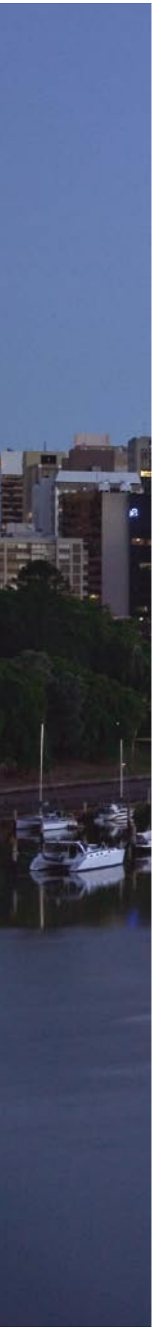
05

STOCKLAND DIRECT OFFICE TRUST NO. 1
FINANCIAL REPORT
2005

Stockland DIRECT



Stockland Direct Office Trust No. 1

Contents

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2005

The Directors of Stockland Funds Management Limited ("SFML"), the Responsible Entity of Stockland Direct Office Trust No. 1 (the "Trust") submit their report made in accordance with a resolution of the Directors with respect to the results of the Trust for the year ended 30 June 2005 and the state of the Trust's affairs at 30 June 2005.

THE RESPONSIBLE ENTITY

The Directors of the Responsible Entity at any time during or since 19 August 2004 are:

Graham Bradley

Chairman and Non-executive Director

Appointed 2 July 2004

Mr Bradley is a professional non-executive director. He is currently a director of Stockland, Singapore Telecommunications Limited and MBF Australia Limited and Queensland Investment Corporation. He is also Chairman of HSBC Bank Australia Limited, Film Finance Corporation Australia Limited, Proteome Systems Limited and Po Valley Energy Limited. Mr Bradley was previously Managing Director of Perpetual Trustees Australia Limited from 1995 to 2003 and, prior to that, was National Managing Partner of Blake Dawson Waldron from 1991 to 1995 and a Principal of McKinsey & Company from 1984 to 1991.

David Kent

Non-executive Director

Appointed 9 August 2004

Mr Kent is Executive Chairman of Everest Capital Limited, a director of Everest Babcock and Brown Alternative Investments and Chairman of the Brett Whiteley Foundation. He was previously Executive General Manager of Axiss Australia and Invest Australia's International Operations 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. From 1987 to 1999, Mr Kent worked for Morgan Stanley in Sydney, Melbourne and New York where he became Managing Director and Head of Investment Banking. Prior to Morgan Stanley, Mr Kent worked for Banque Paribas. Mr Kent has previously served as Deputy Chairman of the Art Gallery of NSW Foundation.

Matthew Quinn

Executive Director

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. Mr Quinn is a Fellow of the Australian Property Institute.

Tony Sherlock

Non-executive Director

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 Aquarium Limited and IBA Health Limited and is Chairman of Equatorial Mining Limited. He is 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.

Terry Williamson

Non-executive Director

Appointed 2 July 2004

Mr Williamson is currently a non-executive director of Stockland. He is also a director of St Vincent's and Mater Health Group Sydney, Excel Coal Limited and United Medical Protection 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.

Prior to 19 August 2004 the Directors of the former manager of the Trust, Stockland Trust Management Limited (STML), were:

Mr P Daly, *Chairman*	(appointed 23 May 1980)
Mr N Greiner, *Deputy Chairman*	(appointed 1 September 1992)
Mr G Bradley	(appointed 9 February 2004)
Mr B Corlett	(appointed 31 October 1996)
Mr D Fairfull	(appointed 5 March 1990)
Mr M Quinn	(appointed 19 October 2000)
Mr H Thorburn	(appointed 1 July 2004)
Mr B Thornton	(appointed 11 October 1995)
Mr T Williamson	(appointed 28 April 2003)

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

During the year, the principal activity of the Trust was the investment in 50% of SDOT Sub-Trust 1, conferring an indirect interest in the Waterfront Place property situated at 1 Eagle Street, Brisbane.

REVIEW OF OPERATIONS

The Trust was established on 4 February 2004 to acquire a 50% indirect interest in the Waterfront Place, 1 Eagle Street, Brisbane property.

To facilitate the acquisition, Westpac Banking Corporation underwrote the purchase by acquiring all the units in the Trust and providing a loan to acquire the Trust's interest in SDOT Sub-Trust 1.

Subsequently, SFML issued a Product Disclosure Statement (PDS) on 13 September 2004 offering 66,500,000 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 14 September 2004 and closed on 28 October 2004. The units were allotted on 19 November 2004.

The Trust achieved a net profit of $1,623,839 for the year ended 30 June 2005 (period 4 February 2004 to 30 June 2004: $1,168,300). Before the impact of financial instruments, the Trust achieved a net profit of $2,993,888 for the year ended 30 June 2005 (period 4 February 2004 to 30 June 2004: $590,787). A reconciliation of the significant impacts of the financial instruments on the Trust's net profit is included in Note 13 of the Financial Statements.

Distributions paid or declared by the Trust to unitholders since the end of the previous financial period are set out in Note 10 of the Financial Statements.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In addition to the matters discussed above, the following significant changes in the state of affairs of the Trust occurred during the financial year under review.

On 19 August 2004, SFML replaced STML as Manager of the Trust.

On 3 September 2004, the Trust was registered as a managed investment scheme with ASIC and SFML was appointed as the Responsible Entity.

EVENTS SUBSEQUENT TO THE END OF THE PERIOD

For reporting periods starting on or after 1 July 2005, the Trust must comply with Australian equivalents of International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 18 to the Financial Statements.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature which is likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Trust, the results of those operations, or the state of affairs of the Trust in future financial years.

LIKELY DEVELOPMENTS

The Trust will consider investment management strategies with a view to optimising both the income and capital return during the next financial period.

ENVIRONMENTAL LEGISLATION

The Trust's operations are not subject to any particular significant environmental regulation under either Commonwealth or State legislation. However, the Responsible Entity believes that the Trust has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they may apply to the Trust.

INTERESTS OF THE RESPONSIBLE ENTITY

The Responsible Entity has not held any units in the Trust either directly or indirectly during the financial year.

RESPONSIBLE ENTITY'S REMUNERATION

The Responsible Entity charged a responsible entity fee of 0.45% p.a. of the gross assets of the Trust. The Responsible Entity may defer a portion of the annual fees each year and is entitled under the Constitution to charge up to 1.0% p.a. The Responsible Entity is entitled to recover all fees deferred either from Trust earnings or on wind up of the Trust. The Responsible Entity charges are set out in Note 14 of the Financial Report.

DIRECTORS' INTERESTS

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

Director	Number of units held
Mr G Bradley	225,000
Mr D Kent	20,000
Mr M Quinn	15,000
Mr T Williamson	37,500

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2005

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 Trust'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 Trust.

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

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 directors.

Details of the nature of 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.

EXTERNAL AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The KPMG audit independence declaration is set out on page 4 and forms part of the Directors' Report for the year ended 30 June 2005.

ROUNDING

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

Dated at Sydney this 9th day of August 2005.

Signed in accordance with a resolution of the directors:

Matthew Quinn
Director

AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

KPMG

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

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2005 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Stuart J Marshall
Partner
Sydney, 9th August 2005

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	30 June 2005 $'000	4 February 2004 to 30 June 2004 $'000
REVENUE FROM ORDINARY ACTIVITIES			
Realised profit on novation of financial instruments	13	312	–
Unrealised gain on financial instruments	13	–	577
Interest income		55	6
Total revenue from ordinary activities		367	583
Share of net profits of joint venture entity accounted for using the equity method	8	11,777	4,632
Borrowing costs		(8,033)	(4,032)
Unrealised loss on financial instruments	13	(1,780)	-
Responsible Entity fees		(425)	-
Other expenses		(282)	(15)
Net profit		1,624	1,168

The Statement of Financial Performance is to be read in conjunction with the accompanying notes to the Financial Statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005

	Notes	As at 30 June 2005 $'000	As at 30 June 2004 $'000
Current assets			
Cash	16	2,221	1,381
Receivables	2	5	160
Other	3	100	577
Total current assets		2,326	2,118
Non-current assets			
Investment accounted for using the equity method	8	152,742	154,356
Other	3	386	–
Total non-current assets		153,128	154,356
Total assets		155,454	156,475
Current liabilities			
Interest-bearing liabilities	5	–	151,260
Payables	4	1,797	4,047
Provisions	6	1,309	591
Other liabilities	7	159	–
Total current liabilities		3,265	155,898
Non-current liabilities			
Interest bearing liabilities	5	92,538	–
Other liabilities	7	633	–
Total non-current liabilities		93,171	–
Total liabilities		96,436	155,898
Net assets		59,018	577
Unitholders' funds			
Units on issue	11	60,145	–
Reserves	9	(1,127)	577
Total unitholders' funds		59,018	577

The Statement of Financial Position is to be read in conjunction with the accompanying notes to the Financial Statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	30 June 2005 $'000	4 February 2004 to 30 June 2004 $'000
Cash flows from operating activities			
Cash payments in the course of operations		(1,065)	–
Distributions received from joint venture entity		13,826	1,536
Interest received		55	5
Borrowing costs paid		(10,514)	–
Net cash inflows from operating activities		2,302	1,541
Cash flows from investing activities			
Payments for unlisted units in joint venture entity		(435)	(151,260)
Loan to related party		–	(160)
Repayment of loan from related party		160	–
Net cash outflows from investing activities		(275)	(151,420)
Cash flows from financing activities			
Proceeds from borrowings		92,538	–
Repayment of borrowings		(151,260)	–
Proceeds from borrowings from parent entity		–	151,260
Proceeds from the issue of units		60,145	–
Distributions paid		(2,610)	–
Net cash inflows from financing activities		(1,187)	151,260
Net increase in cash		840	1,381
Opening cash brought forward		1,381	–
Closing cash at end of financial period	16	2,221	1,381

The Statement of Cash Flows is to be read in conjunction with the accompanying notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The Financial Report is a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), the Corporations Act 2001 and the Trust Constitution dated 4 February 2004 and as amended on 19 August 2004.

The Financial Report has been prepared on the basis of the going concern and historical cost conventions and except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by the Trust.

(b) Investments

Joint venture entities

A joint venture is an entity that is jointly controlled. The 50% investment in SDOT Sub-Trust 1 is treated as an investment in a joint venture entity with the remaining 50% held by Stockland Trust Management Limited (STML) as Responsible Entity for Stockland Trust.

Investments in joint venture entities are accounted for using equity accounting principles. The investments in joint venture entities are carried at the lower of the equity accounted amount and the recoverable amount.

The Trust's share of the joint venture entities net profit or loss is recognised in the Trust's Statement of Financial Performance from the date joint control commences until the date joint control ceases. Other movements in reserves are recognised directly in Trust's reserves.

Distributions from the joint venture entities are recognised by the Trust when declared by those entities and reduce the carrying value of the joint venture investment.

(c) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Revenue recognition

Revenues are recognised at the fair value of the consideration received net of the amount of GST payable to the taxation authority.

Interest revenue

Interest revenue is brought to account when earned and, if not received at balance date, is reflected in the Statement of Financial Position as a receivable.

(e) Expenditure and payables

Expenditure is brought to account on an accruals basis.

Trade creditors are settled in accordance with the terms of trade, normally on 30 day terms, and are non-interest bearing.

(f) Income tax

Under current tax legislation, the Trust is not liable to pay income tax provided its taxable income and taxable realised capital gains are distributed to unitholders.

(g) Cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank which is readily converted to cash on hand.

(h) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with arrangement of borrowings.

Where interest rates are hedged or swapped, the borrowing costs are recognised net of any realised effect of the hedge or swap.

Borrowing costs are expensed as incurred.

(i) Derivatives

The Trust is exposed to changes in interest rates from its activities. It is the Responsible Entity's policy to use interest rate swap contracts ("swap contracts") to hedge this risk. Derivative financial instruments are not held for speculative purposes.

Derivative financial instruments designated as effective hedges of underlying exposures are accounted for on the same basis as the underlying exposure. Interest payments and receipts under interest rate swap contracts are recognised in the Statement of Financial Performance on an accruals basis as an adjustment to borrowing costs.

Other swap contracts not meeting the hedge accounting requirements are valued at reporting date and any gains or losses are brought to account in the Statement of Financial Performance.

Due to the fluctuating nature of the derivative financial instruments, the unrealised gains/losses are not taken into account in distributions payable.

(j) Transfers to/from unitholders' funds

Non-distributable income, which may comprise unrealised changes in the net market value of investments or financial instruments, net capital losses, tax-deferred income, accrued income not yet assessable and non-deductible expenses are transferred to unitholders' funds.

These items are transferred to/from the unitholders' funds to be included in the determination of distributable income in the period for which they are assessable for taxation purposes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	30 June 2005 $'000	30 June 2004 $'000
2 RECEIVABLES – CURRENT			
Loan to related party		–	160
Other receivables		5	–
		5	160
3 OTHER ASSETS			
Current			
Unrealised gain on financial instruments		–	577
Prepaid facility fees		100	–
		100	577
Non-Current			
Prepaid facility fees		386	–
4 PAYABLES – CURRENT			
Interest payable on loan facility		1,792	4,047
Other		5	–
		1,797	4,047
5 INTEREST-BEARING LIABILITIES			
Current			
Loan facility	13	–	151,260
Non-current			
Loan facility	13	92,538	–

The Trust has a $98,500,000 (2004: $156,000,000) loan facility agreement with Westpac Banking Corporation. As at 30 June 2005, $92,538,000 has been drawn down (2004: $151,259,990). The weighted average interest rate on the loan facility is 6.83% per annum (2004: 7.00% per annum). The facility matures on 30 June 2010 (2004: 30 April 2005).

Westpac Administration Pty Limited has a fixed and floating charge over the units of the Trust's investment in the joint venture entity SDOT Sub-Trust 1 (refer to Note 8).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	30 June 2005 $'000	30 June 2004 $'000
6 PROVISIONS – CURRENT			
Distribution	10	1,309	591
Reconciliation			
Carrying amount at the beginning of the financial period		591	–
Provisions made during the period		3,328	591
Payments made during the period		(2,610)	–
Carrying amount at the end of the financial period		1,309	591
7 OTHER LIABILITIES			
Current			
Unrealised loss on financial instruments		159	–
Non-Current			
Unrealised loss on financial instruments		633	–
8 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD			
Investment in joint venture entity			
Share of net profits accounted for using the equity method included in the Statement of Financial Performance – SDOT Sub-Trust 1		11,777	4,632

8 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Investments in the joint venture entity are as follows:

	Balance date	Ownership Interest % 2005	Ownership Interest % 2004	Investment carrying amount 2005 $'000	Investment carrying amount 2004 $'000
SDOT Sub-Trust 1	30 June	50	50	152,742	154,356

The joint venture entity was formed in Australia.
The principal activity is investment in real property.

Results of joint venture entity

	2005 $'000	2004 $'000
The Trust's share of SDOT Sub-Trust 1 results consists of:		
Revenue from ordinary activities	15,336	5,973
Expenses from ordinary activities	(3,559)	(1,341)
Net profit – accounted for using the equity method	11,777	4,632

Statement of Financial Position

	2005 $'000	2004 $'000
The Trust's share of SDOT Sub-Trust 1's assets and liabilities consists of:		
Current assets	2,939	6,033
Non-current assets	152,087	151,635
Current liabilities	(2,248)	(3,312)
Non-current liabilities	(36)	–
Share of net assets after equity accounting adjustments	152,742	154,356

Share of post-acquisition retained profits attributable to joint venture entity

All income from the joint venture entity is distributed and accordingly there is no share of undistributed income at the end of the financial period.

	30 June 2005 $'000	30 June 2004 $'000
Movements in carrying amount of joint venture entity		
Carrying amount at the beginning of the financial period	154,356	–
Interest in joint venture entity acquired	435	151,260
Share of joint venture entity's net profit	11,777	4,632
Distributions received from joint venture entity	(13,826)	(1,536)
Carrying amount at the end of the financial period	152,742	154,356

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	30 June 2005 $'000	30 June 2004 $'000
9 RESERVES		
General	(1,127)	577
Reconciliation		
Balance at the beginning of the financial period	577	–
Transfer (from)/to unitholders' funds		
– Unrealised (loss)/gain on financial instruments	(1,370)	577
– Other transfers[1]	(334)	–
Balance at the end of the financial period	(1,127)	577

[1] The other transfers from unitholders predominantly arise from the amount of Responsible Entity fees deferred and the amortisation of borrowing costs during the financial year.

10 DISTRIBUTIONS

Distributions recognised in the current year by the Trust are:

2005

	Distribution per unit	Total amount $'000	Date of Payment/Payable	Total tax preferred %	Tax Preferred Tax deferred %	Tax Preferred CGT concession %
30 September 2004[1]	$6,189	62	23 Nov 2004	100	100	-
31 December 2004	0.9425¢	627	28 Feb 2005	100	100	-
31 March 2005	2.0000¢	1,330	27 May 2005	100	100	-
30 June 2005	1.9680¢	1,309	26 Aug 2005	100	100	-
Total distributions paid/payable		3,328				

2004

4 February to 2004 to 30 June 2004	Distribution per unit	Total amount $'000	Date of Payment/Payable	Total tax preferred %	Tax Preferred Tax deferred %	Tax Preferred CGT concession %
31 March 2004[1]	$13,751	138	23 Aug 2004	78.1	78.1	-
30 June 2004[1]	$45,327	453	27 Sep 2004	78.1	78.1	-
Total distributions		591				

[1] A total of 10 units were issued up to and including 18 November 2004.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	30 June 2005 $'000	30 June 2004 $'000

11 UNITS ON ISSUE

66,500,010 (June 2004:10) units on issue	60,145	–
Movements in units		
Balance at the beginning of the financial period	–	–
Units issued:		
19 November 2004 – 66,500,000 units @ $1.00	66,500	–
4 February 2004 – 10 units at $1.00	–	–
Transaction Costs		
19 November 2004	(6,355)	–
	60,145	–

Rights and restrictions over units – each unit ranks equally with all other units for the purpose of distribution and on termination of the Trust.

12 UNDISTRIBUTED INCOME

Balance at the beginning of the financial period	–	–
Net profit	1,624	1,168
Distribution of unitholders' funds[1]	334	(577)
Transfer from general reserve	1,370	
Distributions paid and/or payable	(3,328)	(591)
Balance at the end of the financial period	–	–

[1] The distribution from unitholders arises from the amount of Responsible Entity fees deferred and the amortisation of borrowing costs during the financial year.

13 ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURES

Interest rate risk

Interest rate swaps

The Responsible Entity on behalf of the Trust has entered into interest rate swap contracts to manage cash flow risks associated with the interest rates on borrowings that are floating. Interest rate swaps allow the Trust to swap the floating rate borrowing into a fixed rate. The Trust does not hold derivative financial instruments for speculative purposes.

On 12 February 2004, the Trust entered into a series of forward swap contracts to hedge the anticipated variable interest rate exposure of the Trust on issue of units in the Trust to the public pursuant to the PDS. An unrealised gain was recognised on the remaining swap contracts as at 30 June 2004. Accounting Standards require hedges not directly related to debt to be marked to market and the gain or loss included in the Statement of Financial Performance.

On 18 November 2004, immediately prior to the issue of the units, the value of the swap contracts was an unrealised loss of $1.2 million (30 June 2004: $0.6 million unrealised gain).

Immediately following the issue of the units on 19 November 2004, the Trust's Loan Facility of $92.5 million was drawn down as forecast in the PDS. At the same time the difference between the existing face value of the swap contracts and the Term Loan Facility of $32.5 million was novated to Westpac Banking Corporation at no cost to the Trust. Accordingly, the release of the $0.3m unrealised loss on the novated swap contract has been treated as accounting income in the Trust. As originally intended and forecast in the PDS on the issue of units, the remaining face value of the swap contract of $92.5 million is designated as an effective hedge of the Loan Facility fixing the cost of borrowing of the Trust for the term of the loan facility. The unrealised loss of $0.9 million at the time of the designation of the swap contracts as an effective hedge has been capitalised and is amortised over the term of the swap.

13 ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

Interest rate risk (continued)

The following is a reconciliation of the impact of financial instruments (as described above) on the net profit of the Trust:

Profit Reconciliation	30 June 2005 $'000	4 February 2004 to 30 June 2004 $'000
Net profit	1,624	1,168
Unrealised loss/(gain) on financial instruments	1,780	(577)
Realised profit on novation of financial instrument	(312)	–
Amortisation of unrealised loss on financial instruments on designation as an effective hedge	(98)	–
Net profit before the impact of financial instruments	2,994	591

The remaining swap contract matures on 30 June 2010 and involves quarterly payment or receipt of the net amount of interest.

Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties fail to perform as contracted.

Recognised financial instruments

The credit risk on financial assets of the Trust, which have been recognised in the Statement of Financial Position, is the carrying amount, net of any provision for doubtful debts. The Trust is not materially exposed to any individual debtor.

Net fair value of financial assets and liabilities

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

14 RELATED PARTIES

Stockland Trust Management Limited ("STML"), the former manager was replaced by Stockland Funds Management Limited ("SFML") on 19 August 2004. On 3 September 2004, the Trust was registered as a managed investment scheme with ASIC and SFML was appointed as the Responsible Entity.

Responsible Entity fees

Establishment & procurement fee

The Responsible Entity received a gross establishment and procurement fee for facilitating the issue of units under the offer including undertaking the property due diligence and for establishing the Trust of $5,820,000 plus GST. Of this fee, the Responsible Entity paid Westpac $3,790,500 for underwriting and distribution services.

The Responsible Entity received $380,000 plus GST for arranging the provision of professional services in relation to the establishment of the Trust and the offer. The Responsible Entity paid $380,000 for trust legal costs, PDS production costs and financial advisory costs.

Responsible Entity fee

The Responsible Entity charged $425,073 (2004: $Nil) for responsible entity fees calculated at 0.45% p.a. of the gross asset value of the Trust. This is lower than the 1% p.a. to which the Responsible Entity is entitled under the Trust constitution.

The Responsible Entity has deferred the payment of $185,521 (2004: $Nil) of the annual responsible entity fee.

The former manager, STML, charged $117,721 (2004: Nil) for management fees during the period 1 July 2004 to 19 August 2004.

14 RELATED PARTIES (CONTINUED)

Responsible Entity fees (continued)

Limited debt guarantee fee

Stockland Corporation Limited, a related party of the Responsible Entity, charged $56,537 (2004:$Nil) for the provision of a limited and partial guarantee for the benefit of the trust to Westpac as the provider of the debt facility. The fee is calculated at 0.1% of the drawn balance of the debt facility.

Product disclosure statement issue

On 13 September 2004, SFML issued a product disclosure statement ("PDS") offering 66,500,000 units in the Trust, at an application price of $1.00 per unit. The offer opened on 14 September 2004 and closed fully subscribed on 28 October 2004. The units were allotted on 19 November 2004.

Property management fee

Stockland Property Management Limited, a related party of the Responsible Entity charged $685,336 (2004:$71,364) for the SDOT Sub-Trust 1 property management services including onsite property management staff and leasing fees. Of this amount $616,439 (2004: $71,363) forms part of the outgoings recoverable from tenant pursuant to leases.

Loan from ultimate former parent entity

Westpac Banking Corporation, a related party of the former parent entity Westpac Funds Management Limited, as at 30 June 2005 provided the Trust with a $98,500,000 (30 June 2004: $156,000,000) loan facility agreement. As at 30 June 2005, the balance of the facility was $92,538,000 (30 June 2004: $151,259,990).

Former parent entity

On 19 November 2004, 66.5 million units were issued to unitholders pursuant to the PDS and the former parent entity of the Trust, Westpac Funds Management Limited retained its 10 units in the Trust.

Stockland Direct Office Trust No. 1 became a disclosing entity from 19 November 2004 on the allotment of units and therefore the Responsible Entity disclosures are from that date.

Directors' remuneration

No Directors' remuneration was paid from the assets of the Trust during the year. The Directors' remuneration disclosure in this note is required by Corporations law and all amounts were paid by related parties of the Responsible Entity.

Disclosed below are the remuneration, benefits, loans, equity holdings, and other transaction relating to the following:

- Specified Directors – the members of the Stockland Funds Management Limited Board and common members of the Boards of Stockland Corporation Limited and Stockland Trust Management Limited (together referred to as "Stockland");
- Specified Directors' personally-related entities.

The Responsible Entity

The directors of the Responsible Entity at any time during or since 19 August 2004 are:

Name	
Mr G Bradley, *Chairman*	(appointed 2 July 2004)
Mr D Kent	(appointed 9 August 2004)
Mr M Quinn	(appointed 19 October 2000)
Mr T Williamson	(appointed 2 July 2004)
Mr T Sherlock	(appointed 9 August 2004)

14 RELATED PARTIES (CONTINUED)

Directors' remuneration (continued)

The Responsible Entity (continued)

Prior to 19 August 2004 the Directors of the former manager of the Trust, STML, were:

Name	
Mr P Daly, *Chairman*	(appointed 23 May 1980)
Mr N Greiner, *Deputy Chairman*	(appointed 1 September 1992)
Mr G Bradley	(appointed 9 February 2004)
Mr B Corlett	(appointed 31 October 1996)
Mr D Fairfull	(appointed 5 March 1990)
Mr M Quinn	(appointed 19 October 2000)
Mr H Thorburn	(appointed 1 July 2004)
Mr B Thornton	(appointed 11 October 1995)
Mr T Williamson	(appointed 28 April 2003)

The relevant interest of each Director of the Responsible Entity in the Trust, at the date of this report, is as follows:

Director	Number of units held
Mr G Bradley	225,000
Mr D Kent	20,000
Mr M Quinn	15,000
Mr T Williamson	37,500

Remuneration of Specified Directors

Remuneration levels are competitively set and applied fairly to attract and retain appropriately qualified and experienced directors. The Stockland Nominations and Remuneration Committee of the Stockland Board obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies. The Nominations and Remuneration Committee has the responsibility to review the remuneration of the Stockland Chairman, Non-Executive Directors and the Executive Director and to recommend changes to remuneration policies.

Non-Executive Directors are paid a director's fee and do not participate in any securities plan or receive any retirement benefits (other than superannuation) and do not receive any performance related remuneration. Non-Executive Directors' fees are reviewed annually. In 2003, security holders resolved that the maximum amount payable to Non-Executive Directors should not exceed $950,000 in total for all Non-Executive Directors, plus superannuation.

Effective from 1 July 2004 the Stockland Non-Executive Directors received $80,000 per annum. These fees covered all main board activities and all meetings relating to environment issues. The additional fees for the following Board Committees were: Audit and Risk Committee Chair $20,000, members $10,000; Nominations and Remuneration Committee Chair $10,000, members $7,000; Compliance Committee Chair $15,000 and members $6,000. In addition, the SFML Chairman and other members of the SFML Board received $30,000 per annum.

Effective 1 May 2005 the base fee for other Stockland Non-Executive Directors will be $130,000 per annum. The additional fees for the following Board Committees are: Audit and Risk Committee Chair $30,000, members $15,000; Nominations and Remuneration Committee Chair $12,000, members $8,000; Compliance Committee Chair $20,000 and members $15,000, subject to security holder approval of the increase in total fees payable to Non-Executive Directors from $950,000 to $1,750,000 at the Stockland AGM in October 2005. The Chairman and members of the SFML Board will receive $40,000 per annum.

14 RELATED PARTIES (CONTINUED)

Directors' remuneration (continued)

Remuneration of Specified Directors (continued)

To encourage superior performance and long-term commitment to Stockland, the remuneration package for the Executive Director (Mr M. Quinn) includes a mix of fixed remuneration, performance-based remuneration and equity-based remuneration. The total remuneration package includes superannuation and other benefits as discussed below on a salary sacrifice basis in accordance with remuneration policies. There is no separate profit-share plan.

Performance-based remuneration and incentives are based on specific objectives, measures and targets for performance. With the broader aim of increasing Stockland's net profit, earnings per share and shareholder returns, the Board sets the objectives, measures and targets for the Executive Director. These key performance indicators are subject to approval by the Nominations and Remuneration Committee, as are the remuneration, incentives and bonuses for the Executive Director. Remuneration structures take into account:

– the overall level of remuneration for each individual;
– each individual's ability to control performance; and
– the amount of incentives within each individual's remuneration.

The Executive Directors may receive bonuses based on the achievement of specific performance hurdles. The performance hurdles are a blend of Stockland's performance against industry benchmarks and each relevant division's result exceeding certain pre-determined targets. Generally, cash-based incentives are applied to annual targets while equity remuneration applies to longer-term incentives.

The Board considers that a performance-linked remuneration structure that has a mainly financial impact focus is best suited to the outcomes desired by the security holders. The evidence for this is sustained performance and growth compared to industry peers, including very strong growth in profits in recent years. Non-financial measures are also to be taken into consideration, though account for a smaller part of the incentive arrangement than the financial measures.

Other benefits

The Executive Director's remuneration package is set on a 'total cost to the Company' basis. The total package will include base salary, motor vehicle, car parking, superannuation, other specified benefits and applicable fringe benefits tax.

Under remuneration related policies, motor vehicles are costed to the individual's package and include fringe benefits tax, interest costs, and depreciation.

Superannuation contributions are only payable by Stockland while Directors are Board members. Statutory entitlements to superannuation, subject to age-based limits are included in the 'total cost to the Company'.

Like all employees of Stockland, the Executive Director is entitled to discounts on purchase of Stockland properties held for sale. These discounts approximately represent the savings in agent's commissions and are effectively between 2.5% and 4.0%, depending on whether they are for investment or "owner-occupied" use. This discount is not included in remuneration as there is no net cost to Stockland or its related entities.

There are certain concessionary benefits and shared facilities available to staff generally, including discounted accommodation in hotels managed by Stockland. However, these are only included as a remuneration benefit where there is a net cost to Stockland. There is no net cost to Stockland for hotel accommodation.

Non-salary and non-superannuation amounts of remuneration are detailed in the table below as "Primary, Non-Monetary benefits".

The premiums on insurance policies relating to Directors are disclosed as "Other compensation". These amounts are not considered to be part of the total package arrangements for salary negotiation purposes. The premiums included relate to Directors and Officers' insurance, and Professional Indemnity insurance policies.

14 RELATED PARTIES (CONTINUED)

Directors' remuneration (continued)

Arrangements affecting the Executive Directors' remuneration in future periods
The financial impact in future periods arising from employment contract with the Executive Director is discussed below.

Each year a review is performed of the Directors' and Executive Directors' total fees and remuneration, including incentives. As a result of these reviews, changes may be made to remuneration packages.

The Executive Director is entitled to long service leave, ten (10) days sick leave and twenty (20) days annual leave. Accruals and payments in respect of these entitlements are disclosed as "Primary" remuneration. Notice periods of six (6) months apply to the Executive Director (or payment in lieu of notice by Stockland).

In the event that the Executive Director is seriously incapacitated and unable to perform his duties because of illness or accident, Stockland is entitled to terminate the individual's contract of employment by three (3) months written notice. In the event that Stockland initiates the termination for reasons which are outside the control of the individual or where the status, duties or authority of the individual are materially diminished without the individual's consent, severance payments are payable to the Executive Director.

The Executive Director is entitled to severance pay of one and half (1.5) times the sum of the annual package prevailing at the time of the termination and the short-term cash incentive or bonus which is subject to the achievement of key performance indicators.

Equity-based compensation grants will impact the remuneration disclosed in each period over which the equity compensation is applicable. Refer to the "Equity Instruments" below for further discussion.

A benefit to the Executive Director included in "Primary, Non-monetary benefits" in respect of loan interest where the interest rate charged is lower than the net marginal cost to the Corporation of providing that loan. A further benefit is included where the company pays fringe benefits tax on the loan interest (i.e. where the interest rate charged is less than the fringe benefits tax statutory benchmark rate, if any). Loans have been provided in relation to the purchase of equity securities under the Incentive Share Plan and the Executive Securities Plan, and where the Executive Director is required to relocate for work at Stockland. These loans do not form part of the base package arrangements for each individual. Refer to "Equity Instruments" and "Loans" below for further discussion.

Except as required under law and as detailed above, there are no benefits payable on termination for the Executive Director:
- as disclosed under the terms and conditions of the Incentive Share Plan and the Executive Securities Plan and Loans (refer to "Equity Instruments" and "Loans" sections below); and
- as otherwise detailed above in respect of notice periods on termination.

14 RELATED PARTIES (CONTINUED)

Directors' remuneration (continued)

	Primary			Post Employment	Equity Compensation	Other Compensation	Primary		Total
For the year ended 30 June 2005	Salary and fees $	Bonus[1] $	Non-monetary benefits[2] $	Superannuation benefits $	Value of other equity compensation[3] $	Insurance premiums[4] $	Annual leave entitlements[5] $	Long service leave entitlements[5] $	$
Specified Directors									
Non-executive									
Mr G Bradley – *Chairman*	132,167	–	–	11,895	–	11,119	–	–	155,181
Mr D Kent	31,666	–	–	2,850	–	11,119	–	–	45,635
Mr T Sherlock	31,666	–	–	2,850	–	11,119	–	–	45,635
Mr T Williamson	141,667	–	–	12,750	–	11,119	–	–	165,536
Executive									
Mr M Quinn – *Managing Director*	1,135,358	800,000	105,813	11,585	125,268	11,119	5,865	36,427	2,231,435
Total	1,472,524	800,000	105,813	41,930	125,268	55,595	5,865	36,427	2,643,422

1 All cash bonuses are earned in the current year, and will be paid in August 2005.
2 Comprises motor vehicle costs, car parking, grossed up 'cost to company' for interest-free loans, and fringe benefits tax payable.
3 Details of inclusions in these figures are disclosed in the "Equity Instruments" section of this note.
4 Insurance premiums have been allocated on a reasonable basis and relate to Directors' and Officers' insurance and Professional Indemnity insurance policies.
5 Movement in accrued entitlements during the year

Equity Instruments

Incentive Share Plan (ISP)

The Incentive Share Plan ("ISP") was approved by security holders at the Stockland General Meeting held on 26 October 2004. The purpose of the ISP is to provide for the alignment of the interests of senior executives of Stockland and security holders by matching rewards under the Plan with the long term performance of Stockland, and to assist in the attraction and retention of key senior executives.

The Stockland Corporation Limited Board ("the Board") administers the ISP in accordance with the Plan Rules and the terms and conditions of the specific grants to participants in the Plan ("Participants"). The Plan Rules include the following provisions:

- the ISP provides for the issue or transfer of fully paid stapled securities together with the making of loans to full or part-time senior employees and the Executive Director, at the discretion of the Board;
- the issue price of each stapled security will be the volume weighted average price at which stapled securities are traded on ASX during the five trading days up to and including the last trading day before the date of issue;
- the Board may impose restrictions on the transfer of stapled securities issued under the ISP; and
- the Board may invite Participants to apply for a loan for the purpose of acquiring the stapled securities offered to them under the ISP ("Loan"), and to set the terms of the Loan which may be at a less than commercial rate of interest or interest-free, on a secured or unsecured basis, and which may provide that the total amount of principal repayable under the Loan is limited to the proceeds of the sale of the stapled securities acquired with the Loan (less any costs of sale). The after-tax amount of any dividends or distributions paid on the stapled securities acquired with the Loan must be applied towards repayment of interest, if any, and the principal of the Loan.

14 RELATED PARTIES (CONTINUED)

Directors' remuneration (continued)

Equity Instruments (continued)

Incentive Share Plan (ISP) (continued)

Loans will become immediately due and repayable on the earliest to occur of:
- the date specified at the time of making the Loan;
- the relevant Participant becoming an insolvent under administration;
- the relevant Participant ceasing to be an employee of an entity within Stockland;
- a third party acquiring the stapled securities under a takeover offer or compulsory acquisition, or a scheme of arrangement in relation to the Company and an informal scheme having the same effect in relation to the Trust, and the Board determining that the Loan is immediately due and payable on that basis;
- the disposal of the Stapled Securities by the Participant; and
- the Board may, in its sole discretion, waive Stockland's right to repayment of all or part of any unpaid Loan.

Performance conditions (ISP)

A proportion of any outstanding amount of a Participant's loan may be waived by the Board if certain performance conditions are met. These conditions are based on two key security holder wealth creation measures: earnings growth per Stapled Security ("EPS Growth") and total security holder return growth ("TSR Growth").

EPS Growth will be measured as the percentage increase in the base earnings per Stapled Security adjusted for significant items and other items determined by the Board, as disclosed in Stockland's Statement of Financial Performance from year to year.

Broadly, TSR Growth measures growth in the price of Stapled Securities plus cash distributions notionally reinvested in Stapled Securities. Stockland's TSR will be ranked against the performance of the ASX/S&P 200 Property Trust Accumulation Index.

Awards may be given if the EPS Growth hurdle is met ("EPS Award") and if the TSR Growth hurdle is met ("TSR Award").

The EPS Award is up to 50% of the amount of the original Loan. The full EPS Award will be granted if the EPS Growth is at or above the "Target Rate" determined by the Board. If the EPS Growth is less than the Target Rate then an EPS Award of less than 50% of the amount of the original Loan may be made at the Board's discretion.

The TSR Award is up to 50% of the amount of the original Loan. The full TSR Award will be granted if Stockland's TSR exceeds the TSR of the ASX/S&P 200 Property Trust Accumulation Index for the same period. If the TSR is less than the TSR of the ASX/S&P 200 Property Trust Accumulation Index then a TSR Award of less than 50% of the amount of the original Loan may be made at the Board's discretion.

At present 51.5% of an Award is in the form of the waiver of that proportion of the unpaid loan amount. The remaining 48.5% of an Award will be applied to the fringe benefits tax ("FBT") on the loan waiver. These percentages will change if the FBT rate changes.

At the General Meeting held on the 26 October 2004, ordinary resolutions were passed, the effect of which was to allot 160,000 stapled securities to the Executive Director. In respect of the issue the following conditions apply:

- The securities are not to be sold or transferred until July 2007;
- If required by the Executive Director, interest free loans shall be provided by a Stockland Company for a maximum of 5 years;
- 51.5% of any distribution paid on the Stapled Securities acquired with the loan (being the approximate effective after tax receipt) must be applied in reduction of the Loan balance; and
- EPS and TSR awards are in accordance with the provisions noted above.

Non-Executive Directors are not entitled to participate in the ISP.

14 RELATED PARTIES (CONTINUED)

Directors' remuneration (continued)

Executive Securities Plan (ESP)

Stockland has an Executive Securities Plan ("ESP"), the purpose of which is to provide senior executives with a long-term incentive to create value for security holders and an opportunity for the Executive Director and the Senior Executives of Stockland to participate in the long-term success of Stockland.

The ESP entitles the Executive Director to purchase Stockland securities at a discount equal to the discount that applies to the Dividend/Distribution Reinvestment Plan (DRP). All outstanding issues were funded by loans made to the individuals by Stockland for a maximum term of five (5) years. Refer to "Loans" below for further information about the terms and conditions of the related loans.

The number of Stockland securities which each individual is entitled to purchase from time to time varies, taking account of the individual's responsibilities, performance and other aspects of their remuneration arrangements as discussed above. Essentially, there are two types of issue, these being:

- Performance-based issues (requiring Stockland's security price to outperform others in the same industry for each issue); and
- Service-based issues (requiring two (2) years continued service from the Executive Director after the issue) for the securities to become owned on an unconditional basis (i.e. to become unrestricted).

The benefits arising in respect of these issues are reported in the relevant period for the Executive Director under the "Remuneration" disclosure note. Refer to "Basis of disclosures included in remuneration" below for a discussion on how this is determined.

Non-Executive Directors are not entitled to participate in the ESP.

The Executive Securities Plan operates as follows:

Service-based Equity Compensation (ESP)

Offers to purchase securities in Stockland are made to the Executive Director based on individual merit pursuant to the ESP, after approval by the Nominations and Remuneration Committee and on the following conditions:

- The individual pays the prevailing market price, less the same discount as applies to the DRP;
- If required, interest-bearing loans shall be provided by a Stockland Group Company for a maximum of five years, at which time the loan is repayable. Refer to "Loans" below for further details of the interest rate; and
- Ownership of the securities shall become unconditional two (2) years after the date of allotment, subject to the individual remaining an employee of Stockland.

No performance hurdles apply to service-based equity compensation issues.

Performance-based Equity Compensation (ESP)

At the General Meeting held on the 22 October 2001 a special resolution was passed, the effect of which was to allot 2,000,000 stapled securities to the Executive Director, pursuant to the ESP. In respect of these performance-based issues, the following conditions applied:

- No further approvals for issues under the 2001 ESP shall be sought for the Executive Director for a period of four (4) years from the date of that General Meeting;
- The Executive Director shall purchase the securities at the prevailing market price, less 2.5%, being the same discount that applied to the DRP, at that date;
- If required by the Executive Director, interest-bearing loans shall be provided by a Stockland Group Company for a maximum of five (5) years;
- Ownership of the securities shall become unconditional over a four (4) year period, as stipulated in the resolution, and only if the set performance hurdle is met or exceeded and can only be met while the individual remains an employee of Stockland. The set performance hurdle is that the Stockland securities outperform the S&P/ASX LPT 200 Accumulation Index each year on a cumulative basis from the initial base index date over the four (4) year period. For each annual performance hurdle that is met, ownership of the stapled securities becomes unrestricted. Where the performance hurdle is not met, the securities become unrestricted upon meeting a subsequent hurdle. At the end of the four year period, if the final performance hurdle is not met, any remaining restricted securities to which the Executive Director would have been entitled will be sold for no benefit to the individual; and

14 RELATED PARTIES (CONTINUED)

Directors' remuneration (continued)

Performance-based Equity Compensation (ESP) (continued)

- If there is a takeover, scheme of arrangement or other share construction (collectively "takeover"), which results in a majority of the Stockland's issued capital no longer being listed on the ASX, all stapled securities will become unrestricted, subject to performance hurdles being met at the date of takeover. Similar arrangements to convert restricted balances to unrestricted holdings also occur on death and permanent disablement.

As at 30 June 2005, the performance hurdles attached to these issues were met and all the securities have vested and are unrestricted.

Refer to "Grants of Equity Compensation" below for details of the issue price of each grant that was operative during the financial year.

Stockland does not have any options on issue.

Basis of disclosures included as remuneration

The equity compensation provided by Stockland under the ISP and the ESP involves a benefit to the recipients of the issues, which is disclosed as remuneration and calculated in accordance with Australian Accounting Standards as follows:

Measurement

Incentive Share Plan

For equity instruments issued under the ISP the value of equity compensation to the Executive Director is determined at grant date. Stockland securities are allotted to the individuals, though ultimate beneficial ownership is dependent on meeting pre-determined service criteria. Additionally, loans provided to purchase the securities may be waived based on pre-determined performance criteria. A fair value of these equity instruments has been determined by the application of the Black Scholes option pricing model, incorporating the terms and conditions upon which the equity instruments were issued.

The remuneration benefit to the individual is this figure multiplied by the number of equity instruments issued to the individual to determine the total value of the remuneration benefit for each issue. The period over which the restrictions on full beneficial ownership apply is taken into account in determining the period over which the benefit is apportioned.

Executive Securities Plan

For equity instruments issued under the ESP the value of equity compensation issued to the Executive Director is determined at grant date. Stockland securities are allotted to the individuals, though ultimate beneficial ownership is dependent on meeting pre-determined performance and/or service criteria set over several years (depending on the type of issue). In determining the fair value of the security issues that have not vested, it is assumed that the service requirements will be met and an assessment is made of the probability that the performance hurdles will be met.

The remuneration benefit to the individual of each equity instrument issued is the market price of the Stockland securities at grant date reduced by the price paid per security by the individual. This figure is multiplied by the number of equity instruments issued to the individual to determine the total value of the remuneration benefit for each issue. The period over which the restrictions on full beneficial ownership apply is not taken into account in determining the total value of the grant of equity compensation, though it is taken into account in determining the period over which the benefit is apportioned.

14 RELATED PARTIES (CONTINUED)

Directors' remuneration (continued)

Allocation

Where the benefit from equity compensation is expected to be earned over several reporting periods, the total benefit determined at the grant date of the equity compensation is apportioned on a straight line basis over the periods in which it is expected to be earned.

For the equity compensation issued by Stockland, where the individual forfeits the securities due to failure to meet a service or performance condition, no remuneration in respect of that grant is reflected in the remuneration disclosures in that period.

Where amendments are made to the terms and conditions of the issue subsequent to the grant date, the value of the grant is re-determined. An exception to this occurs upon resignation or termination where the amendment relates to securities becoming unrestricted in terms of beneficial ownership, which would otherwise have been forfeited due to the failure to meet future service or performance conditions. In the latter situation, the value that would have been recognised in future periods in respect of the securities not forfeited is brought to account in the period that the securities become unrestricted.

Equity holdings and transactions

The movement during the period in the number of stapled securities held, directly, indirectly or beneficially, by each Director or Specified Executive, including their personally-related entities, is as follows:

Specified Directors	Total held at 1 July 2004	Holdings restricted under ESP as at 1 July 2004 (included in total held at 1 July 2004)	Granted as remuneration in the period via ISP	Net change other	Total held at 30 June 2005	Holdings restricted under ISP/ESP as at 30 June 2005 (included in total held at 30 June 2005)	Holdings unrestricted under ISP/ESP as at 30 June 2005 (except as loan security) (included in total held at 30 June 2005)
Non-Executive Directors							
Mr G Bradley	38,780	–	–	6,000	**44,780**	–	–
Mr T Williamson	6,192	–	–	12,847	**19,039**	–	–
Executive Director							
Mr M Quinn	2,351,000	500,000	160,000	–	**2,511,000**	160,000	2,350,000

Beneficial ownership restrictions no longer apply to unrestricted securities. Unrestricted securities holdings as at 30 June 2005 as identified above provide security under loans issued to purchase securities under the ISP and the ESP as do all of the restricted securities. Restricted securities as at 1 July 2004, together with securities granted as remuneration in the period have impacted the value of the benefit disclosed as equity remuneration in the "Remuneration" table disclosure. Restricted securities as at 30 June 2005 will continue to impact the benefit disclosed as equity compensation in future periods (in accordance with the arrangements described in "Basis of disclosures included as remuneration").

14 RELATED PARTIES (CONTINUED)

Directors' remuneration (continued)

Grants of Equity Compensation

Securities issued to the Executive Director under the ISP and the ESP which have impacted remuneration disclosed in the period were issued as follows:

			Executive Director		
Grant Date	Issue Price $	Performance (P)/ Service (S) based issue	Operative in the period and impacting remuneration benefits	Restricted as at 30 June 2005	Unrestricted as at 30 June 2005
30 November 2001	4.25	P	90,000	–	360,000
31 December 2001	4.16	P	410,000	–	1,640,000
26 October 2004	5.97	S/P	160,000	160,000	–

Loans and other transactions with the Executive Director

Loans

Details regarding loans outstanding at the reporting date to the Executive Director are as follows:

	Balance 1 July 2004 (including interest payable) $	Balance 30 June 2005 (including interest payable)[1] $	Interest paid and payable to Stockland in the reporting period $	Notional interest[2] $	Highest balance in the period (including interest payable)[1] $
Mr M Quinn	10,305,400	11,128,113	296,893	43,727	11,128,113
Total	10,305,400	11,128,113	296,893	43,727	11,128,113

[1] Loan balance at 30 June 2005, and highest balance in the period includes loans by external parties to Mr Quinn guaranteed by Stockland.

[2] For details relating to "Notional interest" in the above table, refer to "Other Loans".

The above loans include housing loans and loans made pursuant to the ISP and the ESP to purchase securities, as detailed in "Equities". Opening and closing balances includes interest payable at those dates. No amounts have been written down or recorded as allowances, as the balances are considered fully collectible.

No loans are made to Non-Executive Directors or their personally-related entities. There are no loans less than $100,000.

Executive Director Loan relating to Incentive Share Plan and Executive Securities Plan

Loans have been made by a wholly owned entity of Stockland to the Executive Director in full-time employment of Stockland, to finance the purchase of Stockland securities, pursuant to the ISP and the ESP approved at General Meetings of the Trust and the Company. These loans have a maximum term of five years from the date the loan is advanced. The stapled securities issued are applied as security over the loan until all outstanding amounts are fully repaid or waived.

For interest bearing loans under the ESP interest accrues daily and is payable half-yearly in arrears, effectively at the August and February distribution payment dates each year at an amount equal to the distribution/dividend receivable in respect of the relevant securities. The effective rate for the year ended 30 June 2005 was 6.46% per annum (2004: 8.96% per annum). As these effective interest rates are in excess of the marginal cost of borrowing those funds of 6.03% (2004: 5.96%), there is no deemed benefit to the Executive Director and no amount is disclosed as remuneration in respect of these loans.

Where loans are repaid prior to the maturity date, interest is calculated daily based on the number of days since the last distribution date, multiplied by the total interest paid in the previous twelve (12) month period (by way of distributions and dividends) and increased by 3%.

14 RELATED PARTIES (CONTINUED)

Directors' remuneration (continued)

Executive Director Loan relating to Incentive Share Plan and Executive Securities Plan (Continued)

Early repayment is required upon resignation, retirement, or dismissal (within ninety one (91) days) and within one hundred and eighty two (182) days after death of the individual.

Where Stockland receives an amount of interest on the outstanding loan balances advanced in respect of securities issued under the ESP which is in excess of the amount which would be payable based on the marginal cost of borrowing those funds, no amount is included in remuneration as it is not a benefit to the Executive Director, but rather a cost to the individual.

Various maturity dates and terms and conditions apply to each of the loans made under the ISP and the ESP as described below:

Loan type 1

The following two loans were advanced to the Executive Director and were repaid through loans provided by Commonwealth Bank of Australia ("CBA"):

– Loan totalling $1,347,500 was advanced in February 2001; and
– Loan totalling $8,352,400 was advanced in December 2001.

Stockland has guaranteed the loans provided by CBA to the Executive Director for a period of up to three (3) years and ninety (90) days from the date of the loan. The guarantee is for the shortfall, if any, between the value of the loan and the market value of the stapled securities that the loan supports. The guarantee ends ninety (90) days after the borrower ceases to be an employee of Stockland or related entity.

Loan type 2

A non interest-bearing loan to the Executive Director for $955,200, was advanced in November 2004, and matures in November 2009.

The Executive Director's obligations to repay the loan are limited to the market value of the securities at the time the loan is due to be repaid. Where the securities are sold after the three (3) year restricted holding period, but before the expiry of the five (5) year loan term, then the limited recourse feature of the Loan will not apply and the individual will be required to pay the loan in full. If the Executive Director terminates employment prior to the vesting of the securities at the end of the three (3) year vesting period, proceeds from the sale of the securities will be used to pay taxes on that sale, with the remainder remitted to Stockland.

Other loans

In addition to the loans advanced under the ISP and the ESP, other loans have also been advanced to the Executive Director.

In consideration for moving interstate to join Stockland, the Executive Director has an interest-free loan of $159,000 maturing on 20 August 2009 or within 180 days of him ceasing to be an employee of Stockland, whichever is the earlier. Commercial interest rates apply should the Executive Director no longer be an employee of Stockland. The loan was advanced by a wholly owned subsidiary of Stockland. In the event of death or disability rendering the Executive Director unable to work for Stockland, the loan may be repaid from the proceeds of life insurance policies.

No amounts have been written down or recorded as an allowance, as the balances are considered fully collectible.

Notional interest

In respect of low-cost and interest-free loans, the interest that would have been payable is determined under Australian Accounting Standards by reference to the marginal cost to Stockland of borrowing those funds net of any interest payable by the employee (if any). The marginal cost of borrowing the funds loaned for the current financial year is 6.03% (2004: 5.96% p.a.). The interest benefit thus calculated together with the related fringe benefits tax is disclosed as remuneration, as a "Primary, Non-monetary" benefit.

15 SEGMENT INFORMATION

The Trust is an unlisted property trust. Its primary purpose is the investment in a joint venture entity that generates income from the ownership of a commercial property in Brisbane.

	30 June 2005 $'000	4 February 2004 to 30 June 2004 $'000
16 NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Reconciliation of net profit to the net cash provided by operating activities		
Net profit	1,624	1,168
Unrealised gain/(loss) on financial instruments	1,780	(577)
Realised profit on novation of financial instrument	(312)	–
Share of joint venture entity net profit/(loss)	2,050	(3,097)
Amortisation of unrealised loss on financial instruments on designation as an effective hedge	(98)	–
Increase in prepayments	(486)	–
Increase in other assets	(7)	–
(Decrease)/increase in payables	(2,249)	4,047
Net cash inflows from operating activities	2,302	1,541
(b) Cash	2,221	1,381

Cash balances are subject to limited interest rate risk. The weighted average interest rate earned on cash investments at 30 June 2005 was 5.22 % (2004: 5.03%). No short term deposits were held at period end.

	30 June 2005 $	4 February 2004 to 30 June 2004 $
17 AUDITOR'S REMUNERATION		
Amounts received, or due and receivable by KPMG		
Auditors of the Trust	13,250	7,500
Compliance audit services	15,000	–
Other assurance services	6,900	–
	35,150	7,500

18 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1 January 2005, the Trust must comply with Australian equivalents to International Financial Reporting Standards ("AIFRS") as issued by the Australian Accounting Standards Board ("AASB").

This Financial Report has been prepared in accordance with Australian accounting standards and other financial reporting requirements ("AGAAP").

Transition management

The Responsible Entity has established a formal project to achieve transition to AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the Trust is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

18 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

The Responsible Entity's implementation project consists of three phases as described below:

Assessment and planning phase

The assessment and planning phase aims to produce a high level overview of the impacts of conversion to AIFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase includes:
– high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS;
– assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
– evaluation of the implications for staff, for example training requirements; and
– preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The assessment and planning phase is complete.

Design phase

The design phase formulated the changes required to existing accounting policies and procedures and systems and processes in order to facilitate transition to AIFRS.
The design phase incorporated:
– formulating revised accounting policies and procedures for compliance with AIFRS requirements;
– identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of AIFRS;
– developing revised AIFRS disclosures;
– designing accounting and business processes to support AIFRS reporting obligations;
– identifying and planning required changes to financial reporting and business source systems; and
– developing training programs for staff.

The design phase is complete as at 30 June 2005.

Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the Trust to generate the required disclosures of AASB 1 "First time adoption of Australian Equivalents to International Financial Reporting Standards" as it progresses through its transition to AIFRS.

This phase is substantially complete as at 30 June 2005.

Impact of transition to AIFRS

On transition, the following exemption contained within AASB 1 has been adopted:

– Financial Instruments have not been restated in accordance with the application of AASB 132 and AASB 139 at 1 July 2004, but these standards will be applied from 1 July 2005.

AASB 132 "Financial Instruments: Disclosure and Presentation" requires unitholders' funds (previously classified as equity under AGAAP) to be classified as a financial liability with related distributions to unitholders as interest expense (previously recorded as equity distributions under AGAAP).

From 1 July 2005, these changes in treatment are required under AIFRS because, pursuant to the Trust Constitution at the date of this report, the Trust possesses a finite life with units on issue considered "puttable" financial instruments which together with any reserves and undistributed income are considered a liability to unitholders. In addition, the Trust Constitution provides a non discretionary financial obligation upon the Trust to make distributions which also characterises unitholders' funds as a liability to unitholders with related distributions considered to be interest expense under AIFRS.

For the Trust the AIFRS change in treatment of unitholders' funds to liability to unitholders will result in zero net assets. Also the change in treatment of distributions to interest expense will substantially reduce future reported profit of the Trust.

18 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Impact of transition to AIFRS (continued)

On adoption of AASB 139 "Financial Instruments: Recognition and Measurement" at 1 July 2005, all derivatives are to be recognised at fair value on the balance sheet together with the hedged item at either fair value or amortised cost. Changes in fair value of the hedged item or amortisation of the hedged item, as applicable, together with changes in the fair value of derivatives are recognised in the income statement. The criteria for application of hedge accounting includes an expectation that the hedge will be highly effective at inception over the life of the hedge. Actual hedge effectiveness must be measured on an ongoing basis with effective hedges recognised in the balance sheet and any hedge ineffectiveness recognised in the income statement.

AIFRS adjustments for SDOT Sub-Trust 1 have been considered and there should be no impact to investments accounted for using the equity method on transition, 1 July 2004 and for the year ended 30 June 2005.

Readers of the Financial Report should note that further developments in AIFRS if any, may result in changes to the accounting policy decisions made by the directors.

19 EVENTS SUBSEQUENT TO BALANCE DATE

Other than the matters discussed below there has not arisen in the interval between the end of the financial year and the date of this report any item, transactions or event of a material or unusual nature which is likely, in the opinion of the Directors of the Responsible Entity to affect significantly the operations of the Trust, the results of those operations, or the state of affairs of the Trust, in future financial years.

20 OTHER INFORMATION

Life of Trust

The vesting date of the Trust is the earlier of 3 February 2084 or when terminated under the Trust Constitution or by the operation of the law.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2005

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

a) The Financial Statements and notes of the Trust set out in pages 5 to 29 are 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 2005 and of the Trust's performance as represented by the results of the operations and its cash flows for the year ended on that date; and
   ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

b) There are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

c) The Trust has operated during the year ended 30 June 2005 in accordance with the provisions of the Trust Constitution dated 4 February 2004.

Signed in accordance with a resolution of the directors

Matthew Quinn
Director

Sydney, 9th August 2005

INDEPENDENT AUDIT REPORT

TO THE UNITHOLDERS OF STOCKLAND DIRECT OFFICE TRUST NO. 1

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes (notes 1 to 20) to the financial statements and the directors' declaration (set out in pages 5 to 30) for Stockland Direct Office Trust No.1 ("the Trust") for the year ended 30 June 2005.

The directors of Stockland Funds Management Limited, the Responsible Entity of the Trust, are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the unitholders of the Trust. Our audit was conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Trust's financial position, and of their performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

– examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

– assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

Audit opinion

In our opinion, the financial report of the Trust for the year ended 30 June 2005 is in accordance with:

(a) the Corporations Act 2001, including:
  (i) giving a true and fair view of the Trust's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory reporting financial requirements in Australia

(c) the provisions of the Trust Constitution dated 4 February 2004.

KPMG

KPMG

S J Marshall
Partner
Sydney 9th August 2005

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK


NAVISION

Stockland
DIRECT

Responsible Entity
Stockland Funds Management Limited
ABN 86 078 2081 722

Directors of the Responsible Entity
Graham Bradley (Chairman)
David Kent
Matthew Quinn
Tony Sherlock
Terry Williamson

Company Secretary of the Responsible Entity
Phillip Hepburn

Responsible Entity's office
Level 16, 157 Liverpool Street
Sydney NSW 2000

Mail GPO Box 998
Sydney NSW 2001

Telephone (02) 9020 8320 or
1300 652 748 (local call cost)
Facsimile (02) 9321 1592

Email: stocklanddirect@stockland.com.au

Internet: www.stockland.com.au/unlistedpropertyfunds

Registrar
Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000

Mail GPO Box 7045
Sydney NSW 2001

Telephone 1300 855 080
Facsimile (02) 8234 5050

Email: sydney.services@computershare.com.au

Custodian
Trust Company of Australia Limited
Level 4, 35 Clarence Street
Sydney NSW 2000

Auditor
KPMG
10 Shelley Street
Sydney NSW 2000