Segments* - This accounting standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting and analysis purposes. Operating segments are now reported in a manner consistent with the internal reporting to the chief operating decision makers. Apart from the additional disclosures and measures reflected in the operating segments note (Note 19), the adoption of *AASB 8 Operating Segments* has not had an impact on the measurements reflected in the Trust's financial statements. Comparative information has been restated;
- *AASB 9 Financial Instruments* - AASB 9 simplifies the classification of financial assets into those to be carried at amortised cost and those to be carried at fair value and replaces the recognition and measurement requirements of financial assets in AASB 139. This standard is required for application from 1 January 2013. The Trust is still currently assessing the impact of this standard;
- *AASB 101 Presentation of financial statements* - The revised standard requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity. The adoption of this revised standard will not affect any of the amounts recognised in the financial statements;

#### *Uncertainty around property valuations*

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 estimate of fair value as at the balance 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 be lower than the fair value recorded in the financial statements.

### (b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Galileo Japan 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.

**Note 2. Summary of significant accounting policies**

**(b) Principles of consolidation (continued)**

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 Non-controlling interest in the consolidated statement of comprehensive income. The consolidated financial statements of the Trust incorporate the results of the interests in the TK from the date the TK agreements were signed.

**(c) Investment property**

Investment properties are initially recorded at cost, being the acquisition price plus the cost 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 consolidated statement of financial position. 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. Independent valuations of the investment properties are obtained at least every three years or whenever the Responsible Entity believes there is a significant change in fair value within the year. 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, rental 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 data, and actual transactions undertaken by the Responsible Entity and those reported to 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 consolidated statement of comprehensive income in the period in which they arise.

**Note 2. Summary of significant accounting policies**

**(d) Foreign currency**

*Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The 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 Australian dollars at the rate of exchange at the date of the transactions. At balance date, monetary assets and liabilities denominated in foreign currencies are translated to Australian dollars at rates of exchange current at that date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities are carried at fair value and reported as part of the fair value gain or loss. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

*Foreign operations*

The beneficial interest in the assets and liabilities of foreign controlled entities are translated into Australian dollars at rates of exchange current at balance date (30 June 2010 - 75.46; 30 June 2009 - 77.65), while their income and expenditures are translated at the average of rates ruling during the financial year (30 June 2010 - 80.68; 30 June 2009 - 74.29). Foreign exchange differences arising on translation are recorded in the foreign currency translation reserve.

The Trust'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 18).

**(e) Derivatives and other financial instruments**

The Trust 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 consolidated statement of comprehensive income.

**(f) Cash and cash equivalents**

For the purposes of presentation in the statement of cash flows, 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, lender reserves and tenant security deposits.

**(g) Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method 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 statement of comprehensive income as incurred. Receivables from related parties are carried at the nominal amount due.

**(h) 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 Trust. Payables to related parties are carried at the principal amount. The amounts are unsecured and are usually paid within 30 days of recognition.

## **Note 2. Summary of significant accounting policies**

### **(i) 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 statement of comprehensive income over the period of the borrowings on an effective interest basis.

### **(j) 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.

### **(k) Contributed equity**

Issued and paid up units are recognised at the fair value of the consideration received or receivable. Any transaction costs arising directly from the issue of ordinary units are recognised directly in equity as a reduction of the proceeds received provided that they would not have been incurred had these instruments not been issued. The Trust has a perpetual life unless it is being terminated which will eventually lead to full repayment of all units.

### **(l) 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 management's best estimate of the expenditure required to settle the present obligation at the balance date.

### **(m) 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 statement of comprehensive income 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.

### **(n) 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.

## **Note 2. Summary of significant accounting policies**

### **(o) 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.

Where there is a deemed extinguishment of a loan due to a substantial modification of the terms of an existing financial liability, the pre-existing capitalised finance costs and any costs incurred in relation to that loan modification are expensed in the period of the extinguishment.

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.

### **(p) 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.

### **(q) 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.

**Note 2. Summary of significant accounting policies**

**(q) Goods and services tax and consumption tax (continued)**

Receivables and payables are stated with the amount of GST or consumption tax included. The net amount of GST or consumption tax recoverable from, or payable to, the tax authorities is included as a current asset or liability in the statement of financial position. 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.

**(r) 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.

**(s) 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 date and are classified as current liabilities if it is known that repayment of the deposit is required within 12 months.

**(t) 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. Segment information is presented on the same basis as that used for internal reporting and analysis purposes, in a manner consistent with the internal reporting to the chief operating decision maker, being the Board of Directors

**(u) 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.

**(v) Comparative figures**

The comparative figures represent the year ended 30 June 2009.

**(w) 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 the financial statements. Amounts in the directors' report and the financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

**(x) Parent entity financial information**

The financial information for the parent entity (Galileo Japan Trust), as disclosed in note 24, has been prepared on the same basis as the consolidated financial statements, unless otherwise stated.

**GALILEO JAPAN TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2010**

**Note 3. Loss for the year**

The loss from continuing activities before income tax includes the following items of expense:

(i) Finance costs

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Interest expense – senior bank loan	16,359	15,656
Interest expense – foreign currency loan facility	2,320	-
Mezzanine Eurobond coupon	14,391	-
Convertible Eurobond coupon	1,748	-
Amortisation of finance costs*	7,570	2,735
Write-off of interest rate swap hedging reserve <sup>^</sup>	12,199	-
	<b>54,587</b>	<b>18,391</b>

\* In accordance with AASB139 *Financial Instruments: Recognition and Measurement*, the refinance of the senior bank loan on 19 September 2009 was deemed to be an 'extinguishment' of a financial liability. Accordingly, these finance costs include the write-off of all unamortised financing costs relating to the senior bank loan and all costs incurred in the current year relating to the refinance of that senior bank loan.

<sup>^</sup> In accordance with AASB139 *Financial Instruments: Recognition and Measurement*, the refinance of the senior bank loan on 19 September 2009 caused the interest rate swap derivatives to become "ineffective" hedges. Accordingly, the balance in the interest rate swap hedging reserve as at the date of the refinancing was written off through the profit and loss.

(ii) Other expenses

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
TK operating costs		
- asset management fees	6,046	6,660
- legal fees	233	735
- valuation fees	52	1,095
- other TK operating expenses	737	839
Total TK operating costs	7,068	9,329
Travel and related expenditure	-	452
Legal and other professional fees	506	633
Information technology expenses	129	103
General and administration expenses	472	21
	<b>8,175</b>	<b>10,538</b>

**GALILEO JAPAN TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2010**

**Note 4. Auditor's remuneration**

The auditor of the Trust in Australia and the TK Business in Japan is PricewaterhouseCoopers.

	Consolidated 2010 \$	Consolidated 2009 \$
<i>Amounts received or receivable by the Trust's auditors for:</i>		
- Audit of the financial report (Australia)	272,000	268,444
- Audit of the Trust compliance plan (Australia)	11,000	11,000
- Audit services (Japan)	199,554	314,396
- Tax services (Australia)	24,000	40,500
- Tax services (Japan)	450,775	512,317
	<b>957,329</b>	<b>1,146,657</b>

**Note 5. Income tax**

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<b>Income tax credit:</b>		
Deferred tax	-	(7,999)
Withholding tax	-	2,747
	-	<b>(5,252)</b>
<b>Reconciliation of tax credit:</b>		
Net loss before tax for the year	(63,328)	(259,071)
Tax at the Australian rate of 30%	(18,998)	(77,721)
Tax effect of amounts that are not assessable	18,998	77,721
Japanese withholding tax on distributions from controlled entity	-	2,747
Deferred tax	-	(7,999)
	-	<b>(5,252)</b>

**Note 6. Trade and other receivables**

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Trade receivables	6,792	5,473
Consumption tax/GST	13	10
Prepayments	329	307
Other receivables	646	344
	<b>7,780</b>	<b>6,134</b>

**GALILEO JAPAN TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2010**

**Note 7. Investment property**

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
Fair value at the beginning of the year	987,843	921,220
Additions to investment property	2,889	3,667
Revaluation adjustments	(58,102)	(218,601)
Foreign currency translation movements	28,534	281,557
<b>Fair value at the end of the year</b>	<b>961,164</b>	<b>987,843</b>

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 sub TK Operators.

The carrying value of seven investment properties at 30 June 2010 has been determined by independent valuations undertaken by Savills Japan Co. Ltd. The fair value of the remainder of the portfolio is based on the Directors' assessment of fair value. The Directors' assessment of fair value for these properties primarily considers the contractual rentals, expected future market rentals, letting-up periods, capital expenditure requirements and appropriate discount rates. These fair value estimations are regularly assessed against available market information and actual Market transactions.

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

2010

	<b>Office</b>	<b>Retail/Leisure</b>	<b>Mixed Use</b>	<b>Residential</b>	<b>Industrial</b>	<b>Hotel</b>
Weighted average capitalisation rate	5.3%	6.1%	6.9%	7.5%	7.0%	7.7%
Lease vacancy rates	10.4%	0.3%	5.8%	14.5%	0.0%	0.0%

2009

	<b>Office</b>	<b>Retail/Leisure</b>	<b>Mixed Use</b>	<b>Residential</b>	<b>Industrial</b>	<b>Hotel</b>
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%

Refer Note 2(c) for information on the valuation basis adopted for investment property by the Consolidated Entity, Note 10 for information on investment property pledged as security and Note 17 for information on leasing arrangements.

**Note 8. Trade and other payables**

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
Trade payables and accrued expenses	10,301	11,484
Withholding tax payable	1,876	2,628
Rent received in advance	5,274	5,578
Consumption tax payable	35	2,445
Other payables	179	465
	<b>17,665</b>	<b>22,600</b>

**GALILEO JAPAN TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2010**

**Note 9. Provision for distribution**

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Balance at beginning of the year	101	16,222
Distributions provided for during the year	-	101
Amount paid during the year	(101)	(16,222)
<b>Balance at the end of the year</b>	<b>-</b>	<b>101</b>

There is no distribution paid/payable for the year ended 30 June 2010. The amount paid during the year related to the year ended 30 June 2009 and was paid in August 2009.

**Note 10. Interest bearing liabilities**

	Maturity date	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<b>Current</b>			
Senior bank loan (i)		12,958	112,951
Less: unamortised borrowing costs		-	(356)
		<b>12,958</b>	<b>112,595</b>
<b>Non-Current</b>			
Senior bank loan (i)	December 2012	555,367	581,919
Mezzanine Eurobonds (ii)	September 2014	134,936	-
Convertible Eurobonds (iii)	September 2016	17,772	-
Foreign currency loan facility (iv)	September 2014	60,866	-
Less: unamortised borrowing costs		(4,067)	(4,948)
		<b>764,874</b>	<b>576,971</b>
<b>Total interest bearing liabilities</b>		<b>777,832</b>	<b>689,566</b>

**Details of loan facilities**

*(i) Senior bank loan*

The senior bank loan is secured by a pledge over 21 investment properties and contains cross default provisions. This loan is denominated in Japanese Yen (30 June 2010: ¥42.89 billion) and has mandatory principal repayments equal to 2.3% per annum of the outstanding loan principal. Through the use of interest rate swaps the interest rate on this loan is fixed at an average rate of 3.12%. There is a debt service coverage ratio (DSCR) covenant test of 1.5x (as defined) and there is no loan to value (LTV) covenant test. There are no undrawn amounts outstanding for this facility.

*(ii) Mezzanine Eurobonds*

The Mezzanine Eurobonds are Japanese Yen denominated Eurobonds (30 June 2010: ¥10.18 billion) with a term of 5 years from 18 September 2009. A cash coupon is paid quarterly on the outstanding principal of the Mezzanine Bonds at a rate of 10% per annum and a payment in kind (PIK) is accrued and compounded quarterly at a rate of 4.91% per annum. There are no DSCR or LTV covenant tests for these bonds.

**Note 10. Interest bearing liabilities (continued)**

*(iii) Convertible Eurobonds*

The Convertible Bonds are Japanese Yen denominated Eurobonds (30 June 2010: ¥1.34 billion) with a term of 7 years from 18 September 2009 with a put option after 5 years. A payment in kind (PIK) is accrued and compounded annually on these bonds at a rate of 15% per annum.

Following full repayment of the Mezzanine Eurobonds the Convertible Eurobonds may be redeemed, at the holder's option, in cash for the then outstanding principal amount (including accrued interest) or converted into an interest in the Japanese TK equal to a fixed 40% of the Japanese TK interest currently held by the Trust. There are no DSCR or LTV covenant tests for these bonds.

*(iv) Foreign currency loan facility*

The foreign currency loan facility is a Japanese Yen denominated facility (30 June 2010: ¥4.59 billion) that is repayable in full on 18 September 2014. Interest is charged at a margin of 5% over Japanese Yen 30 day LIBOR for years 1 to 3, increasing to 10% thereafter. Interest payments are capitalised into loan balance compounding quarterly. There are no DSCR or LTV covenant tests for this facility.

**Note 11. Contributed equity**

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<b>Units on issue</b>		
Balance at the beginning of the year	386,856	386,856
Units issued during the year	-	-
	386,856	386,856
Transaction costs	-	-
<b>Balance at the end of the year</b>	<b>386,856</b>	<b>386,856</b>

	Consolidated 2010 (Units)	Consolidated 2009 (Units)
<b>Number of units on issue</b>		
Balance at the beginning of the year	405,558,571	405,558,571
Units issued during the year	-	-
<b>Balance at the end of the year</b>	<b>405,558,571</b>	<b>405,558,571</b>

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.

**GALILEO JAPAN TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2010**

**Note 12. Reserves**

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<b>Foreign currency translation reserve</b>		
Balance at the beginning of the year	85,005	(23,105)
Foreign exchange translation movement for the year	4,435	108,110
Balance at the end of the year	89,440	85,005
<b>Hedging reserve</b>		
Balance at the beginning of the year	(12,675)	(1,208)
Interest rate swap amortisation	12,675	(11,467)
Balance at the end of the year	-	(12,675)
<b>Total reserves</b>	<b>89,440</b>	<b>72,330</b>

*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 controlled entities.

*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 other comprehensive income, as described in note 2(e). In accordance with *AASB139 Financial Instruments: Recognition and Measurement* the refinancing of the senior debt loan on 18 September 2009 was deemed to be an 'extinguishment'. Accordingly, the balance in the interest rate swap hedging reserve as at the date of the refinancing was written off through the profit and loss.

**Note 13. Accumulated losses**

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Balance at beginning of the year	(249,954)	1,715
Net loss attributable to unitholders of the Trust	(62,236)	(251,568)
Distributions paid and payable	-	(101)
<b>Balance at the end of the year</b>	<b>(312,190)</b>	<b>(249,954)</b>

**Note 14. Non-controlling interest**

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Balance at beginning of the year	4,394	6,645
Net loss attributable to non-controlling interest	(1,092)	(2,251)
<b>Balance at the end of the year</b>	<b>3,302</b>	<b>4,394</b>

**GALILEO JAPAN TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2010**

**Note 15. Net tangible assets**

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Total tangible assets	1,026,312	1,050,976
Total liabilities	(858,904)	(837,350)
Net tangible assets attributable to non-controlling interest	(3,302)	(4,394)
<b>Net tangible assets attributable to the unitholders of the Trust</b>	<b>164,106</b>	<b>209,232</b>
Total number of units on issue	405,558,571	405,558,571
Net tangible asset backing per unit	\$0.40	\$0.52

As disclosed in Note 10 above the Japanese TK issued Mezzanine Eurobonds and Convertible Eurobonds during the year ended 30 June 2010. Following full repayment of the Mezzanine Eurobonds the Convertible Eurobonds may be redeemed, at the holder's option, in cash for the then outstanding principal amount (including accrued interest) or converted into an interest in the Japanese TK equal to a fixed 40% of the Japanese TK interest currently held by the Trust.

If this conversion had taken place at 30 June 2010 the net tangible asset backing per unit would have reduced from \$0.40 per unit to \$0.20 per unit. At this point in time it is unclear if and when the Convertible Eurobonds will be converted.

**Note 16. Earnings per unit**

	Consolidated 2010	Consolidated 2009
Basic and diluted earnings (cents per unit)	(15.35)	(62.03)
Earnings used in the calculation of earnings per unit (\$'000)	(62,236)	(251,568)

The weighted average number of units used in determining basic and diluted earnings per unit (EPU) is 405,558,571 (2009: 405,558,571). There are no dilutive potential ordinary units, therefore diluted EPU is the same as basic EPU.

**Note 17. 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 Trust receives rental income under operating leases. Future minimum rents are scheduled to be received under non-cancellable tenant leases as follows:

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Within one year	23,239	24,505
Later than 1 year but not later than 5 years	86,224	92,984
Later than 5 years	191,576	219,336
	<u>301,039</u>	<u>336,825</u>

**Note 18. 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 Trust 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.

The Trust uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

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.

**(a) Capital risk**

The Trust'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:

- (i) Statement of financial position management – achieved by maintaining an appropriate mix of equity and debt capital and ensuring the Trust's gearing levels remain in line with the board approved policies. The Trust 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.

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

- (ii) Statement of comprehensive income management – the primary objective has been to maintain a stabilised distributable earnings profile for unitholders in Australian dollars from the equity investment in foreign currency. During the year it was determined that distributions to unitholders would be suspended to allow for cash to be retained by the TK business for the purpose of reducing debt. Accordingly, the forward foreign exchange contracts that were previously in place to minimise the fluctuation in distributions have been terminated. The primary objective will continue to be to maintain a stabilised earnings profile for the TK business and to maximise earnings through rental income. The Trust uses interest rate swap derivatives to reduce the volatility of earnings resulting from the movement in market interest rates on borrowings in the TK business.

**Note 18. Financial risk management (continued)**

(b) Market risk

Market risk is separated into foreign exchange risk, being the effect of the movement in foreign currencies on the Trust's operations, and interest rate risk, being the effect of the movement in interest rates on the Trust'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 risk is measured using sensitivity analysis and cashflow forecasting.

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

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.

A 25% increase in the average rate at 30 June 2010 and 30 June 2009 would result in a gain to the statement of comprehensive income of \$7,539,071 (30 June 2009: loss of \$34,915,239). A 25% decrease in the average rate at balance date would result in a loss to the statement of comprehensive income of \$12,565,118 (30 June 2009: gain of \$58,192,064).

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.

(ii) Interest rate risk

The Trust is exposed to interest rate risk on its borrowings and certain derivative financial instruments. The policy for the level of fixed rate borrowings is set by the board of directors of the Responsible Entity. This risk is managed by maintaining an appropriate mix of fixed and floating interest rate instruments and to enter into interest rate derivatives when necessary.

The documentation, designation and effectiveness requirements for the interest rate derivatives to qualify for hedge accounting cannot be met, therefore the Trust's interest rate swap contracts do not qualify for hedge accounting.

As a result any movement in the fair market value of the interest rate swap derivatives is recorded in the consolidated statement of comprehensive income.

**GALILEO JAPAN TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2010**

**Note 18. Financial risk management (continued)**

The Trust uses interest rate swap contracts to fix the interest rate on certain of its borrowings. A summary of the Trust's interest rate positions at balance date are as follows:

*Interest payable*

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
<i>Principal amounts of all interest bearing liabilities:</i>		
Current interest bearing liabilities	12,958	112,951
Non current interest bearing liabilities	768,941	581,919
Cross currency swaps	-	140,300
<b>Principal amounts subject to interest rate exposure</b>	<b>781,899</b>	<b>835,170</b>
<i>Principal amounts of fixed interest rate liabilities:</i>		
Interest rate swap agreements	598,807	581,919
Cross currency swaps	-	140,300
<b>Principal amounts on which interest rate exposure has been hedged</b>	<b>598,807</b>	<b>722,219</b>

At balance date the Trust has fixed 96% of its interest payable exposure. The remaining 4% is exposed to floating rates on a principal balance of \$60.87m at an average interest rate of 5.3% (30 June 2009: 16% unhedged; principal balance of \$112.96m at an average rate of 2.71%).

An increase in the market rate of 0.5% would result in increased interest expense of \$219,723 (30 June 2009: \$639,454). A decrease in the market rate of 0.5% would result in a decrease in interest expense of \$219,723 (30 June 2009: \$639,454).

A sensitivity of 0.5% is considered reasonable given the current level of interest 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 interest rates may exceed the range shown above.

The Trust's exposure to interest rate risk and the effective interest rates on financial instruments at 30 June 2010 are:

	<b>Weighted Average Interest Rate</b>	<b>&lt; 1 Year \$'000</b>	<b>1 – 5 Years \$'000</b>	<b>Consolidated &gt; 5 Years \$'000</b>	<b>Non- interest Bearing \$'000</b>	<b>Total \$'000</b>
<b>Financial assets:</b>						
Cash – AUD	1.9%	681	-	-	-	681
Cash – Japan	0.05%	56,515	-	-	-	56,515
Trade and other receivables		-	-	-	7,780	7,780
<b>Total</b>		<b>57,196</b>	<b>-</b>	<b>-</b>	<b>7,780</b>	<b>64,976</b>
<b>Financial liabilities:</b>						
Borrowings	See note 10	12,958	751,169	17,772	-	781,899
Interest rate swap		-	-	-	10,851	10,851
Trade and other Payables		-	-	-	17,665	17,665
<b>Total</b>		<b>12,958</b>	<b>751,169</b>	<b>17,772</b>	<b>28,516</b>	<b>810,415</b>

**GALILEO JAPAN TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2010**

**Note 18. Financial risk management (continued)**

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

	Weighted Average Interest Rate	< 1 Year \$'000	Consolidated 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
<b>Total</b>		<b>56,832</b>	<b>-</b>	<b>6,134</b>	<b>62,966</b>
Financial liabilities:					
Borrowings	See note 10	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
<b>Total</b>		<b>112,951</b>	<b>581,919</b>	<b>96,044</b>	<b>790,914</b>

The Trust 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 Trust 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.

The Trust has put in place an interest rate swaps with a notional value of ¥45.2 billion (\$598.8m at 30 June 2010; \$581.9m at 30 June 2009). The effect of the interest rate swap means that the Trust pays interest on the notional amount at a fixed rate of 3.1% and receives interest at the floating rate for the corresponding period that is based on the Japanese Yen three month LIBOR rate.

The use of interest rate swap contracts to hedge interest-bearing liabilities carries certain risks, including the risk that losses on a hedge position will reduce the funds available for payments to unitholders and that such losses may exceed the amount invested in such instruments.

The profitability of the Trust may be adversely affected during any period as a result of changing interest rates. Interest rate swap contracts have been recorded in the consolidated statement of financial position at their fair value in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*.

(c) Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations under a contract or arrangement. The Trust's maximum exposure to credit risk at 30 June 2010 in relation to each class of recognised financial instruments is the carrying amount of those instruments in the statement of financial position. Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

**Note 18. Financial risk management (continued)**

The Trust has a credit policy for all tenants and rents are payable monthly in advance. In the event of default by an occupational tenant, the Trust will suffer a rental shortfall and could incur additional related costs. Management reviews external reports on the credit quality of the Trust's tenants and monitors rental arrears on a monthly basis. The Trust 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 Trust, which comprise cash and cash equivalents, the Trust's exposure to credit arises from default of the counterparty with a maximum exposure equal to the carrying value of these instruments. The credit risk on cash and cash equivalents is mitigated as all cash is placed with reputable banking institutions.

**(d) Liquidity risk**

Liquidity risk is the risk that the Trust 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 Trust 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 Trust's main liquidity risk is its ability to realise assets through an orderly asset sale program to ensure sufficient working capital exists to meet its financial commitments.

The table below analyses the Trust'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.

Consolidated (\$'000)	2010				2009			
	Less than 1 year	Between 1&2 years	Between 2&5 years	Over 5 years	Less than 1 year	Between 1&2 years	Between 2&5 years	Over 5 years
Interest rate swaps	531	6,191	4,129	-	-	1,029	11,646	-
Forward foreign currency contracts	-	-	-	-	-	-	65,063	55,582
Cross currency swap	-	-	-	-	-	-	112,100	28,200
Real estate debt	12,958	-	751,169	17,772	112,951	-	581,919	-
<b>Total</b>	<b>13,489</b>	<b>6,191</b>	<b>755,298</b>	<b>17,772</b>	<b>112,951</b>	<b>1,029</b>	<b>770,728</b>	<b>83,782</b>

**Note 18. Financial risk management (continued)**

(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 Trust 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 Trust's credit margins and interest cost. Refinancing risk arises when the Trust is required to obtain debt to fund existing and new debt positions. The Trust 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 Trust 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 Trust's credit position.

Fair values

The Trust's financial assets and liabilities included in current and non-current assets and liabilities on the statement of financial position are carried at amounts that approximate fair value.

Valuation approach

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.

As of 1 July 2009, the Trust has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires the classification of fair value measurements into the following hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The Trust holds no level 1 or level 3 derivatives. Level 2 derivatives that the Trust has at 30 June 2010 include interest rate swaps. Given the complex nature of these instruments and various assumptions that are used in calculating the mark-to-market values, the Trust relies on the counterparties' valuations for derivative values.

The consolidated entity's assets and liabilities measured and recognised at fair value at 30 June 2010 in accordance with AASB 7 *Financial Instruments: Disclosures* consist solely of interest rate swap contracts. These interest rate swap contracts are out of the money at 30 June 2010 and include \$531,380 current liabilities and \$10,320,245 non-current liabilities. Comparative information is not provided as permitted by the transitional provisions of AASB 7 *Financial Instruments: Disclosures*.

The counterparties' valuation methodologies are usually based on mid-market rates and are calculated using four main variables which includes the yield curve, time, volatility and the level of derivative related to the yield curve.

**GALILEO JAPAN TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2010**

**Note 19. Segment information**

The Trust invests indirectly in a diverse portfolio of real estate assets in Japan and holds other assets and liabilities in Japan and Australia. The following sectors have been recognised as reporting segments which are regularly reviewed by management when making decisions about resource allocation and to assess performance.

<b>Retail/Leisure</b>	Segment includes assets used for purposes of retail, food and entertainment purposes including regional and sub regional shopping centres.
<b>Office</b>	Segment includes assets predominantly occupied as office space.
<b>Residential</b>	Segment includes assets utilised for residential purposes.
<b>Mixed Use</b>	Segment includes assets with a mix of uses including retail, residential and sports centres.
<b>Industrial</b>	Segment includes traditional industrial assets.
<b>Hotel</b>	Segment includes hotels.

	<b>Retail- Leisure</b>	<b>Office</b>	<b>Residential</b>	<b>Mixed Use</b>	<b>Industrial</b>	<b>Hotel</b>	<b>Total</b>
	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>
<b>Year ended 30 June 2010</b>							
Investment property revenue	30,286	23,006	8,338	5,857	1,842	1,781	71,110
Investment property expenses	(8,556)	(6,104)	(2,835)	(2,527)	(433)	(205)	(20,660)
<b>Net operating income</b>	<b>21,730</b>	<b>16,902</b>	<b>5,503</b>	<b>3,330</b>	<b>1,409</b>	<b>1,576</b>	<b>50,450</b>
<b>Year ended 30 June 2009</b>							
Investment property revenue	32,847	28,340	10,319	6,785	2,869	1,934	83,094
Investment property expenses	(8,819)	(6,993)	(2,847)	(2,886)	(383)	(225)	(22,153)
<b>Net operating income</b>	<b>24,028</b>	<b>21,347</b>	<b>7,472</b>	<b>3,899</b>	<b>2,486</b>	<b>1,709</b>	<b>60,941</b>
<b>Total segment assets</b>							
30 June 2010	395,025	361,811	95,641	56,364	32,675	22,672	964,188
30 June 2009	386,846	390,173	96,201	58,628	33,715	23,954	989,517
<b>Total segment liabilities</b>							
30 June 2010	256,592	240,415	64,829	36,103	34,631	1,101	633,671
30 June 2009	252,567	292,809	77,260	50,479	20,892	15,646	709,653

The executive team uses net operating income as the key performance measure for each segment disclosed above, which is represented by the gross recurring property income earned during a reporting period less the recurring property expenses incurred during a reporting period. This is not a measure prescribed by Australian Accounting Standards.

**GALILEO JAPAN TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2010**

**Note 19. Segment information (continued)**

This segment result is reconciled to the loss before income tax for the year as specified below.

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<b>Segment result</b>	<b>50,450</b>	<b>60,941</b>
Interest and other income	35	18,832
Finance costs	(54,587)	(18,391)
ASX and other fees	(194)	(271)
Other operating expenses	(8,175)	(10,538)
Loss on investment property revaluations	(58,103)	(218,601)
Gain/(loss) on derivative financial instruments	2,049	(74,888)
Foreign exchange gain/(loss)	5,197	(16,155)
<b>Loss before income tax for the year</b>	<b>(63,328)</b>	<b>(259,071)</b>

**Note 20. Related party disclosures**

*Responsible Entity Fees*

Galileo Japan Funds Management Limited (the 'Responsible Entity'), 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.

The Responsible Entity has agreed to permanently waive its share (0.1%) the base fee as a part of the major refinancing during the year ended 30 June 2010 (refer Note 20(c) below).

There was no base responsible entity fee paid or payable for the year ended 30 June 2010 or for the year ended 30 June 2009.

(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 has agreed to permanently waive the performance fee as a part of the major refinancing during the year ended 30 June 2010 (refer Note 20(c) below).

The Responsible Entity was not entitled to a performance fee for the year ended 30 June 2010 or 30 June 2009.

**Note 20. Related party disclosures (continued)**

(c) Responsible Entity Cost Recovery

As a part of the refinancing during the year ended June 2010, the Responsible Entity has agreed to permanently waive any base Responsible Entity fee and performance fee in lieu of an operating cost recovery arrangement. The Trust will reimburse the Responsible Entity for operating costs of up to \$50,000 per month for costs relating to ongoing management of the Trust. The payment of these costs will be deferred until all outstanding obligations to the Eurobond holders and the foreign currency facility lender have been repaid in full.

During the year ended 30 June 2010 cost recovery charges of \$50,000 per month from the date of the completion of the refinancing (September 2009) were accrued by the Trust for payment to the Responsible Entity.

(d) 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 years ended 30 June 2010 or 30 June 2009.

*Responsible Entity*

The Responsible Entity has insured the directors and officers against liabilities incurred in their role as directors and officers 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 2010 and amount of distribution receivable at June 2010.

	<u>Units Held</u>	<u>Distribution Due</u>
Jack Ritch	141,429	\$nil
Philip Redmond	265,000	\$nil
Frank Zipfinger	230,000	\$nil
Neil Werrett*	24,814,488	\$nil
Peter Murphy	840,143	\$nil

\* These units are owned by Galileo Japan Funds Management Limited 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.

*Related Party Transactions*

The items below represent amounts paid or payable to related parties for the year ended 30 June 2010 and 30 June 2009.

	<b>Consolidated 2010 \$'000</b>	<b>Consolidated 2009 \$'000</b>
Asset management fee – Galileo Japan K.K.	2,977	3,852
Loan to Galileo Japan K.K. <sup>^</sup>	172	167

<sup>^</sup> 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.

**Note 20. Related party disclosures (continued)**

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 (GMST) provides investment management services, due diligence services and other financial and operating support services to the Responsible Entity. During the year ended June 2010, GMST incurred costs for services provided to the Trust relating to the refinancing in September 2009. The Trust reimbursed GMST a total of \$694,000 for these services.

The amounts below represent outstanding balances with related parties.

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Asset management fee – Galileo Japan K.K.	936	2,466
Loan to Galileo Japan K.K.	172	167

**Note 21. 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 20, the Responsible Entity is entitled to receive fees in its capacity as Responsible Entity of the Trust. The Responsible Entity has agreed to permanently waive the base fee as a part of the major refinancing that took place during the year ended 30 June 2010.

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.

**GALILEO JAPAN TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2010**

**Note 22. Reconciliation of cash flows from operating activities**

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Net loss after tax	(63,328)	(253,819)
<i>Adjustment for non-cash items:</i>		
(Gain)/loss on derivative financial instruments	(2,049)	74,888
Finance costs – capitalised interest (PIK)	8,805	-
Foreign exchange gain	(5,197)	-
Loss on investment property revaluation	58,103	218,601
Amortisation of finance costs	7,570	2,735
Write-off of interest rate swap hedging reserve	12,199	-
<b>Net cash provided by operating activities before changes in assets and liabilities</b>	<b>16,103</b>	<b>42,405</b>
<i>Changes in assets and liabilities during the year:</i>		
Decrease/(increase) in trade and other receivables	(6,312)	11,928
Increase/(decrease) in trade and other payables	(720)	(1,996)
<b>Net cash flows from operating activities</b>	<b>9,071</b>	<b>52,337</b>

**Note 23. Cash**

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Trust operating accounts	681	557
TK operating accounts	8,290	3,248
Cash reserves held by Trust Banks	36,703	36,775
Cash reserves held by Lender	11,522	16,252
	<b>57,196</b>	<b>56,832</b>

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.

**Note 24. Parent entity financial information**

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<b>Statement of financial position</b>		
Current assets	21,898	30,660
Total assets	175,309	239,892
Current liabilities	2,442	64,238
Total liabilities	63,777	64,238
<b>Shareholders equity</b>		
Contributed equity	386,856	386,856
Accumulated losses	(275,324)	(211,202)
	111,532	175,654
<b>Loss for the year</b>	<b>(64,122)</b>	<b>(222,569)</b>
<b>Total comprehensive income</b>	<b>(64,122)</b>	<b>(222,569)</b>

The parent entity has not provided any guarantees nor does it have any contractual commitments or contingent liabilities as at 30 June 2010 or 30 June 2009.

**Note 25. Commitments and contingent liabilities**

The Directors of the Responsible Entity are not aware of any other contingent liabilities in relation to the Trust other than those disclosed in the financial statements, which should be brought to the attention of Unitholders as at the date of this report.

**Note 26. Events subsequent to balance date**

The Directors are not aware of any matter or circumstance occurring since 30 June 2010 not otherwise dealt with in the financial report that has significantly or may significantly alter the operations of the Trust, the results of those operations or the state of affairs of the Trust in subsequent financial periods.

## GALILEO JAPAN TRUST

### Directors' Declaration

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 13 to 38 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 financial position as at 30 June 2010 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 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. Note 2 (a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.
4. 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 2010 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 30 August 2010

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

**Report on the financial report**

We have audited the accompanying consolidated financial report of Galileo Japan Trust and its controlled entity (together the "Trust"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Trust.

*Directors' responsibility for the financial report*

The directors of Galileo Japan Funds Management Limited, as responsible entity for the Trust, 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 the financial statements comply with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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.

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

For personal use only

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

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 financial position as at 30 June 2010 and of its 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 and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a).



PricewaterhouseCoopers



JA Dunning  
Partner

Sydney  
30 August 2010

For personal use only