

**Stockland Direct Retail Trust No. 1
and its controlled entities**

ARSN: 121 832 086

**Consolidated Interim Financial Report
for the half year ended
31 December 2006**

Registered office:

157 Liverpool Street
Sydney NSW 2000

Stockland Direct Retail Trust No. 1 and its controlled entities

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Stockland Direct Retail Trust No. 1 and its controlled entities

Directors' Report

For the half year ended 31 December 2006

The Directors of Stockland Funds Management Limited ("SFML"), the Responsible Entity of Stockland Direct Retail Trust No. 1 ("the Trust"), present their report together with the consolidated interim Financial Report made in accordance with a resolution of the Directors with respect to the results of the Trust and its controlled entities ("the consolidated entity") for the half year ended 31 December 2006, the state of the consolidated entity's affairs as at 31 December 2006 and the related Independent Auditor's Review Report.

SFML was appointed as Responsible Entity at the date the Trust commenced on 26 April 2006. On 4 October 2006, the Trust was registered as a managed investment scheme with ASIC and SFML was appointed as the Responsible Entity.

Directors

The Directors of the Responsible Entity at any time during or since the end of the half year ("the Directors") are:

Name	Date of appointment
Non - executive Directors	
Peter Scott, <i>Chairman</i>	Appointed 22 November 2005
Lyn Gearing	Appointed 22 November 2005
David Kent	Appointed 9 August 2004
Tony Sherlock	Appointed 9 August 2004
Terry Williamson	Appointed 2 July 2004
Executive Director	
Matthew Quinn	Appointed 19 October 2000

Principal activities

The principal activity of the consolidated entity is the investment in a portfolio of neighbourhood shopping centres located in New South Wales, Western Australia and Queensland.

Review of operations

During the half year, SFML issued a Product Disclosure Statement ("PDS") on 16 October 2006 offering 39,600,000 units in the Trust at an application price of \$1.00 per unit to be issued by SFML as Responsible Entity of the Trust. The offer opened on 16 October 2006 and closed on 20 December 2006. The units were fully paid allotted on 15 December 2006 and 20 December 2006.

The consolidated entity achieved a loss attributable to unitholders of \$709,000 for the half year ended 31 December 2006. Losses are due to the fair value adjustments for costs associated with acquisition of the investment properties as disclosed in Section 6.2 of the PDS.

No distributions were paid or declared by the consolidated entity to unitholders during the half year ended 31 December 2006. Directors expect the distribution forecasts as disclosed in the PDS will be met.

Stockland Direct Retail Trust No. 1 and its controlled entities

Directors' Report

For the half year ended 31 December 2006

Comparatives

Comparatives have not been provided in the consolidated interim Income Statement, Balance Sheet, Statement of Changes in Equity or the Cash Flow Statement, as a financial report was not previously required to be produced.

Rounding

Amounts in the interim Financial Report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:



Matthew Quinn

Director

Dated at Sydney, 15 February 2007

Stockland Direct Retail Trust No. 1 and its controlled entities
Consolidated Interim Income Statement
For the half year ended 31 December 2006

	Note	Consolidated 1 July to 31 Dec 2006 \$'000
Revenue and other income		
Rent from investment properties		157
Interest income		-
Total revenue and other income		<u>157</u>
Investment property expenses		
Investment property expenses		(30)
Finance costs to external parties		(85)
Net loss from fair value adjustment of investment properties ¹		(709)
Responsible Entity fees	9	(10)
Other expenses		(32)
Total expenses		<u>(866)</u>
Loss for the half year attributable to unitholders		<u>(709)</u>

¹ This includes a \$1.0m gain from a fair value adjustment associated with the Tamworth Homespace investment property. Under AASB 140 "Investment Property" if payment for the property is deferred, the initial cost is deemed to be the present value of the consideration payable, being \$20.15m. However the fair value accounting policy requires the property to be recorded at the independent valuation amount of \$21.15m at 31 December 2006. This difference of \$1.0m has therefore be recorded as a fair value gain. During the twelve months to 31 December 2007, when the deferred consideration being the exercise price of the put and call option is payable, a \$1.0m interest expense will be recognised as the discount unwinds. Accordingly, the overall net profit effect by 31 December 2007 will be nil. Refer Note 4 for further information relating to the Tamworth property.

The above Income Statement should be read in conjunction with the accompanying notes.

Stockland Direct Retail Trust No. 1 and its controlled entities

Consolidated Interim Balance Sheet

As at 31 December 2006

	Notes	Consolidated 31 Dec 2006 \$'000
Current assets		
Cash and cash equivalents		5,318
Trade and other receivables		414
Other assets		1,805
Total current assets		<u>7,537</u>
Non-current assets		
Investment properties	4	61,708
Property, plant and equipment	5	10,050
Other assets		292
Total non-current assets		<u>72,050</u>
Total assets		<u>79,587</u>
Current liabilities		
Trade and other payables		103
Other liabilities	6	17,369
Total current liabilities		<u>17,472</u>
Non-current liabilities		
Interest-bearing loans and borrowings	7	27,759
Other liabilities		44
Total non-current liabilities		<u>27,803</u>
Total liabilities		<u>45,275</u>
Net assets		<u>34,312</u>
Unitholders' funds		
Issued capital	8	35,065
Undistributed loss		(709)
Reserve		(44)
Total unitholders' funds		<u>34,312</u>

The above Balance Sheet should be read in conjunction with the accompanying notes.

Stockland Direct Retail Trust No. 1 and its controlled entities
Consolidated Interim Statement of Changes in Equity
For the half year ended 31 December 2006

	Note	Issued capital	Unitholders funds		Total
		31 Dec 2006 \$'000	Undistributed loss	Reserves	31 Dec 2006 \$'000
Opening balance		-	-	-	-
Units issued for the half year	8	35,065	-	-	35,065
Net loss for the half year		-	(709)	-	(709)
Effective portion of changes in fair value of cash flow hedges		-	-	(44)	(44)
Closing balance		35,065	(709)	(44)	34,312

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

Stockland Direct Retail Trust No. 1 and its controlled entities

Consolidated Interim Cash Flow Statement

For the half year ended 31 December 2006

Consolidated
1 July
to 31 Dec 2006
\$'000

Cash flows from operating activities	
Cash receipts in the course of operations	-
Cash payments in the course of operations	(1,335)
Interest received	-
Interest paid	-
Net cash flows from operating activities	(1,335)
Cash flows from investing activities	
Payment for investment properties	(56,171)
Net cash flows from investing activities	(56,171)
Cash flows from financing activities	
Proceeds from external party financing	28,295
Borrowing costs paid	(536)
Proceeds from issue of units to unitholders	39,600
Payment of establishment fee	(4,535)
Net cash flows from financing activities	62,824
Net increase in cash and cash equivalents	5,318
Cash and cash equivalents at the beginning of the half year	-
Cash and cash equivalents at the end of the half year	5,318

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2006

1 Summary of significant accounting policies

Stockland Direct Retail Trust No. 1 (“the Trust”) is a Managed Investment Scheme domiciled in Australia. The consolidated interim Financial Report of the Trust comprises the Trust and its controlled entities (“the consolidated entity”).

The consolidated interim Financial Report as at and for the half year ended 31 December 2006 was authorised for issue by the Directors of the Responsible Entity on 15 February 2007.

The significant policies which have been adopted in the preparation of this consolidated interim Financial Report are:

(a) Statement of compliance

The consolidated interim Financial Report is a special purpose Financial Report which has been prepared in accordance with Australian Accounting Standards (“AASBs”) adopted by the Australian Accounting Standards Board (“AASB”).

This consolidated interim Financial Report is the Trust’s first interim financial report to be prepared. The consolidated interim Financial Report does not include all of the information required for a full annual Financial Report.

(b) Basis of preparation

The consolidated interim Financial Report is presented in Australian dollars.

The consolidated interim Financial Report has been prepared on the basis of the going concern and historical cost basis except for derivative financial instruments and investment properties which are stated at their fair value.

Amounts in the consolidated interim Financial Report have been rounded to the nearest thousand dollars, unless otherwise stated.

The preparation of a interim Financial Report in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are based on various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The accounting policies set out below have been applied consistently to the half year presented in this consolidated interim Financial Report.

(c) Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable net of the amount of goods and services tax (“GST”) levied.

Rent from investment properties

Rent from investment properties is recognised in the Income Statement on a straight-line basis over the lease term. Rent not received at balance date is reflected in the Balance Sheet as a receivable or if paid in advance, as rents in advance. Lease incentives granted are recognised over the lease term, on a straight-line basis, as a reduction of rent.

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2006

1 Summary of significant accounting policies (continued)

(c) Revenue recognition (continued)

Interest income

Interest income is recognised in the Income Statement as it accrues using the effective interest method and if not received at balance date, is reflected in the Balance Sheet as a receivable.

(d) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(f) Income tax

Under current Australian income tax legislation, the consolidated entity is not liable for income tax, provided that the taxable income (including any assessable component of any capital gains from the sale of investment assets) is fully distributed to unitholders each year. Tax allowances for building, plant and equipment depreciation are distributed to unitholders in the form of tax deferred components of distributions.

(g) Derivative financial instruments

The consolidated entity uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with the Responsible Entity's policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at cost and subsequently are stated at fair value. The gain or loss on re-measurement to fair value is recognised in the Income Statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. Refer Note 1 (h).

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2006

1 Summary of significant accounting policies (continued)

(h) Hedging

The Responsible Entity documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Responsible Entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is attributable to a particular risk and could affect the Income Statement.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or highly probable forecast transaction that could affect the Income Statement.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated in equity are recognised in the Income Statement in the periods when the hedged item is recognised in the Income Statement. When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously in equity are transferred into the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is recognised immediately in the Income Statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments may not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

(i) Finance costs

Finance costs to external parties

Finance costs to external parties include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with the arrangement of loans and borrowings.

Where interest rates are hedged, the finance costs are recognised net of any realised effect of the hedge.

Finance costs to external parties are recognised as an expense in the Income Statement on an accruals basis, and if not paid at balance date are reflected in the Balance Sheet as a liability.

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2006

1 Summary of significant accounting policies (continued)

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and at call deposits. Bank overdrafts that are repayable on demand and form part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement.

(k) Impairment of assets

The carrying amounts of the consolidated entity's assets are reviewed at each balance date, to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess impairment losses recognised through the Income Statement.

Calculation of recoverable amount

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

(l) Other payables

Other payables are stated at cost.

(m) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the borrowings on an effective interest basis unless there is an effective fair value hedge of the borrowings, then the borrowings are carried at fair value.

(n) Provisions

A provision is recognised when a present legal or constructive obligation exists as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2006

1 Summary of significant accounting policies (continued)

(n) Provisions (continued)

If the effect is material, provisions are determined by discounting the expected future cash flows at the rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Distributions to unitholders

A provision for distributions payable to unitholders is recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the Directors on or before the end of the financial period, but not distributed at balance date.

Performance Fee

The performance fee will be recognised in the Income Statement on an accrual basis. The performance fee is calculated in accordance with the Constitution based on the value of the Trust's property interest at the current balance date, discounted to reflect the projected life of the Trust and inherent market risks. The performance fee recognised will continue to be remeasured at each reporting date to reflect movements in the Trust's performance during the period. Any revision to the performance fee will be adjusted through the Income Statement in the current financial period.

(o) Basis of consolidation

This consolidated interim Financial Report has been prepared based upon a business combination of the Trust and its controlled entities.

Controlled entities are entities controlled by the Trust. Control exists when the Trust has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of controlled entities are included in the consolidated interim Financial Report from the date that control commences until the date that control ceases.

Unrealised gains and losses and inter-entity balances resulting from transactions with or between entities are eliminated in full.

(p) Investments

Controlled entities

Investments in controlled entities are carried at their cost of acquisition in the Trust's Financial Statements.

(q) Property, plant and equipment

Owned Assets

Property under construction or development for future use as investment property (but which does not yet qualify as investment property) is classified as property, plant and equipment and stated at cost until construction or development is complete and the property is able to be leased, at which time it is reclassified as investment property. Property under construction or development for future sale is classified as inventory and stated at the lower of cost or net realisable value. The construction or development of a self-constructed investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2006

1 Summary of significant accounting policies (continued)

(r) Investment properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of producing rental income, capital appreciation, or both.

Investment properties are initially recognised at cost including any acquisition costs. Investment properties are subsequently stated at fair value at each balance date with any gain or loss arising from a change in fair value recognised in the Income Statement in the period.

Where a property is undergoing redevelopment, it is carried at fair value. Where property does not qualify as investment property but is to be redeveloped into investment property it is treated as property, plant and equipment and carried at cost until completion and then transferred to investment property at fair value.

Lease incentives provided by the consolidated entity to lessees, and rental guarantees which may be received by the consolidated entity from third parties (arising from the acquisition of investment properties) are included in the measurement of fair value of investment property and are treated as separate assets. Such assets are amortised over the respective periods to which the lease incentives and rental guarantees apply, either using a straight-line basis, or a basis which is more representative of the pattern of benefits.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the consolidated entity holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Fair Value

When assessing fair value, the Directors of the Responsible Entity will consider the discounted cash flow of the investment property, the highest and best use of the investment property and sales of similar properties.

Fair value is based on the price at which a property might reasonably be expected to be sold at the date of valuation, assuming:

- (i) a willing, but not anxious, buyer and seller on an arm's length basis;
- (ii) a reasonable period in which to negotiate the sale, having regard to the nature and situation of the investment property and the state of the market for property of the same kind;
- (iii) that the investment property will be reasonably exposed to that market;
- (iv) that no account is taken of the value or other advantage or benefit to the buyer, additional to market value, that is incidental to ownership of the investment property being valued; and
- (v) that it only takes into account instructions given by the Trust and is based on all the information that the valuer needs for the purposes of the valuation being made available by, or on behalf of the Trust.

In addition, the Responsible Entity is required to ensure that independent valuations are performed at regular intervals appropriate to the nature of the investment property. These valuations are considered by the Directors when determining fair value.

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2006

1 Summary of significant accounting policies (continued)

(r) Investment properties (continued)

Subsequent costs

The consolidated entity recognises in the carrying amount of an investment property the cost of replacing part of that investment property when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost can be measured reliably. All other costs are recognised in the Income Statement as an expense as incurred.

Disposal of revalued assets

The gain or loss on disposal of revalued assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal and is included in the Income Statement in the year of disposal.

2 Accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Responsible Entity makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results exactly. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next twelve months are discussed below.

(a) Key sources of estimation uncertainty

Estimates of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar investment properties, leases and other contracts. Where such information is not available, the consolidated entity determines the property's fair value within a range of reasonable fair value estimates. In making its judgement, the consolidated entity considers information from a variety of sources including:

- i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices;
- iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the term of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows; and
- iv) capitalised income projections based upon a property's estimated net market income, which is assumed to be a level annuity in perpetuity, and a capitalisation rate derived from analysis of market evidence. Reversions associated with short term leasing risks/costs, incentives and capital expenditure may be deducted from the capitalised net income figure.

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2006

2 Accounting estimates and assumptions (continued)

(a) Key sources of estimation uncertainty (continued)

Assumptions underlying management's estimates of fair value

The discounted cash flow approach applied for investment properties usually includes assumptions in relation to current and recent investment property prices. 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.

The principal assumptions underlying the Responsible Entity's estimation of fair value are those related to the receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements, and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the consolidated entity and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

Estimates of performance fee expense

A performance fee is payable if certain out performance is achieved by the Trust. The fee is calculated on the lesser of the net increase on the calculation date calculated on a cumulative basis and 2.5% of the Gross value of the property.

The Trust determines the value of the performance fee to be expensed based on the current property valuation and estimates regarding the likely sales proceeds on disposal of the Trust's property.

The best evidence of the likely sales proceeds is the fair value of the property. Current prices in an active market for similar investment properties, leases and other contracts are the best indicator of fair value. Where such information is not available, the Trust determines the property's fair value within a range of reasonable fair value estimates. In making its judgement, the Trust considers information from a variety of sources including:

- i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices;
- iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the term of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows; and
- iv) capitalised income projections based upon a property's estimated net market income, which is assumed to be a level annuity in perpetuity, and a capitalisation rate derived from analysis of market evidence. Reversions associated with short term leasing risks/costs, incentives and capital expenditure may be deducted from the capitalised net income figure.

An estimate of the performance fee expense is then made factoring in the current fair value of the Trust's property and expectations regarding future property market volatility.

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2006

2 Accounting estimates and assumptions (continued)

(a) Key sources of estimation uncertainty (continued)

Assumptions underlying management's estimates of performance fee expense

The discounted cash flow approach applied for determining the fair value of the property usually includes assumptions in relation to current and recent investment property prices. 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.

The principal assumptions underlying the Responsible Entity's estimation of fair value are those related to the receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements, and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Trust and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

It is assumed payment of the performance fee will occur in accordance with the Constitution and the projected life of the Trust.

The Trust has then applied an appropriate discount rate to reflect the projected life of the fund.

3 Segment reporting

The Trust and its consolidated entities operate solely in the business of investment management in Australia.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2006

4 Non-current assets – Investment properties

Description	Title	Acquisition date	Original purchase price ¹ \$'000	Cost including additions \$'000	Independent Valuation date	Independent Valuation \$'000	Book value 31 Dec 2006 \$'000
Pacific Pines Shopping Centre, Pacific Pines, Qld ^{2,3}	Freehold	22 December 2006	17,041	17,041	July 2006	16,400	16,400
Benowa Gardens Shopping Centre, Benowa, Qld ^{2,3}	Freehold	22 December 2006	26,251	26,251	July 2006	25,200	25,200
Tamworth Homespace, Tamworth, NSW ⁴	-	22 December 2006	20,167	20,167	August 2006	21,150	21,150
Total Investment Properties (including amounts classified in Trade and other receivables and Other assets)							62,750
Less amounts classified as:							
- Trade and other receivables							(266)
- Other assets							(776)
Total Investment Properties							61,708

¹ The original purchase price includes acquisition costs incurred by the Trust.

² Date of latest valuation preceding acquisition by the Trust.

³ The investment properties include a write-down to their fair value on acquisition as disclosed in Section 6.2 of the Product Disclosure Statement ("PDS").

⁴ As disclosed in Section 12.4 of the PDS, a put and call option has been issued over the property and must be exercised by December 2007. Upon exercise of the option by either party, freehold title will transfer to the Trust. (Refer Note 9).

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2006

5 Non-current assets – Property, plant and equipment

	Consolidated 31 Dec 2006 \$'000
Cost	
Balance at 1 July 2006	-
Acquisitions	<u>10,050</u>
Balance at 31 December 2006	<u>10,050</u>
Depreciation and impairment losses	
Balance at 1 July 2006	-
Depreciation charge for the half year	<u>-</u>
Balance at 31 December 2006	<u>-</u>
Carrying Amounts	
At 1 July 2006	-
At 31 December 2006	<u>10,050</u>

This balance represents costs incurred to date on the Fremantle shopping centre development. During the development phase, the property is required to be accounted for as property, plant and equipment. Upon completion, which is expected mid-July 2007, the property will be transferred to investment properties.

The capital expenditure yet to be incurred on the Fremantle shopping centre development is disclosed in Note 10.

6 Current liabilities – Other liabilities

Deferred consideration	<u>17,369</u>
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The Trust has entered into a deed of agreement with Stockland Holding Trust No 1 (“SHT 1”) to acquire the Tamworth property. The agreement requires the parties to enter into a put and call option and a concurrent lease over the property. The option must be exercised by December 2007.

The deferred consideration relates to the final payment for the Tamworth property upon exercise of the option. Refer Note 9.

7 Non-current liabilities – Interest-bearing loans and borrowings

Loan facility	28,295
Capitalised borrowing costs	<u>(536)</u>
	<u>27,759</u>

The controlled entity has a \$60,000,000 loan facility agreement with National Australia Bank (NAB). As at 31 December 2006, \$28,295,000 has been drawn. The weighted average interest rate on the loan facility is 6.45% p.a. The facility matures on 22 December 2009 and may be extended for a further twelve months on an ongoing basis.

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2006

7 Non-current liabilities – Interest-bearing loans and borrowings (continued)

NAB has provided a debt facility to SDRT No. 1 which is secured by a limited registered first mortgage over the properties to \$1,000,000, a fixed and floating charge over all assets of the Trust and a first-ranking mortgage over the units in the controlled entities.

The Responsible Entity, on behalf of the controlled entity, has entered into an interest rate swap contract to manage cash flow risks associated with the interest rates on borrowings that are floating. The interest rate swap allows the Trust to swap the floating rate borrowing into a fixed rate. The Trust does not hold derivative financial instruments for speculative purposes.

The interest rate swap will incur a fixed cost equal to 6.45% payable quarterly in arrears and will terminate on the earlier of 7 years or when the underlying debt becomes due and payable. The swap in place covers 100% of the loan facility outstanding.

8 Issued capital

	31 Dec 2006 Number of units	Consolidated 31 Dec 2006 \$'000
Units on issue	39,600,010	35,065

Date	Details	Number of units	Price per unit	\$'000
Movement in units				
1 July 2006	Opening balance	10	\$1.00	-
15 December 2006	Units Issued	12,671,000	\$1.00	12,671
20 December 2006	Units Issued	26,929,000	\$1.00	26,929
20 December 2006	Transaction costs	-		(4,535)
31 December 2006	Balance	39,600,010		35,065

Rights and restrictions over units:

Each unit ranks equally with all other units for the purpose of distributions and on termination of the Trust.

9 Related parties

Stockland Funds Management Limited ("SFML") is the Responsible Entity of the Trust. The Key Management Personnel of the Trust has been defined as the Responsible Entity. The Responsible Entity does not hold any units in the Trust.

Responsible Entity fees and other transactions	1 July to 31 Dec 2006 \$'000
<i>Trust establishment fee</i>	

Trust establishment fee

The Responsible Entity received a gross establishment fee for facilitating the issue of units under the offer including undertaking the property due diligence and for establishing the Trust calculated as 4.8175% of the value of the Trust's property interest. Of this fee, the Responsible Entity paid NAB \$2,059,000 plus GST for underwriting and distribution services.

4,161

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2006

9 Related parties (continued)

1 July to
31 Dec 2006
\$'000

Responsible Entity fees and other transactions (continued)

Responsible Entity fees

The Responsible Entity is entitled to a deferred Responsible Entity fee of 0.46125% p.a. of the gross value of the assets on a quarterly basis. The Responsible Entity intends to defer 35% of the Responsible Entity fees per annum as disclosed in the PDS.

10

Performance fees

The Responsible Entity is entitled to a performance fee if unitholders receive at least the return of their Application Monies or the relevant proportion of their Application Monies if all Properties are not sold. The Responsible Entity is entitled to a 2.5% performance fee on the gross value of the property or properties as disclosed in the audited balance sheet at each reporting date or realised on a sale of the property or properties during the period. The Trust has not provided for a performance fee at 31 December 2006 as the Trust only commenced operations in December.

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Trust operating expenses

The Responsible Entity will charge for reimbursable costs and expenses estimated to be approximately 0.19% p.a. on average of the gross asset value of the Trust.

-

Services fee

A services fee equal to the Responsible Entity's reasonable estimate of its costs in providing its services is payable by the Trust.

353

Total Responsible Entity fees and other transactions

4,524

Other related party transactions

Product disclosure statement issue

During the half year, SFML issued a PDS on 16 October 2006 offering 39,600,000 units in the Trust at an application price of \$1.00 per unit to be issued by SFML as Responsible Entity of the Trust. The offer opened on 16 October 2006 and closed on 20 December 2006. The units were allotted on 15 December 2006 and 20 December 2006.

Property Management Fee

Stockland Property Management Pty Limited has been appointed as the property manager to undertake the ongoing property management and leasing of the Properties. A fee of \$8,219 was paid to the property manager during the half year.

Limited Liquidity Facility ("LLF")

As detailed in the PDS for the Trust, NAB has agreed to acquire up to 1,000,000 Units in the Trust per quarter less a 2.5% discount to NTA, any transfer costs and a \$110 processing fee per unit, from Investors seeking to realise their units. Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, has placed a standing order with NAB to acquire a maximum of 19.9% of the Units NAB acquires under the LLF. The facility will commence operation in the quarter beginning 1 January 2008. This standing order from STML can be terminated at any time. During the half year STML, as Responsible Entity of Stockland Trust, acquired no units in the Trust via the LLF.

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2006

9 Related parties (continued)

Other related party transactions (continued)

Units held by Stockland Trust

As at 31 December 2006, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, does not hold any units in the Trust.

Stockland Trust

Stockland Trust received a swap premium of \$200,000 for the provision of the interest rate swap to the Trust. The interest rate swap will incur a fixed cost equal to 6.45% payable quarterly in arrears and will terminate on the earlier of 7 years or when the underlying debt becomes due and payable.

Deed of Agreement

As detailed in Section 12.4 of the PDS, the Trust has entered into a deed of agreement with SHT 1 to acquire the Tamworth property. The agreement required the parties to enter into a put and call option and a concurrent lease over the property. The agreement also contemplates the stapling of SHT 1 to the Trust. This is proposed to occur in December 2007.

SHT 1 has granted a call option to the Trust for the purchase of the Tamworth property and the Trust has granted a put option to SHT 1 for the sale of Tamworth. The fixed purchase price of \$21.15 million comprises an option fee of \$2.73 million and the exercise price of \$18.42 million. The options must be exercised by December 2007, unless an alternative transaction is entered into.

SHT 1 has granted a concurrent lease to the Trust until December 2007. This transfers all economic benefits and risks of the property to the Trust. At the end of the lease term, the Trust will have a right to continue the lease for a month at a time until March 2008. A 2 year rental guarantee on all vacancies has been provided to the Trust on allotment of the Capital.

Stockland Corporation

As detailed in the PDS SDRT 1 has entered into two lease agreements with Stockland Corporation Limited (Stockland Corporation) as a part of the Pacific Pines shopping centre sales agreement. The leases are based on standard commercial terms and are entered into on an arms length basis.

Further, as detailed in the PDS there is potential exposure that Queensland stamp duty may be payable on the Issue of Units. Stockland Corporation has provided a Deed of Indemnity that will indemnify Investors from any potential stamp duty expense in Queensland on the Issue of Units.

10 Commitments

The consolidated entity has a commitment of \$14,107,000 in relation to the development of the Fremantle property which is payable upon the satisfaction of agreed milestones. Completion of the property is anticipated for mid-July 2007.

11 Other Information

Life of the Trust

The Trust terminates on the earliest of:

- a) the date specified by the Responsible Entity as the date of termination of the Trust in a notice given to unitholders;
- b) the date of Delisting;
- c) a date which has been proposed to unitholders by the Responsible Entity, and which the unitholders have approved by Special Resolution; and
- d) the date on which the Trust terminates in accordance with the provisions of the Trust Constitution or by law.

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2006

12 Contingent liabilities and contingent assets

As at 31 December 2006 the consolidated entity has no contingent liabilities and no contingent assets.

13 Events subsequent to balance date

There have been no events subsequent to balance date which would have a material effect on the consolidated entity's interim Financial Statements as at 31 December 2006.

Stockland Direct Retail Trust No. 1 and its controlled entities

Directors' Declaration

In the opinion of the Directors of Stockland Funds Management Limited, the Responsible Entity of Stockland Direct Retail Trust No 1 and its controlled entities:

1. the Financial Statements and Notes set out on pages 4 to 22 reflect the following:
 - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2006 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and
 - (b) complying with Australian Accounting Standards.
2. At the date of this declaration there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.
3. The Trust has operated during the half year ended 31 December 2006 in accordance with the provisions of the Trust Constitution dated 26 April 2006.
4. The Register of Unitholders has, during the half year ended 31 December 2006, been properly drawn up and maintained so as to give a true account of the Unitholders of the Trust.

Signed in accordance with a resolution of the Directors:



Matthew Quinn
Director

Dated at Sydney, 15 February 2007



Independent Auditor's Review Report to the unitholders of Stockland Direct Retail Trust No. 1 and its controlled entities

We have reviewed the accompanying consolidated interim financial report of Stockland Direct Retail Trust No. 1 and its controlled entities ("the Trust"), which comprises the consolidated interim balance sheet as at 31 December 2006, income statement, statement of changes in equity and cash flow statement for the half year ended on that date, accompanying notes 1 to 13 and the directors' declaration set out on page 23.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity of the Trust are responsible for the preparation and fair presentation of the consolidated interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the interim 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 consolidated interim financial report based on our review. We conducted our review in accordance with the 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 consolidated interim financial report is not free of material misstatement including: fairly presenting the Trust's financial position as at 31 December 2006 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting*. As auditor of the Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. 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.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the consolidated interim financial report of Stockland Direct Retail Trust No. 1 does not:

- (a) present fairly the Trust's financial position as at 31 December 2006 and its performance for the half year ended on that date; and
- (b) comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

KPMG

Scott Fleming
Partner

Sydney, 15 February 2007