

BABCOCK & BROWN JAPAN PROPERTY TRUST

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as responsible entity of the Babcock & Brown Japan Property Trust · ARSN 112 799 854
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ASX Release
18 February 2008

BJT: STRONG INTERIM RESULT, WITH 17.5% INCREASE IN NET OPERATING PROFIT AND 10.1% INCREASE IN DPU

Highlights for the period:

- Distribution of 6.33 cpu up 10.1% on prior half year
- 17 properties revalued for a 5.3% increase of ¥8.85 billion (A\$90 million)
- Acquisition of eight properties for ¥45.32 billion (A\$467 million)
- Sale of office property at 25% premium to book value
- NTA of A\$1.37, 13.2% higher than at 30 June 2007
- No significant debt refinancing for two years
- Oversubscribed institutional placement raised A\$51.9 million
- Re-affirm guidance of 6.72 cpu distribution for June 2008

Financial results

Babcock & Brown Japan Property Trust (ASX: BJT) today announced a net operating profit after tax for the six month period ended 31 December 2007 of A\$31.6 million, 17.5% higher than for the prior corresponding period.

The interim distribution of 6.33 cents per unit (DPU), payable on 29 February 2008, is up 10.1% compared with 5.75 cents for the period ended 31 December 2006.

The strong result in this period has been driven by 12 accretive property acquisitions during the calendar year, which have further improved the portfolio's geographic and tenant composition. Rental increases negotiated across the portfolio have also added to this result.

Mr Eric Lucas, the Managing Director of Babcock & Brown Japan Property Management Limited (BJT's responsible entity) said: "We are very pleased to have delivered another strong result, demonstrating the strength of BJT's portfolio and the depth and experience of the Babcock & Brown asset management team based in Tokyo.

"Consistent with our strategy of generating sustainable earnings growth, we have increased DPU by 10% compared with the prior period," he said.

Growth in asset value

BJT's interests in 17 properties were revalued during the six month period ended 31 December 2007, increasing the value of these properties by ¥8.85 billion (A\$90 million) or 5.3%.

The strong revaluations reflect the fundamental quality of the assets within the BJT portfolio, a number of which have experienced significant capital growth. This is particularly true of some of the Central Tokyo assets acquired at the time of the BJT IPO, which were acquired on yields substantially higher than those being achieved in today's market.

The total value of BJT's portfolio was ¥174.5 billion (A\$1.77 billion), 45% higher than at 30 June 2007. As at 31 December 2007, BJT held interests in 46 properties in Japan: 19 retail, 22 office and 5 residential.

Accretive property acquisitions and disposal

During the six month period ended 31 December 2007, BJT completed the acquisition of interests in eight properties across office, retail and residential asset classes for a combined purchase price of ¥45.32 billion (A\$467 million).

These acquisitions represent a 38% increase in the existing portfolio (by value) and are a further testament to the experience of the acquisition team and its detailed knowledge of, and access to, the fragmented Japanese market. In addition, these acquisitions have further improved the portfolio's geographic and tenant diversification. They have been predominantly funded by debt, along with the proceeds from an institutional placement in August 2007, which raised A\$51.9 million.

During the period to 31 December 2007, there was also the disposal of one office property, Showa Yakubo, at a 25% premium to book value.

The combined effect of these acquisitions and disposal has led to a 28.6% increase in net property income in the six month period ended 31 December 2007, compared to the prior corresponding period.

Improved NTA

The net tangible asset (NTA) backing of BJT has increased to A\$1.37 per unit at 31 December 2007 from A\$1.21, 13.2% higher than at 30 June 2007. This increase was primarily due to the strong property revaluations achieved during the period.

Gearing

BJT's funding position remains strong with no significant refinancing required for two years. As at 31 December 2007, BJT's gearing was 60.8%. The Interest Cover Ratio of 4.6 times comfortably supports gearing at these levels.

Active capital management

BJT continues to take an active approach to managing its capital structure, to further enhance Unitholder value.

In November 2007, BJT announced its intention to commence an on-market buy-back of units as part of its capital management strategy. As at 31 December 2007, a total of 999,700 units had been purchased.

Post 31 December 2007 events

BJT has achieved the following in the post reporting period:

- An additional 10 million units have been purchased as part of the buy-back program at an average price of A\$1.22
- Sale of Sun building at 70% above book value which is an annualised IRR of more than 70% on BJT's original investment
- Sale of Nishioka building at 35% above book value which is an annualised IRR of more than 25% on BJT's original investment
- These two disposals will return 9.88 cents per unit in cash to BJT (¥4.9 billion, A\$50.9 million)
- Following repayment of a A\$35 million short-term bridge facility, gearing at end of February 2008 is expected to reduce to 58.9%
- Gearing, net of cash, post disposals is expected to reduce further to 55.5% at March 2008

Outlook

Mr Lucas said: "The substantial premiums to book value realised from the recent opportunistic disposals, along with the A\$90 million of property revaluations at 31 December 2007, clearly demonstrate that we have a strong portfolio of assets with significant embedded value and the potential to continue to generate growth in Unitholder value.

"Despite the recent turbulence in markets affecting the listed property trust sector, we believe that the combination of BJT's strong balance sheet, along with the depth and experience of the Tokyo-based team, positions us well to deliver Unitholder value and capitalise on opportunities which may arise in the short to medium term."

ENDS

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About Babcock & Brown Japan Property Trust

Babcock & Brown Japan Property Trust is a listed property trust with a strategy to invest into the real estate market of Japan. It currently holds interests in a portfolio comprising 46 retail, office and residential properties.

The Responsible Entity of the Trust is Babcock & Brown Japan Property Management Limited, a subsidiary of Babcock & Brown. Asset management services in Japan are generally undertaken by Babcock & Brown Co., Ltd., which is also a subsidiary of Babcock & Brown.

For further information please see our website:
<http://www.bbjapanpropertytrust.com>

BABCOCK & BROWN JAPAN PROPERTY TRUST

ARSN 112 799 854

Appendix 4D Half Year Report

1. Details of the reporting period

Current Period:	1 July 2007 – 31 December 2007
Previous Corresponding Period:	1 July 2006 – 31 December 2006

2. Results for announcement to the market

			\$A'000
2.1 Revenues from ordinary activities	up	70%	to 136,091
2.2 Profit / (loss) from ordinary activities after tax attributable to members	up	2%	to 61,327
2.3 Net profit / (loss) for the period attributable to members	up	2%	to 61,327
2.4 Distributions	Amount per security	Franked amount per security	
<i>Current Period:</i>			
Final distribution	N/A		N/A
Interim distribution	6.33¢		N/A
<i>Previous Corresponding Period:</i>			
Final distribution	N/A		N/A
Interim distribution	5.75¢		N/A
2.5 Record date for determining entitlements to the interim distribution	31 December 2007		
2.6 Provide a brief explanation of any of the figures reported above necessary to enable the figures to be understood:			
Refer to Director's report – review of operations.			

3. Net tangible asset backing per unit

	31 December 2007	31 December 2006
Net tangible asset backing per ordinary security	1.31	1.21
Net tangible asset backing per ordinary security – excluding deferred taxes	1.37	1.24

4. Control gained or lost over entities during the period

4.1 Name of entity (or group of entities) over which control was gained	Tokumei Kumiai ('TK') established under the Tokumei Kumiai Agreement dated 6/9/07 with JPT August Co., Ltd.
4.2 Date control was gained	JPT August Co., Ltd - 6/9/07
4.3 Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) since the date in the current period on which control was acquired	JPT August Co., Ltd – Loss of \$4.6 million.
4.3 Profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period	N/A
4.4 Name of entity (or group of entities) over which control was lost	N/A
4.5 Date control was lost	N/A
4.6 Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the current period to the date of loss of control	N/A
4.7 Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) while controlled during the whole of the previous corresponding period	N/A

5. Details of distributions

Refer to the attached financial statements Note 4 Distributions paid and payable and the Director's report.

6. Details of distribution reinvestment plan

The Trust has established a Distribution Reinvestment Plan (DRP), under which distributions may be reinvested in new Babcock & Brown Japan Property Trust fully paid units. Unitholders registered in the Trust's register, whose recorded address is in Australia or New Zealand, and who hold units on their own behalf or on behalf of another Australian or New Zealand resident, are eligible to participate in the DRP.

Babcock & Brown Japan Property Trust units issued under the December 2007 DRP will be issued at a discount of 2% from the daily volume weighted average market price traded on the ASX during the Pricing Period, as defined in the DRP Rules (for this distribution, the pricing period commences on 13 February 2008 and ends on 26 February 2008). Any change in the discount will be notified on the Babcock & Brown Japan Property Trust website (www.bbjapanpropertytrust.com).

7. Details of associates and joint venture entities

N/A

8. Accounting standards used by foreign entities

Refer to the attached financial statements Note 1 Basis of preparation of half year report.

9. Qualification of audit / review

N/A



BABCOCK & BROWN
JAPAN PROPERTY TRUST

AND ITS CONTROLLED ENTITIES

ARSN 112 799 854

Interim Financial Report
31 December 2007



Contents

Directors' report	1
Auditor's independence declaration	4
Consolidated income statement	5
Consolidated statement of changes in equity	6
Consolidated balance sheet	7
Consolidated statement of cash flows	8
Notes to the financial statements	9
1 Basis of preparation of half year report	9
2 Net financing costs	9
3 Net loss on derivatives	9
4 Distributions paid and payable	9
5 Investment properties	10
6 Interest bearing loans and borrowings	10
7 Contributed equity	11
8 Consolidated entities	12
9 Segment information	13
10 Contingent liabilities	14
11 Events occurring after the balance sheet date	15
Directors' declaration	16
Independent auditor's review report	17

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements during the interim reporting period.



Directors' report

The Directors of Babcock & Brown Japan Property Management Limited ("the Responsible Entity"), the Responsible Entity of Babcock & Brown Japan Property Trust ("the Trust"), present their report together with the financial report of the consolidated entity, being the Trust and its controlled entities, for the half year ended 31 December 2007 and the review report thereon.

Trust information

The Trust was established on 31 January 2005. The Responsible Entity for the Trust is Babcock & Brown Japan Property Management Limited. The Trust became a registered scheme under the Corporations Act 2001 on 17 February 2005 and was listed on the Australian Stock Exchange on 4 April 2005.

The Trust, registered and domiciled in Australia, is a registered managed investment scheme.

The life of the Trust is not limited by a term of years but may terminate on the occurrence of certain events such as the Trust being removed from listing by the Australian Stock Exchange.

The registered office and principal place of business of the Responsible Entity and the Trust is Level 23, Chifley Tower, 2 Chifley Square, Sydney NSW 2000.

The Responsible Entity had three employees at the end of the period, being the Non-Executive Directors.

Directors

The following persons were Directors of the Responsible Entity during the whole of the half-year and up to the date of this report:

Allan McDonald, *Independent Non-Executive Chairman*

Eric Lucas, *Managing Director*

Phil Green, *Director*

Paula Dwyer, *Independent Non-Executive Director*

John Pettigrew, *Independent Non-Executive Director*

Review of operations

The net profit attributable to unitholders for the half year ended 31 December 2007 was \$61,327,000 (Half year 31 December 2006 \$60,123,000).

In the six months to December 2007 the Trust acquired interests in eight properties (three retail, three office, and two residential) with a total purchase price of \$480,451,000. Six of the properties were acquired in September 2007 and the remaining two in December 2007. Capital sources of the Trust included an institutional placement in September 2007 for \$51,900,000 and drawdown of corporate debt facilities of \$91,500,000.

In December 2007, in accordance with the approval received from the Australian Securities and Investments Commission, the Trust commenced a buy-back of its units. As at 31 December 2007 999,700 units have been purchased for a total consideration of \$1,390,379. The maximum number of units permitted to be purchased under the ASIC approval is 49,309,622. The term of the buy-back period is 12 months and ends on 12 December 2008.



Directors' report

Review of operations (cont.)

Property portfolio and results

Portfolio occupancy (by area) remained stable at 98.1% (98.5% June 2007).

Net property income from interests in investment properties is set out below.

	Consolidated half year	
	31/12/07	31/12/06
	\$'000	\$'000
Number of properties at half year end	46	36
Retail	18,223	12,809
Office	15,941	14,297
Residential	1,432	1,072
	35,596	28,178
Associate	-	2,669
Total net property income from interests in investment properties	35,596	30,847

Fair value of investment properties

In accordance with the Trust's investment property accounting policy the Trust revised the fair value of 17 investment properties as at 31 December 2007. The table below summarises the carrying value pre and post the December 2007 revaluations.

	Carrying value pre revaluations ¥ billion	Carrying value post revaluations ¥ billion	Carrying value pre revaluations \$ million	Carrying value post revaluations \$ million
Investment properties - Trust	165.6	174.5	1,683.4	1,773.4

The fair value adjustments reflected in the financial report are summarised below.

	¥ billion	\$ million
<i>Fair value adjustments to investment properties</i>		
Change in fair value of investment properties – at acquisition	(1.2)	(12.6)
Change in fair value of investment properties – at 31 December 2007	8.9	90.0
	7.7	77.4



Directors' report

Review of operations (cont.)

Distributions

The Trust has declared a distribution of 6.33 cents per unit (\$33,130,000) for the half year ended 31 December 2007, which is in line with the distribution guidance provided at the time of the August 2007 placement. The estimated distribution payment date is 29 February 2008.

Auditor's independence declaration

The Trust's lead auditor has provided a written declaration under section 307C of the Corporations Act 2001 that to the best of his knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- The applicable Australian code of professional conduct in relation to the review.

The declaration is provided on page 4 and forms part of this Directors' report.

Rounding

The Trust is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and the Directors' report have been rounded to the nearest thousand dollars unless otherwise stated.

Dated at Sydney this 18th day of February 2008.

Signed in accordance with a resolution of the Directors:

F A McDonald
Director
Babcock and Brown Japan Property Management Limited

Auditor's Independence Declaration

As lead auditor for the review of Babcock & Brown Japan Property Trust for the half year ended 31 December 2007, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Babcock & Brown Japan Property Trust and the entities it controlled during the period.



AJ Wilson
Partner

Sydney
18 February 2008



Consolidated income statement
For the half year ended 31 December 2007

	Note	Half year	
		31/12/07 \$'000	31/12/06 \$'000
Revenue			
Property rental income		50,354	36,762
Financing income	2	773	851
		<u>51,127</u>	<u>37,613</u>
Other income			
Fair value adjustments to investment property	5	77,390	3,685
Share of net profit of associate		-	2,669
Net gain on derivatives	3	-	36,291
Gain on disposal of investment property		1,274	-
Net foreign exchange gain		3,143	-
Asset performance fee rebate		3,032	-
Other income		125	-
		<u>84,964</u>	<u>42,645</u>
Total revenue and other income		<u>136,091</u>	<u>80,258</u>
Expenses			
Property expense		(14,758)	(8,584)
Asset management fee		(15,365)	(2,704)
Financing costs	2	(8,807)	(4,542)
Net loss on derivatives	3	(16,202)	-
Net foreign exchange loss		-	(1,100)
Other operating expenses		(1,955)	(1,040)
Total expenses		<u>(57,087)</u>	<u>(17,970)</u>
Profit before tax		79,004	62,288
Income tax expense		<u>(16,672)</u>	<u>(2,128)</u>
Profit for the period		<u>62,332</u>	<u>60,160</u>
Profit is attributable to:			
Unitholders of Babcock & Brown Japan Property Trust		61,327	60,123
Minority interest		1,005	37
		<u>62,332</u>	<u>60,160</u>
Basic and diluted earnings per ordinary unit		11.98¢	12.67¢

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 9 to 15.



**Consolidated statement of changes in equity
For the half year ended 31 December 2007**

	Note	Half year	
		31/12/07 \$'000	31/12/06 \$'000
Total equity at the beginning of the half year		574,043	511,399
Foreign exchange translation differences		34,085	(55,967)
Fair value movements on hedge instruments, net of tax		(5,977)	(2,615)
Net income /(loss) recognised directly in equity		28,108	(58,582)
Profit for the half year		62,332	60,123
Distributions paid/payable to minority interest		(113)	-
Total recognised income and expense for the half year		90,327	1,541
Transactions with unitholders in their capacity as unitholders:			
Contributions of equity, net of transaction costs and tax		52,113	112,639
Distributions paid or provided for	4	(33,130)	(28,353)
		18,983	84,286
Total equity at the end of the half year		683,353	597,226

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 9 to 15.



Consolidated balance sheet
As at 31 December 2007

	Note	31/12/07 \$'000	30/06/07 \$'000
Current assets			
Cash and cash equivalents		133,138	82,524
Trade and other receivables		17,266	10,322
Derivative financial instruments		55,855	79,346
Non current asset held for sale – investment property	5	37,116	-
Other assets		348	967
Total current assets		<u>243,723</u>	<u>173,159</u>
Non-current assets			
Derivative financial instruments		367	2,990
Other financial assets		102	109
Investment properties	5	1,736,322	1,148,945
Deferred tax asset		6,501	906
Other assets		1,987	1,124
Total non-current assets		<u>1,745,279</u>	<u>1,154,074</u>
Total assets		<u>1,989,002</u>	<u>1,327,233</u>
Current liabilities			
Payables		26,272	18,059
Derivative financial instruments		1,283	-
Tenant deposits		47,111	32,984
Distribution payable	4	33,130	30,325
Interest bearing liabilities	6	112,796	-
Current tax liabilities		1,900	1,884
Total current liabilities		<u>222,492</u>	<u>83,252</u>
Non-current liabilities			
Payables		23,824	22,673
Derivative financial instruments		5,181	419
Tenant deposits		48,386	38,234
Interest bearing debt	6	966,119	587,547
Deferred tax liabilities		39,647	21,065
Total non-current liabilities		<u>1,083,157</u>	<u>669,938</u>
Total liabilities		<u>1,305,649</u>	<u>753,190</u>
Net assets		<u>683,353</u>	<u>574,043</u>
Equity Unitholders' funds			
Contributed equity	7	628,480	576,367
Reserves		(94,581)	(122,688)
Undistributed income		147,615	119,418
Unitholders' interest		681,514	573,097
Minority interest		1,839	946
Total equity		<u>683,353</u>	<u>574,043</u>

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 9 to 15.



Consolidated cash flow statement
For the half year ended 31 December 2007

	Note	Half year	
		31/12/07 \$'000	31/12/06 \$'000
Cash flows from operating activities			
Property rental income received		44,448	35,861
Property expenses paid		(15,530)	(8,241)
Trust net property income received		28,918	27,620
Cash receipts		4,902	782
Other non property expenses paid		(12,879)	(10,356)
Financing costs		(5,129)	(4,359)
Financing income		773	851
Japanese withholding tax paid		(2,221)	(1,229)
GST/consumption tax received		14,757	9,573
GST/consumption tax paid		(13,999)	(5,582)
Net cash inflows from operating activities		15,122	17,300
Cash from investing activities			
Capital expenditure		(1,102)	-
Acquisition of investment properties, including acquisition costs		(460,895)	(156,462)
Distributions received		-	1,720
Payments for investments in associates		14	-
Change in tenant deposits		155	1,133
Proceeds from the sale of investment property		8,686	-
Net cash outflows from investing activities		(453,142)	(153,609)
Cash from financing activities			
Proceeds from issue of units		52,728	114,454
Payment of transaction costs		(589)	(1,795)
Proceeds from borrowings		458,710	81,747
Repayment of borrowings		(4,221)	(13,066)
Distributions paid		(30,325)	(23,069)
Interest received on cross currency swaps		3,795	2,749
Net cash inflows from financing activities		480,098	161,020
Net increase in cash and cash equivalents		42,078	24,711
Cash and cash equivalents at the beginning of the half year		82,524	72,723
Effect on exchange rate fluctuations on cash held		8,536	(6,204)
Cash and cash equivalents at the end of the half year		133,138	91,230

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 9 to 15.



Notes to the financial statements
For the half year ended 31 December 2007

1 Basis of preparation of half year report

This general purpose financial report for the interim half year reporting period ended 31 December 2007 has been prepared in accordance with Accounting Standard AASB 134 *Interim financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The interim financial report was authorised for issue by the Directors of the Responsible Entity on 18 February 2008.

	Half year	
	31/12/07	31/12/06
2 Net financing costs	\$'000	\$'000
Financing income		
Interest income	773	796
Interest compensation – related party	-	55
	<u>773</u>	<u>851</u>
Financing costs		
Interest on borrowings	<u>8,807</u>	<u>4,542</u>
3 Net gain/(loss) on derivatives		
Net interest income on cross currency swaps	5,214	3,494
Net gain/(loss) on derivatives	(21,418)	32,797
	<u>(16,202)</u>	<u>36,291</u>
4 Distributions paid and payable		
Interim distribution payable at half year	<u>33,130</u>	<u>28,353</u>

Interim distribution for the period ended 31 December 2007 of 6.33 cents per unit (31 December 2006 – 5.75 cents per unit) is payable in February 2008.



Notes to the financial statements
For the half year ended 31 December 2007

5 Investment properties	31/12/07	30/06/07
	\$'000	\$'000
Investment properties at fair value	<u>1,773,438</u>	<u>1,148,945</u>
Reconciliation		
Reconciliation of the carrying amount of investment properties is set out below:		
Carrying amount at the beginning of the period	1,148,945	944,629
Acquisitions including acquisition costs	480,451	422,215
Transfer of non current asset held for sale	(37,116)	-
Capital expenditure	1,102	1,746
Disposals	(7,413)	(19,368)
Change in fair value of investment properties	77,390	20,626
Foreign currency translation differences	72,963	(220,903)
Carrying amount at the end of the period	<u>1,736,322</u>	<u>1,148,945</u>
Non current asset held for sale – investment property	37,116	-
Total investment properties at fair value	<u>1,773,438</u>	<u>1,148,945</u>

At 31 December 2007 an active programme of marketing the Sun building for sale was underway. By the end of January a Sale and Purchase Agreement had been entered into with an interested party to sell the property, which became unconditional on 6 February 2008. The proposed settlement date of this sale is 25 March 2008. As such, the carrying value of this property has been reclassified to a current asset in the Balance Sheet. Further detail is provided in Note 11 - Events occurring after the balance sheet date.

6 Interest bearing loans and borrowings

Current

Unsecured bank loans	91,500	-
Secured bank loans	21,296	-
	<u>112,796</u>	<u>-</u>

Non current

Secured bank loans	<u>966,119</u>	<u>587,547</u>
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Secured bank loans are denominated in Yen and are interest only with principal repayable at maturity. Unsecured bank loans are denominated in Australian dollars and are interest only with principal repayable at maturity.

The weighted average terms of the loans are 4.5 years, with a weighted average term to expiry of 3.5 years. Through the use of interest rate swaps, 57% of the loans are fixed at an average rate of 2.32% p.a.. The balance of 43% of the debt is at floating rates which is currently 1.97% p.a.



Notes to the financial statements
For the half year ended 31 December 2007

7 Contributed equity	31/12/07 \$'000	30/06/07 \$'000
523,379,099 Units on issue (2007 - 493,096,223)	<u>628,480</u>	<u>576,367</u>
Movements in contributed equity		
Balance at beginning of financial period	576,367	463,755
Units issued	54,119	114,454
On market buy back	(1,390)	
Transaction costs	(616)	(1,824)
Deferred tax recognised directly in equity	-	-
Transfer to / (from) undistributed income	-	-
Balance at end of financial period	<u>628,480</u>	<u>576,367</u>
	# of Units	# of Units
Movements in number of units		
Number at beginning of financial period	493,096,223	428,796,223
August 2006 institutional placement	-	64,300,000
Units issued 23/08/06		
August 2007 institutional placement	30,000,000	-
Units issued 3/09/07		
September/October 2007 Unit Purchase Plan	1,282,576	-
December 2007 Unit buy back	(999,700)	-
Number at end of financial period	<u>523,379,099</u>	<u>493,096,223</u>

Under the terms of the Trust's Constitution units are classified as equity. Issue costs are recognised as a reduction of the proceeds of issues.

In accordance with the Trust Constitution each ordinary unitholder is entitled to receive distributions as declared from time to time and is entitled to one vote per unit at unitholder meetings. In accordance with the Trust Constitution, each unit represents a 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 restricted Units on issue at the date of the Directors' report nor during the period.



Notes to the financial statements
For the half year ended 31 December 2007

8 Consolidated entities

	Country of incorporation	Ownership interest
Parent entity		
Babcock & Brown Japan Property Trust	Australia	

Significant investments

Tokumei Kumiais (TKs) established under the Tokumei Kumiai Agreements dated:

▪ 24 March 2005 with JPT Co., Ltd.	Japan	100%
▪ 29 November 2005 with JPT Scarlett Co., Ltd.	Japan	100%
▪ 28 August 2006 with JPT Direct Co., Ltd.	Japan	100%
▪ 29 September 2006 with JPT Corporate Co., Ltd.	Japan	100%
▪ 6 September 2007 with JPT August Co., Ltd.	Japan	100%

Babcock & Brown Japan Property Management Limited as responsible entity for the Trust (“Responsible Entity”) is a party to five separate Tokumei Kumiai Agreements with the respective TK Operators, pursuant to which, in exchange for the Trust’s contribution of all the equity required for the TK Businesses, the Trust is entitled to 100% of the investor capital account of the TK and 99% of the profits and losses of the TK Businesses.



Notes to the financial statements
For the half year ended 31 December 2007

9 Segment information

Primary reporting format – business segments

The following table presents revenue and profit information regarding business segments for the half year ended 31 December 2007.

Half year 31/12/07	Retail \$'000	Office \$'000	Residential \$'000	Corporate \$'000	Total Operations \$'000
Revenue					
Property rental income	25,005	23,515	1,834	-	50,354
Financing income	-	-	-	773	773
Total segment revenue	25,005	23,515	1,834	773	51,127
Fair value adjustments to investment property	17,934	62,708	(3,252)	-	77,390
Asset Management deficit fee	-	-	-	3,032	3,032
Gain on disposal of investment property	-	1,274	-	-	1,274
Other income	-	-	-	3,268	3,268
Total segment revenue and other income	42,939	87,498	(1,418)	7,198	136,091
Results					
Segment result	36,157	79,923	(1,820)	(35,256)	79,004
Profit before income tax and minority interest	36,157	79,923	(1,820)	(35,256)	79,004
Income tax expense	(5,932)	(10,590)	(150)	-	(16,672)
Profit for the period	30,225	69,333	(1,970)	(35,256)	62,332
Half year 31/12/06					
Revenue					
Property rental income	15,347	20,146	1,269	-	36,762
Financing income	-	-	-	851	851
Total segment revenue	15,347	20,146	1,269	851	37,613
Fair value adjustments to investment property	(7,496)	11,181	-	-	3,685
Share of net profits of associates	2,669	-	-	-	2,669
Other income	-	-	-	36,291	36,291
Total segment revenue and other income	10,520	31,327	1,269	37,142	80,258
Results					
Segment result	7,982	25,478	1,072	27,756	62,288
Profit before income tax and minority interest	7,982	25,478	1,072	27,756	62,288
Income tax expense	-	-	-	(2,128)	(2,128)
Profit for the period	7,982	25,478	1,072	25,628	60,160



Notes to the financial statements
For the half year ended 31 December 2007

10 Contingent liabilities

Contingent capital contributions

JPT Direct Co., Ltd.

The Responsible Entity is a party to a TK Agreement with JPT Direct Co., Ltd. ("JPTD"). Under the TK Agreement JPTD may request the Trust to contribute additional capital up to ¥2,500,000,000 (\$25,412,000 at 31/12/07 JPY/AUD exchange rate of 98.38) ("Additional Capital Contribution") in the event that JPTD has not met its monetary obligations under certain Transaction Documents. The Transaction Documents include the ISDA master agreement (the "ISDA Agreement") between JPTD and Deutsche Bank AG ("DBAG").

No liability was recognised by the Trust in relation to the Additional Capital Contribution as the fair value of the Additional Capital Contribution is nil.

JPTD entered into a pledge agreement under which it granted a pledge over its rights to call for the Additional Capital Contribution in favour of DBAG as security for its obligations under the ISDA Agreement. Following the enforcement of such security, DBAG will be able to call for payment of the Additional Capital Contribution to the extent required to satisfy and discharge JPTD's obligations under the ISDA Agreement. The Responsible Entity has consented to such security being granted.

At 31 December 2007 JPTD had met all its monetary obligations under the ISDA Agreement.

JPT Endeavour Co., Ltd.

On 28 September 2007, the Responsible Entity entered into a TK agreement with JPT Endeavour Co., Ltd. ("JPTE"). Under the TK agreement JPTE may require the Trust to contribute capital up to the Japanese Yen equivalent of A\$250 million ("Capital Commitment"). The Trust will be obligated to make capital contributions on demand by JPTE up to the amount of the Capital Commitment until the earlier of the date on which JPTE is exempted from the requirements of an investment manager license under the Financial Instruments and Exchange Law, or 31 October 2008.

In the opinion of the Directors of the Responsible Entity there were no other contingent assets or liabilities at balance date.



Notes to the financial statements
For the half year ended 31 December 2007

11 Events occurring after the balance sheet date

Unit buy back

On signing of this financial report, the Trust had purchased an additional 10,075,337 units since reporting date for a total consideration of \$12,347,312 under the buy back program announced on 22 November 2007. This represents approximately 2.0% of the total number of units on issue at reporting date. Under the ASIC approval for the buy back program, the Trust may purchase an additional 38,234,585 units to 20 November 2008.

Property disposals

On 28 January 2008 a Sale and Purchase Agreement (“SPA”) was entered to sell the Sun property for a sale price of \$63.4 million (¥6.2 billion). The carrying value at 31 December 2007 was \$37.1 million (¥3.7 billion). The SPA became unconditional on 6 February with an expected closing date of 25 March 2008. On closing, debt of \$21.3 million (¥2.1 billion) will be repaid in accordance with the loan agreement. The carrying value of the property and the debt to be repaid have been reclassified as a current asset and liability respectively on the Balance Sheet at 31 December 2007.

Subsequent to balance date on 12 February 2008 a Sale and Purchase Agreement (“SPA”) was entered into to sell the property for a sale price of \$54.3 million (¥5.3 billion) with an expected close on of 7 March 2008. The carrying value at 31 December 2007 was \$39.9 million (¥3.9 billion).



Directors' declaration

1. In the opinion of the Directors of Babcock & Brown Japan Property Management Limited, the Responsible Entity of Babcock & Brown Japan Property Trust:
 - (a) the financial statements and notes, set out on pages 5 to 15, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Trust as at 31 December 2007 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half year ended 31 December 2007; and
 - (ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; 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.

Dated at Sydney this 18th day of February 2008.

Signed in accordance with a resolution of the Directors:

F A McDonald
Director
Babcock and Brown Japan Property Management Limited

INDEPENDENT AUDITOR'S REVIEW REPORT
to the unitholders of Babcock & Brown Japan Property Trust

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Report on the Half-Year Financial Report

We have reviewed the accompanying half-year consolidated financial report of Babcock & Brown Japan Property Trust for the half-year ended 31 December 2007, which comprises the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for Babcock & Brown Japan Property Trust Group (the consolidated entity). The consolidated entity comprises both Babcock & Brown Japan Property Trust and the entities it controlled during the half year.

Directors' Responsibility for the Half-Year Financial Report

The directors of Babcock & Brown Japan Property Management Limited are responsible for the preparation and fair presentation of the half-year 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 control relevant to the preparation and fair presentation of the half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Babcock & Brown Japan Property Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of Babcock & Brown Japan Property Trust for the half-year ended 31 December 2007 included on Babcock & Brown Japan Property Trust's web site. Babcock & Brown Japan Property Management Limited's directors are responsible for the integrity of Babcock & Brown Japan Property Trust's web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Babcock & Brown Japan Property Trust is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and Corporations Regulations 2001*.


PricewaterhouseCoopers



AJ Wilson
Partner

Sydney
18 February 2008