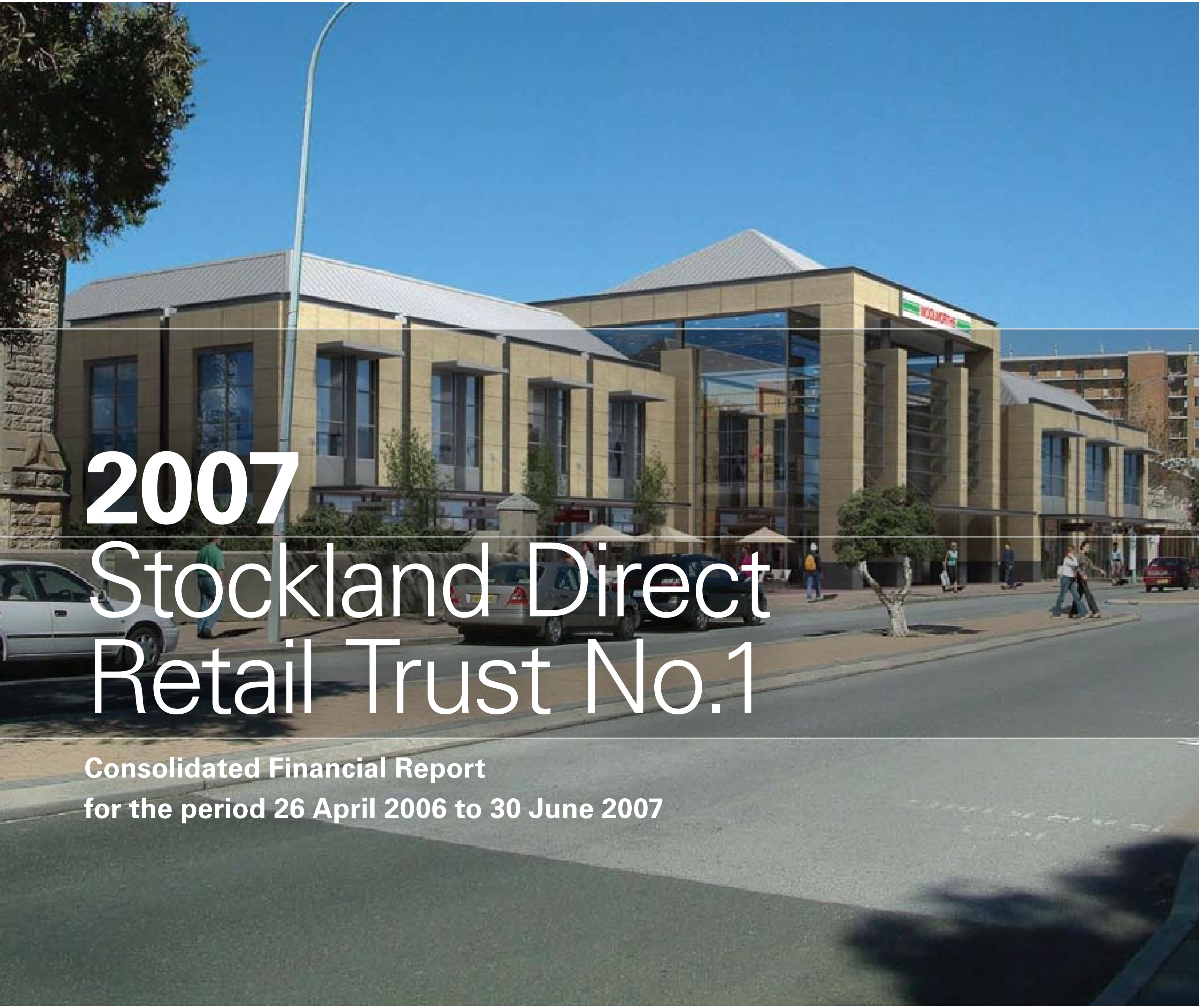


2007 Stockland Direct Retail Trust No.1

Consolidated Financial Report
for the period 26 April 2006 to 30 June 2007

Stockland
DIRECT

Stockland Direct Office Retail No.1

Contents

Directors' report—
—for the period ended 30 June 2007

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 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 period ended 26 April 2006 to 30 June 2007, the state of the consolidated entity's affairs as at 30 June 2007 and the related Independent Auditor's 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.

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

Peter Scott
Chairman (Non-Executive)
Appointed 22 November 2005
Mr Scott is a director of Stockland Corporation Limited ("Stockland"), Sinclair Knight Merz Holdings Limited and Perpetual Limited. Mr Scott is also a Director of Pilotlight, a non-profit making organisation, is an employee of Korn Ferry International Pty Ltd and is on the Advisory Board of Jones Lang LaSalle Australia. Mr Scott was the Chief Executive Officer of MLC and Executive General Manager, Wealth Management of National Australia Bank until January 2005. Prior to this, he held a number of senior positions with Lend Lease, following a successful career as a consulting engineer in Australia and overseas. Mr Scott was appointed as a Director and was elected Chairman of Stockland Funds Management Limited on 22 November 2005.

Lyn Gearing
(Non-Executive)
Appointed 22 November 2005
Ms Gearing is currently a director of Stockland, Hancock Natural Resource Group Australasia Pty Limited, IMB Limited and the Garvan Research Foundation. Ms Gearing was Chief Executive of NSW State Super from 1997 to 2002, and has extensive business experience in superannuation, funds management, corporate finance and management consulting. Ms Gearing was appointed Chair of the Stockland Trust Management Limited and Stockland Funds Management Limited Compliance Committees on 1 July 2006. She is also a member of both the Stockland and Stockland Funds Management Limited Audit and Risk Committees.

David Kent
(Non-Executive) – Independent
Appointed 9 August 2004
Mr Kent is Executive Chairman of Everest Babcock and Brown Limited and a director of the Australian chapter of the Alternative Investment Management Association ("AIMA"). He was previously Executive General Manager of Axiss Australia and served as a member of the Financial Sector Advisory Council. Mr Kent is a past Senior Trade and Investment Commissioner in Paris and Washington DC for the Australian Trade Commission. Mr Kent formerly worked for Morgan Stanley in Sydney, Melbourne and New York where he became Managing Director and Head of Investment Banking. Mr Kent has previously served as Deputy Chairman of the Art Gallery of NSW Foundation, Chairman of the Brett Whiteley Foundation and is currently on the S.H. Ervin Gallery Committee.

Tony Sherlock
(Non-Executive) – Independent
Appointed 9 August 2004
Mr Sherlock is a former Senior Partner of Coopers & Lybrand having national responsibility for credit risk management. In that capacity, he has obtained experience in the banking and finance, mining, agriculture, building, construction and development sectors. Mr Sherlock is a non-executive director of Sydney Attractions Group Limited, IBA Health Limited, Export Finance Insurance Corporation and Equatorial Mining Limited. He is a consultant to the Chairman of the Audit Committee of Commander Communications Limited. Mr Sherlock is the former Chairman of the Woolmark Company and has acted on a number of committees for both Federal and State governments. He is a member of the Stockland Funds Management Limited Compliance Committee. He is also a member of the Stockland Funds Management Limited Audit and Risk Committee.

Directors (continued)

Terry Williamson
(Non-Executive)
Appointed 2 July 2004
Mr Williamson is a director of Stockland, Avant Insurance Limited and ING Australia Limited and a member of the University of Sydney Faculty of Economics and Business Studies Advisory Board. Mr Williamson was previously Chief Financial Officer of Bankers Trust Australia Limited / BT Financial Group Pty Limited from 1997 to 2002 and prior to that, he was a partner of Price Waterhouse for 17 years. He is a member of both the Stockland Trust Management Limited and Stockland Funds Management Limited Compliance Committees. Mr Williamson is Chair of the Stockland and Stockland Funds Management Limited Audit and Risk Committees.

Matthew Quinn
(Executive) – Managing Director – Stockland
Appointed 19 October 2000
Mr Quinn has an extensive background in commercial, retail, industrial and residential property investment and development. He began his career in the United Kingdom as a chartered accountant and moved to Australia in 1987 with Price Waterhouse. In 1988, he joined the Rockingham Park Group, a substantial Western Australian private property group. Mr Quinn joined Stockland in 1999 and was appointed to his current role of Managing Director in October 2000. Mr Quinn held the position of National President of the Property Council of Australia from March 2003 until March 2005. He is a Fellow of the Australian Property Institute. He was appointed Director of Australian Business and Community Network Limited in October 2006.

SFML Compliance Committee
A Compliance Committee has been set up to oversee the Compliance Plan approved by the Responsible Entity for the Trust.

The members of the Compliance Committee during or since the end of the financial period were:

Ms L Gearing (Chair) –
Non-Executive Director

Mr A Sherlock –
Independent Non-Executive Director

Mr T Williamson –
Non-Executive Director

The role of the committee includes evaluation of the effectiveness of the Responsible Entity's compliance systems designed to protect the interests of unitholders. The Compliance Plan has been approved by ASIC. The committee meets regularly and must report breaches of the law and Constitution to the Stockland Board which is required to report any material breach of the Compliance Plan to ASIC.

SFML Audit and Risk Committee
The Audit and Risk Committee has been set up to make appropriate recommendations to the Board and to determine any matters delegated to it by the Board, either specifically or under its charter.

The primary objective of the committee is to assist the Board of SFML in discharging its responsibilities for:

- financial reporting and audit practices;
- accounting policies;
- the management of risk; and
- the adequacy and effectiveness of internal controls.

Audit and Risk Committee meetings are to be held at least quarterly and guests are invited to attend such as executive management staff, external and internal auditors and advisors. The committee meets privately with the external auditor in the absence of management at least once a year. The committee has the power to conduct or authorise investigations into, or consult independent specialists on, any matters within the committee's scope of responsibility. The committee has a written charter which incorporates best practice.

Under its charter, the committee must be comprised of at least three or more directors, all of whom must be non-executive directors. The Chairman of the committee may not also be the Chairman of the SFML Board.

The members of the Audit and Risk Committee during or since the end of the financial period were:

Mr T Williamson (Chair) –
Non-Executive Director

Mr A Sherlock –
Independent Non-Executive Director

Ms L Gearing –
Non-Executive Director

The committee assists the Board to fulfil its corporate governance and disclosure responsibilities in relation to financial reporting, internal controls, risk management systems and both internal and external audits.

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
On 16 October 2006, SFML issued a Product Disclosure Statement ("PDS") 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.

The consolidated entity achieved a profit from operations of $3,725,000 for the period ended 30 June 2007.

Distributions paid or declared by the consolidated entity to unitholders during the financial period are set out in Note 16 of the Financial Reports.

The Fremantle shopping centre developer advised that there was an incident in May 2007 which resulted in damage to the structure causing a delay to practical completion. The development is subject to a fixed contract and is fully insured. Distributions to investors should not be affected as the Trust accrues interest income on the development payments from the developer until practical completion of the building.

Significant changes in the state of affairs
Apart from the matters discussed in the Review of operations, there have been no significant changes in the state of the affairs of the consolidated entity during the period.

Events subsequent to the end of the period
There have been no events subsequent to balance date which would have a material effect on the consolidated entity's Financial Reports at 30 June 2007.

Likely developments
The consolidated entity will continue to review investment management strategies with a view to optimising both the income and capital return over the investment term.

Environmental regulation
The consolidated entity's operations are subject to various environmental regulation under both Commonwealth and State legislation. The Responsible Entity believes that the consolidated entity has adequate systems in place for the management of its environmental responsibilities and is not aware of any breach of environmental requirements as they may apply to the consolidated entity.

Related parties
Stockland Trust Management Limited, a related party of the Responsible Entity, has not held any units in the Trust as at 30 June 2007.

Interests of the Responsible Entity
The Responsible Entity has not held any units in the consolidated entity either directly or indirectly during the financial period.

Responsible Entity fee remuneration
The Responsible Entity charged a responsible entity fee of 0.45% p.a. of the gross assets of the consolidated entity, calculated quarterly. The Responsible Entity is entitled to recover all fees deferred either from consolidated entity earnings or on a winding up of the consolidated entity. The Responsible Entity charges are set out in Note 19 of the Financial Report.

Directors' interests
The relevant interest of each director of the Responsible Entity holding units in the consolidated entity at the date of this report is as follows:

Director	Number of units held
Mr David Kent	110,000
Mr Peter Scott	20,000
Mr Matthew Quinn	10,000

Indemnities and insurance of officers and auditors
Indemnification
Under the Trust Constitution, the Responsible Entity, including its officers and employees, is indemnified out of the consolidated entity's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the consolidated entity.

The consolidated entity has not indemnified or made a relevant agreement for indemnifying against a liability in respect of any person who is the auditor of the consolidated entity.

Insurance premiums
The Responsible Entity has paid insurance premiums in respect of directors' and officers' liability insurance contracts for the Directors. Such insurance contracts insure against certain liabilities (subject to specified exclusions) for persons who are or have been directors and officers of the Responsible Entity.

In addition, the Responsible Entity has paid insurance premiums for professional indemnity insurance policies to cover certain risks for the Directors.

Details of the nature and the amount of the liabilities covered or the amount of the premium paid has not been included as such disclosure is prohibited under the terms of the insurance contracts.

Comparatives
Comparatives have not been provided in the consolidated Income Statement, Balance Sheet, Statement of Changes in Equity or the Cash Flow Statement, as this is the consolidated entity's first year of operation.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001
The external auditor's independence declaration is set out on page 4 and forms part of the Directors' Report for the period ended 26 April 2006 to 30 June 2007.

Rounding
The consolidated entity is an entity of the kind referred to in ASIC Class Order 98/100 (as amended) and in accordance with that Class Order, amounts in the 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, 16 August 2007

Lead auditor's independence declaration

under Section 307C of the Corporations Act 2001

To: the directors of the Responsible Entity of Stockland Direct Retail Trust No. 1, Stockland Funds Management Limited.

I declare that, to the best of my knowledge and belief, in relation to the audit for the period 26 April 2006 to 30 June 2007 there have been:

(a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

S. A. Fleming

Scott Fleming
Partner

Sydney
16 August 2007

Consolidated income statements

For the period 26 April 2006 to 30 June 2007

	NOTES	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
Revenue and other income			
Rent from investment properties		**3,203**	**783**
Net gain from fair value adjustment of investment properties[1]		**3,304**	**1,302**
Interest income		**186**	**186**
Unrealised gain on financial instruments		**103**	**103**
Distributions received		**–**	**1,415**
Total revenue and other income		**6,796**	**3,789**
Investment property expenses		**(1,002)**	**(145)**
Finance costs to external parties		**(1,669)**	**(1,669)**
Auditors' remuneration	4	**(136)**	**(136)**
Responsible Entity fees	19	**(201)**	**(201)**
Other expenses		**(63)**	**(29)**
Total expenses		**(3,071)**	**(2,180)**
Profit from operating activities		**3,725**	**1,609**

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 acquisition date (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 cumulative net profit effect by 31 December 2007 will be nil. Refer Note 8 for further information relating to the Tamworth property.

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

Consolidated balance sheets

As at 30 June 2007

	NOTES	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
Current assets			
Cash and cash equivalents	5	**7,631**	**7,631**
Trade and other receivables	6	**86**	**38**
Loans to related entities	19	**–**	**61,031**
Other assets	7	**768**	**322**
Total current assets		**8,485**	**69,022**
Non-current assets			
Investment properties	8	**65,682**	**20,527**
Property, plant and equipment	9	**18,080**	**–**
Units in controlled entities		**–**	**–**
Trade and other receivables	10	**213**	**186**
Other assets	11	**1,139**	**1,117**
Total non-current assets		**85,114**	**21,830**
Total assets		**93,599**	**90,852**
Current liabilities			
Trade and other payables	12	**1,095**	**464**
Other liabilities	13	**18,734**	**18,734**
Total current liabilities		**19,829**	**19,198**
Non-current liabilities			
Interest-bearing loans and borrowings	14	**35,767**	**35,767**
Total non-current liabilities		**35,767**	**35,767**
Total liabilities		**55,596**	**54,965**
Net assets		**38,003**	**35,887**
Unitholders' funds			
Issued capital	15	**34,797**	**34,797**
Undistributed profit		**2,337**	**221**
Reserves		**869**	**869**
Total unitholders' funds		**38,003**	**35,887**

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

Consolidated statements of changes in equity

For the period 26 April 2006 to 30 June 2007

CONSOLIDATED	NOTES	ISSUED CAPITAL 2007 $'000	UNITHOLDERS' FUNDS UNDISTRIBUTED PROFIT 2007 $'000	RESERVES 2007 $'000	TOTAL 2007 $'000
Opening balance		–	–	–	–
Effective portion of changes in fair value of cash flow hedges		–	–	869	869
Total non-profit items recognised directly in equity		–	–	869	869
Profit for the period		–	3,725	–	3,725
Total recognised income and expenses for the period		–	3,725	869	4,594
Units issued for the period	15	35,065	–	–	35,065
Distributions paid	16	(268)	(1,388)	–	(1,656)
Closing balance		34,797	2,337	869	38,003

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

TRUST	NOTES	ISSUED CAPITAL 2007 $'000	UNITHOLDERS' FUNDS UNDISTRIBUTED PROFIT 2007 $'000	RESERVES 2007 $'000	TOTAL 2007 $'000
Opening balance		–	–	–	–
Effective portion of changes in fair value of cash flow hedges		–	–	869	869
Total non-profit items recognised directly in equity		–	–	869	869
Profit for the period		–	1,609	–	1,609
Total recognised income and expenses for the period		–	1,609	869	2,478
Units issued for the period	15	35,065	–	–	35,065
Distributions paid	16	(268)	(1,388)	–	(1,656)
Closing balance		34,797	221	869	35,887

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

Consolidated cash flow statements

For the period 26 April 2006 to 30 June 2007

	NOTES	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		**3,594**	**1,065**
Cash payments in the course of operations		**(809)**	**(122)**
Interest received		**186**	**186**
Interest paid		**(1,029)**	**(1,029)**
Net cash flows from operating activities	17	**1,942**	**100**
Cash flows from investing activities			
Payment for investment properties		**(64,287)**	**(2,828)**
Payment for acquisition of/incorporation of controlled entities		**–**	**–**
Net cash flows from investing activities		**(64,287)**	**(2,828)**
Cash flows from financing activities			
Proceeds from external party financing		**36,318**	**36,318**
Borrowing costs paid		**(579)**	**(579)**
Proceeds from issue of units to unitholders		**39,600**	**39,600**
Payment of establishment fee		**(4,535)**	**(4,535)**
Distribution paid		**(828)**	**(828)**
Loans to controlled entities		**–**	**(59,617)**
Net cash flows from financing activities		**69,976**	**10,359**
Net increase in cash and cash equivalents		**7,631**	**7,631**
Cash and cash equivalents at the beginning of the period		**–**	**–**
Cash and cash equivalents at the end of the period	5	**7,631**	**7,631**

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

Notes to the consolidated financial statements

For the period 26 April 2006 to 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated Financial Report as at and for the period ended 30 June 2007 was authorised for issue by the Directors of the Responsible Entity on 16 August 2007.

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

(a) Statement of compliance

The consolidated Financial Report is a general purpose Financial Report which has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The Financial Report also complies with the International Financial Reporting Standards ("IFRSs").

(b) Basis of preparation

The consolidated Financial Report is presented in Australian dollars.

The consolidated 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.

The Trust is an entity of the kind referred to in ASIC Class Order 98/100 (as amended) and in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

The preparation of a 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 period presented in this consolidated 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.

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 Trust and the consolidated entity are 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.

(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.

Notes to the consolidated financial statements

For the period 26 April 2006 to 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Hedging (continued)

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.

(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, other than investment properties (refer to Note 1(r)) 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) Trade and other payables

Other payables are stated at cost.

Distributions

Distributions payable are 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 year, but not distributed at balance date.

Notes to the consolidated financial statements

For the period 26 April 2006 to 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

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 consolidated entity's property interest at the current balance date, discounted to reflect the projected life of the consolidated entity and inherent market risks. The performance fee recognised will continue to be remeasured at each reporting date to reflect movements in the consolidated entity'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 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 Financial Report from the date that control commences until the date that control ceases.

(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

Property under construction or development for future use as investment property (but which does not yet qualify as investment property as it is not completed) 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.

(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.

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.

(s) New accounting standards

Certain new accounting standards have been published that are not mandatory for this reporting period. The consolidated entity's assessment of the impact of these new standards is set out below.

AASB 7 "Financial Instruments: Disclosures" replaces the presentation requirements of financial instruments in AASB 132 "Financial Instruments: Disclosure and Presentation". AASB 2005-10 "Amendments to Australian Accounting Standards" makes consequential amendments to AASB 132, AASB 101 "Presentation of Financial Statements", AASB 114 "Segment Reporting", AASB 117 "Leases", AASB 133 "Earnings Per Share", AASB 139 "Financial Instruments" Recognition and Measurement", AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", AASB 4 "Insurance Contracts", AASB 1023 "General Insurance Contracts" & AASB 1038 "Life Insurance Contracts".

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The consolidated entity has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the consolidated entity's financial instruments.

AASB 8 "Operating Segments" and AASB 2007-3 "Amendments to Australian Accounting Standards arising from AASB 8" makes amendments to AASB 5 "Non-current Assets Held for Sale and Discontinued Operations", AASB 6 "Exploration for and Evaluation of Mineral Resources", AASB 102 "Inventories", AASB 107 "Cash Flow Statements", AASB 119 "Employee Benefits", AASB 127 "Consolidated and Separate Financial Statements", AASB 134 "Interim Financial Reporting", AASB 136 "Impairment Assets", AASB 1023 and AASB 1038.

AASB 8 and AASB 2007-3 are applicable to annual reporting periods beginning on or after 1 January 2009. The consolidated entity has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the consolidated entity's segment reporting.

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.

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.

2 ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

Estimates of performance fee expense

A performance fee is payable if certain out performance is achieved by the consolidated entity. The fee is calculated on 2.5% of the gross value of the property on the calculation date calculated on a cumulative basis. The consolidated entity has not provided for a performance fee at 30 June 2007. Refer Note 19.

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

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.

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 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.

The consolidated entity 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.

Notes to the consolidated financial statements

For the period 26 April 2006 to 30 June 2007

4 AUDITORS' REMUNERATION

	CONSOLIDATED 2007 $	TRUST 2007 $
Audit services		
Audit and review of the Financial Reports (KPMG Australia)	61,000	61,000
Other audit services (KPMG Australia)	21,300	21,300
Compliance audit services (KPMG Australia)	10,000	10,000
	92,300	92,300
Other services		
Tax compliance services (KPMG Australia)	44,000	44,000
	44,000	44,000
Total remuneration	136,300	136,300

	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
5 CURRENT ASSETS – CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	7,631	7,631

The weighted average interest rate for cash at bank and on hand as at 30 June 2007 was 5.93%.

6 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
Other receivables	86	38

7 CURRENT ASSETS – OTHER ASSETS

	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
Rental income support	481	292
Other assets	287	30
	768	322

8 NON-CURRENT ASSETS – INVESTMENT PROPERTIES

DESCRIPTION	TITLE	ACQUISITION DATE	ORIGINAL PURCHASE PRICE (INCLUDING ACQUISITION COSTS) $'000	COST INCLUDING ADDITIONS $'000	INDEPENDENT VALUATION DATE	INDEPENDENT VALUATION (EXCLUDING ACQUISITION COSTS) $'000	CONSOLIDATED BOOK VALUE 2007 $'000	TRUST BOOK VALUE 2007 $'000
Pacific Pines Shopping Centre, Pacific Pines, Qld	Freehold	22 December 2006	17,041	17,058	June 2007	17,200	**17,200**	–
Benowa Gardens Shopping Centre, Benowa, Qld	Freehold	22 December 2006	26,024	26,095	June 2007	28,200	**28,200**	–
Tamworth Homespace, Tamworth, NSW[1]	–	22 December 2006	19,225	19,225	August 2006	21,150	**21,150**	**21,150**
							66,550	**21,150**
Total Investment Properties (including amounts classified in Trade and other receivables and Other assets)								
Less amounts classified as:								
– Trade and other receivables							**(213)**	**(186)**
– Other assets							**(655)**	**(437)**
Total Investment Properties							**65,682**	**20,527**

1 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 19.

	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
Reconciliation – investment properties		
Direct investments and controlled entities		
Carrying amount at the beginning of the financial period	–	–
Acquisitions	**62,290**	**19,225**
Net gain on fair value adjustments of investment properties	**3,304**	**1,302**
Expenditure capitalised	**88**	–
Carrying amount at the end of the financial period	**65,682**	**20,527**

9 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Cost		
Balance at 26 April 2006	–	–
Acquisitions	**18,080**	–
Balance at 30 June 2007	**18,080**	–
Depreciation and impairment losses		
Balance at 26 April 2006	–	–
Depreciation charge for the period	–	–
Balance at 30 June 2007	–	–
Carrying Amounts		
At 26 April 2006	–	–
At 30 June 2007	**18,080**	–

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 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 21.

	CONSOLIDATED 2007 $'000	TRUST 2007 $'000

10 NON-CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
Trade debtors – straight-lining of rental income	**213**	**186**

11 NON-CURRENT ASSETS – OTHER ASSETS

	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
Fair value of hedging instrument	**972**	**972**
Rental income support	**145**	**145**
Other assets	**22**	**–**
	1,139	**1,117**

12 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
Trade payables and accruals	**972**	**386**
Interest payable on loan facility	**66**	**66**
Goods and services tax ("GST") payable	**57**	**12**
	1,095	**464**

13 CURRENT LIABILITIES – OTHER LIABILITIES

	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
Deferred consideration	**17,906**	**17,906**
Distribution payable	**828**	**828**
	18,734	**18,734**

The consolidated entity 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 19.

14 NON-CURRENT LIABILITIES – INTEREST-BEARING LOANS AND BORROWINGS

	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
Loan facility	**36,318**	**36,318**
Capitalised borrowing costs	**(551)**	**(551)**
	35,767	**35,767**

The Trust has a $60,000,000 loan facility agreement, comprising a property facility and capital expenditure facility, with National Australia Bank ("NAB"). As at 30 June 2007, $36,318,000 has been drawn on the property facility. The weighted average interest rate on the loan facility is 7.19% p.a. The facility matures on 22 December 2009 and may be extended for a further twelve months on an ongoing basis.

The debt facility to the Trust 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 consolidated entity and a first-ranking mortgage over the units in the consolidated entities.

The Responsible Entity, on behalf of the Trust, has entered into an interest rate swap contract with Stockland Trust 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 consolidated entity does not hold derivative financial instruments for speculative purposes.

The interest rate swap on the property facility will incur a fixed cost equal to 6.45% p.a. 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.

Notes to the consolidated financial statements

For the period 26 April 2006 to 30 June 2007

15 ISSUED CAPITAL

	NUMBER OF UNITS	TRUST 2007 $'000
	39,600,010	**34,797**

DATE	DETAILS	NUMBER OF UNITS	PRICE PER UNIT	$'000
Movement in units				
26 April 2006	Opening balance	–	$1.00	**–**
26 April 2006	Units issued	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 March 2007	Distribution paid from contributed equity	–		**(268)**
30 June 2007	**Balance**	**39,600,010**		**34,797**

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

16 DISTRIBUTIONS TO UNITHOLDERS

Distributions to unitholders recognised in the period by the consolidated entity are:

	DISTRIBUTION PER UNIT	TOTAL AMOUNT $'000	DATE OF PAYMENT	TAX DEFERRED %
2007				
31 March 2007	2.0914¢	**828**	27 April 2007	100
30 June 2007	2.0914¢	**828**	28 August 2007*	100
Total distributions **		**1,656**		

* Proposed payment date.
** The distribution paid to investors included $268,000 as a return of capital. Whilst distribution estimates are made at interim reporting periods, full year distributions are calculated on a 12 month basis.

17 NOTES TO THE CASH FLOW STATEMENT

	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
Reconciliation of profit from operating activities to net cash flows from operating activities		
Profit from operating activities	**3,725**	**1,609**
Amortisation of borrowing costs	**595**	**595**
Net gain from fair value adjustment of investment properties	**(3,304)**	**(1,302)**
Unrealised gain on financial instruments	**(103)**	**(103)**
Distributions from controlled entities	**–**	**(1,415)**
Change in assets and liabilities:		
(Increase)/decrease in trade and other receivables	**(67)**	**252**
(Increase) in trade and other payables	**1,096**	**464**
Net cash flows from operating activities	**1,942**	**100**

Notes to the consolidated financial statements

For the period 26 April 2006 to 30 June 2007

18 FINANCIAL INSTRUMENTS

(a) Financial risk management

The consolidated entity's activities expose it to a variety of financial risks; credit risk, liquidity risk, cash flow and interest rate risk. The consolidated entity's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the consolidated entity's financial performance. The consolidated entity uses derivative financial instruments to hedge exposure to fluctuations in interest rates.

Financial risk management is carried out by a central treasury department under policies approved by the Board of the Responsible Entity. The Board provides written principles of overall risk management, as well as written policies covering specific areas such as mitigating interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

Credit risk

Credit risk represents the loss that would be recognised if counterparties fail to perform as contracted. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Responsible Entity has policies that limit the amount of credit risk exposure to any one financial institution.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The consolidated entity aims at maintaining flexibility in funding by keeping committed credit lines available.

Cash flow and fair value interest rate risk

The consolidated entity's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the consolidated entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk.

The Responsible Entity, on behalf of the consolidated entity, manages the consolidated entity's cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Responsible Entity agrees with other parties to exchange, at specified intervals, generally quarterly, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

(b) Derivative financial instruments used by the consolidated entity

The Trust is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the consolidated entity's financial risk management policies as mentioned above.

Interest rate swap contract

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

On 15 June 2007, the Trust entered into an interest rate swap contract with Stockland Trust to hedge the anticipated variable interest rate exposure of the consolidated entity on the property facility provided by NAB. The swap provides a fixed rate of 6.45% p.a. on the funds drawn against the property facility for the duration of the facility.

The swap is currently in place covering 100% of the loan principal outstanding and is timed to expire as the loan repayment falls due. The fixed interest rate is 6.45% p.a. and the variable rate is the 90 day Bank bill rate which at 30 June 2007 was 7.19% p.a.

At 30 June 2007, the notional principal amount and period of expiry of the interest rate swap contract is as follows:

	CONSOLIDATED 2007 $'000
Less than 1 year	–
1 – 2 years	–
2 – 3 years	–
3 – 4 years	–
4 – 5 years	–
Over 5 years	**36,318**

18 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Derivative financial instruments used by the controlled entity (continued)

The contract requires settlement of net interest receivable or payable quarterly. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

The swap meets the hedge accounting criteria per AASB 139 "Financial Instruments: Recognition and Measurement" and have been tested for effectiveness. At 30 June 2007, the swap is considered to be highly effective, accordingly the majority of the change in the fair value is recognised in unitholders funds, the remaining portion has been recognised in the Income Statement. Refer accounting policy at Note 1(h).

At balance date, the swap contract had a fair value of $972,000 included in other assets on the Balance Sheet.

(c) Interest rate risk exposures

In respect of income-earning financial assets and interest-bearing liabilities, the following table indicates their effective interest rate at the balance date and the periods in which they reprice at reporting date.

30 JUNE 2007 CONSOLIDATED	EFFECTIVE INTEREST RATE	FLOATING INTEREST RATE $000S	MATURITY PROFILE 1 YEAR OR LESS $000S	1 – 2 YEARS $000S	3 – 4 YEARS $000S	MORE THAN 5 YEARS $000S	TOTAL $000S
Financial assets							
Cash and cash equivalents	5.93%	7,631	–	–	–	–	7,631
Other receivables	–	86*	–	–	–	–	86
Financial liabilities							
Loan facility	7.19%	(36,318)	–	–	–	–	(36,318)
Effect of interest rate swap	(0.74%)	36,318	–	–	–	(36,318)	–

30 JUNE 2007 TRUST	EFFECTIVE INTEREST RATE	FLOATING INTEREST RATE $000S	MATURITY PROFILE 1 YEAR OR LESS $000S	1 – 2 YEARS $000S	3 – 4 YEARS $000S	MORE THAN 5 YEARS $000S	TOTAL $000S
Financial assets							
Cash and cash equivalents	5.93%	7,631	–	–	–	–	7,631
Other receivables	–	38*	–	–	–	–	38
Financial liabilities							
Loan facility	7.19%	(36,318)	–	–	–	–	(36,318)
Effect of interest rate swap	(0.74%)	36,318	–	–	–	(36,318)	–

* Non-interest bearing financial asset.

(d) Fair values of financial assets and financial liabilities

The carrying amounts of cash and cash equivalents, trade and other receivables, the loan facility and interest rate swap as disclosed in the Balance Sheet reflect the fair value of these financial assets and liabilities as at 30 June 2007.

The fair values of interest rate swap have been calculated by discounting the expected future cash flows at prevailing interest rates.

The interest rate swap have been accounted for on the Balance Sheet at it's fair value. The interest rate swap have been deemed to be effective hedges. Accordingly, the unrealised gain has been recognised directly in unitholders funds.

Notes to the consolidated financial statements

For the period 26 April 2006 to 30 June 2007

19 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.

The relevant interest of each director of the Responsible Entity holding units in the consolidated entity at the date of this report is as follows:

DIRECTOR	NUMBER OF UNITS HELD
Mr David Kent	110,000
Mr Peter Scott	20,000
Mr Matthew Quinn	10,000

RESPONSIBLE ENTITY FEES AND OTHER TRANSACTIONS	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
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 4.7% 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**	**4,161**
Responsible Entity fees The Responsible Entity is entitled to a deferred Responsible Entity fee of 0.45% p.a. of the gross value of the assets on a quarterly basis. As at 30 June 2007, the Responsible Entity has agreed for the Trust to defer payment of part of the Responsible Entity fees amounting to $60,183.	**201**	**201**
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 30 June 2007.	–	–
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**	**353**
Total Responsible Entity fees and other transactions	**4,715**	**4,715**

Other related party transactions

Product Disclosure Statement issue

On 16 October 2006, SFML issued a Product Disclosure Statement ("PDS') 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 $160,156 was paid/payable to the property manager during the period.

19 RELATED PARTIES (CONTINUED)

Other related party transactions (continued)

Limited Liquidity Facility ("LLF")

NAB has agreed to acquire up to 1,000,000 Units in the Trust from investors seeking to realise their units. The price for each unit will be the most recent NTA per unit less a 2.5% discount, any transfer costs and a $110 processing fee per application. 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 period STML, as Responsible Entity of Stockland Trust, acquired no units in the Trust via the LLF.

Units held by Stockland Trust

As at 30 June 2007, 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

During the period the controlled entity acquired the following properties from Stockland related entities:

- Benowa Gardens Shopping Centre, Benowa, Queensland;
- Pacific Pines Shopping Centre, Pacific Pines, Queensland; and
- Tamworth Homespace, Tamworth, New South Wales.

Stockland received $62.7 million, being the fair value of the properties.

Acquisition of Benowa Gardens Shopping Centre

The consolidated entity purchased the Benowa Gardens shopping centre for a consideration of $26.3 million. The fair value of the property includes a rental guarantee on vacancies at the time of entering into the long term lease for a 12 month period on allotment of the Capital.

Deed of Agreement for the Tamworth Property

The consolidated entity 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 consolidated entity. This is proposed to occur in December 2007.

SHT 1 has granted a call option to the consolidated entity for the purchase of the Tamworth property and the consolidated entity 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 consolidated entity until December 2007. This transfers all economic benefits and risks of the property to the consolidated entity. At the end of the lease term, the consolidated entity 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 consolidated entity on allotment of the Capital.

Acquisition of Pacific Pines

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. A fee of $97,168 was received during the period.

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% p.a. payable quarterly in arrears and will terminate on the earlier of 7 years or when the underlying debt becomes due and payable.

Intercompany loans between the Trust and sub-trusts

	2007 $000
Aggregate amount receivable by the Trust from its sub-trusts	**61,031**

The loans are interest free and repayable at call.

Controlled entities paid distributions of $1,415,000 to the parent entity.

Notes to the consolidated financial statements

For the period 26 April 2006 to 30 June 2007

20 CONTROLLED ENTITIES

The following entities were 100% controlled by the parent entity during the current financial period:

Stockland Direct Retail Trust No. 1
Controlled entities of Stockland Direct Retail Trust No. 1
SDRT 1 Property # 1 Trust
SDRT 1 Property # 2 Trust
SDRT 1 Property # 3 Trust
SDRT 1 Property # 4 Trust

21 COMMITMENTS

The consolidated entity has a commitment of $6,083,000 in relation to the development of the Fremantle property which is payable upon the satisfaction of agreed milestones.

Non-cancellable operating lease receivable from investment property tenants

Non-cancellable operating lease commitments receivable:

	CONSOLIDATED 2007 $'000	TRUST 2007 $'000
Within one year	4,002	856
Later than one year but not later than five years	10,401	2,822
Later than five years	9,409	1,674
	23,812	5,352

22 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.

23 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2007 the consolidated entity and the Trust has no contingent liabilities and contingent assets.

24 EVENTS SUBSEQUENT TO BALANCE DATE

There have been no events subsequent to balance date which would have a material effect on either the consolidated entity's or Trust's Financial Statements at 30 June 2007.

Directors' declaration

In the opinion of the directors of Stockland Funds Management Limited, the Responsible Entity of Stockland Direct Retail Trust No.1:

1. the Financial Statements and Notes set out on pages 5 to 22, are in accordance with the Corporations Act 2001 including:
   (a) giving a true and fair view of the financial position of the Trust and consolidated entity as at 30 June 2007 and of their performance for the period 26 April 2006 to 30 June 2007; and
   (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.
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 period ended 30 June 2007 in accordance with the provisions of the Trust Constitution as amended dated 26 August 2006.
4. The Register of Unitholders has, during the period ended 30 June 2007, 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 of the Responsible Entity made pursuant to Section 295 (5) of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors:

Matthew Quinn
Director
Dated at Sydney, 16 August 2007

Independent auditor's report

to the unitholders of Stockland Direct Retail Trust No.1 and its controlled entities

Report on the financial report

We have audited the accompanying consolidated financial report of Stockland Direct Retail Trust No.1 and its controlled entities ("the Trust"), which comprises the balance sheet as at 30 June 2007, the income statement, statement of changes in equity and cash flow statement for the period ended on that date, explanatory notes 1 to 24 and the directors' declaration set out on pages 5 to 23.

Directors' responsibility for the financial report

The directors of the Responsible Entity, Stockland Funds Management Limited, are responsible for the preparation and fair presentation of the consolidated financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), the directors of the Responsible Entity of the Trust also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the consolidated financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Responsible Entity, as well as evaluating the overall presentation of the consolidated financial report.

We performed the procedures to assess whether in all material respects the consolidated financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a view which is consistent with our understanding of the Trust's financial position, and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion

In our opinion:

(a) the consolidated financial report of Stockland Direct Retail Trust No.1 and its controlled entities is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Trust's financial position as at 30 June 2007 and of its performance for the period ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

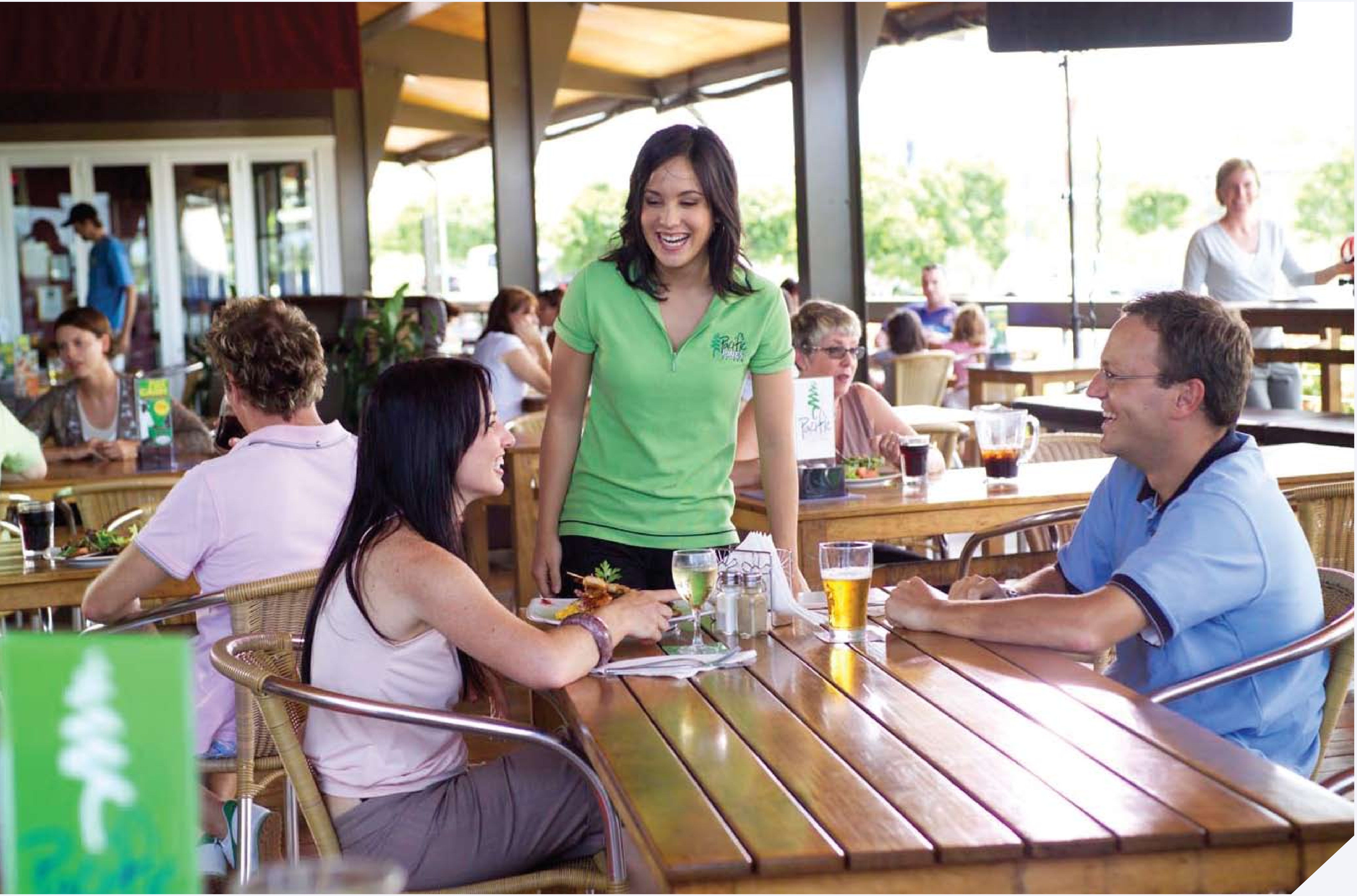
(b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

KPMG

KPMG

Scott Fleming
Partner

Sydney
16 August 2007



Responsible Entity
Stockland Funds Management Limited
ABN 86 078 081 722
AFS Licence 241188

Directors of the Responsible Entity
Peter Scott (Chairman)
Lyn Gearing
David Kent
Matthew Quinn
Tony Sherlock
Terry Williamson

Company Secretaries of the Responsible Entity
Phillip Hepburn
Derwyn Williams

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