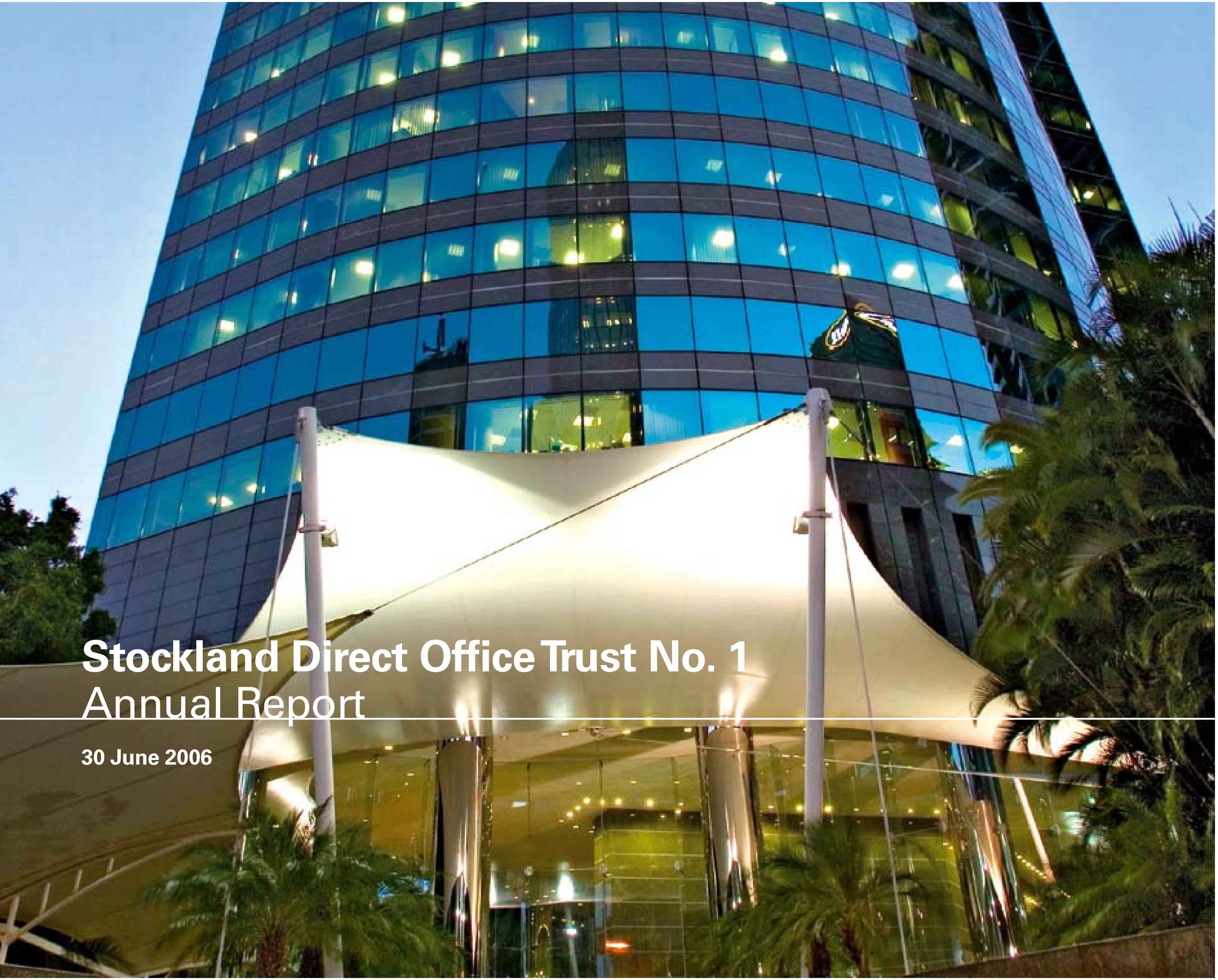

Stockland Direct Office Trust No. 1
Annual Report

30 June 2006

2006

Stockland
DIRECT

Stockland Direct Office Trust No.1

Contents

Waterfront Place Brisbane, QLD

Directors' Report

For the year ended 30 June 2006

The Directors of Stockland Funds Management Limited ("SFML"), the Responsible Entity of Stockland Direct Office Trust No. 1 (the "Trust"), present their report together with the Financial Report made in accordance with a resolution of the Directors with respect to the results of the Trust for the year ended 30 June 2006 and the state of the Trust's affairs as at 30 June 2006.

Directors

The Directors of the Responsible Entity at any time during or since the end of the financial year ("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 and Perpetual Limited. 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 Australia Pty Limited, IMB Limited and the Garvan Research Foundation. Ms Gearing was Chief Executive of NSW State Super from 1997 to 2002, and has over thirty years 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 from 1 July 2006.

David Kent
(Non-Executive) – Independent

Appointed 9 August 2004

Mr Kent is Executive Chairman of Everest Babcock & Brown Limited and a director of Everest Babcock and Brown Alternative Investments. 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 and Chairman of the Brett Whiteley Foundation.

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 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)

Appointed 2 July 2004

Mr Williamson is a director of Stockland, Excel Coal Limited and United Medical Protection Group 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 the Stockland Funds Management Limited Compliance Committee.

Matthew Quinn
Managing Director – Stockland (Executive)

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.

Graham Bradley
Former Chairman (Non-Executive)

Appointed 2 July 2004
Resigned 22 November 2005

Mr Bradley is Chairman of Stockland, HSBC Bank Australia Limited, Film Finance Corporation of Australia, Proteome Systems Limited, and Po Valley Energy Limited. He is a director of Stockland, Singapore Telecommunications Limited and MBF Australia Limited. Mr Bradley was the Managing Director of Perpetual Trustees Australia Limited for eight years until September 2003 and was the national Managing Partner of Blake Dawson Waldron and a Principal of McKinsey & Company prior to that.

Directors' Report (continued)

For the year ended 30 June 2006

Principal activities

The principal activity of the Trust is 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 achieved a profit from operating activities of $30,014,000 for the financial year ended 30 June 2006 (2005: $1,624,000).

During the year, the Trust's indirect interest in the Waterfront Place property was revalued upward to $177,500,000. This represents an increase of 17% on the 30 June 2005 carrying value. The upward revaluation totalling $24,747,000 was recognised in the Trust's Income Statement through the recognition of the Trust's share of net profits of the joint venture.

From 1 July 2005, in order to comply with Australian Accounting Standard AASB 132 "Financial Instruments: Disclosure and Presentation", the unitholders' funds are required to be treated as liabilities to unitholders and trust distributions to be treated as an expense in the Income Statement. AASB 132 was effective from 1 July 2005 and therefore does not affect prior year comparatives.

Distributions paid or declared by the Trust to unitholders during the year are set out in Note 18 of the Financial Statements.

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 Trust during the year.

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 Trust's Financial Statements at 30 June 2006.

Likely developments

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

Environmental regulation

The Trust's operations are not subject to any significant environmental regulation under either Commonwealth or State legislation. The Responsible Entity believes that the Trust 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 Trust.

Related parties

Stockland Trust Management Limited, a related party of the Responsible Entity, holds 445,000 units in the Trust as at 30 June 2006, as Responsible Entity of Stockland 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. The Responsible Entity is entitled to recover all fees deferred either from Trust earnings or on a winding up of the Trust. The Responsible Entity charges are set out in Note 21 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 David Kent	20,000
Mr Terry Williamson	37,500
Mr Matthew Quinn	15,000

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 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.

Directors' Report (continued)

For the year ended 30 June 2006

Indemnities and insurance of officers and auditors (continued)

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.

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 year ended 30 June 2006.

Rounding

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.

Signed in accordance with a resolution of the Directors:

Matthew Quinn
Director
Dated at Sydney, 17 August 2006

Lead Auditor's Independence Declaration

Under Section 307C of the Corporations Act 2001

04

To: The directors of the Responsible Entity of Stockland Direct Office 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 financial year ended 30 June 2006 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

Stuart J Marshall
Partner
Sydney, 17th August 2006

Income Statement

For the year ended 30 June 2006

05

	Notes	2006 $'000	2005 $'000
Revenue and other income			
Realised profit on novation of financial instruments		**–**	312
Interest income		**51**	55
Share of profit of investments accounted for using the equity method	8	**37,199**	11,777
Total revenue and other income		**37,250**	12,144
Finance costs to external parties[1]		**(6,226)**	(8,033)
Unrealised loss on financial instruments		**–**	(1,780)
Auditors' remuneration	4	**(52)**	(35)
Responsible Entity fees	21	**(756)**	(425)
Other expenses		**(202)**	(247)
Total expenses before finance costs to unitholders		**(7,236)**	(10,520)
Profit from operating activities		**30,014**	1,624
Distribution (finance) expense to unitholders[1]	18	**(5,352)**	–
Change in net assets for the year attributable to unitholders	17	**24,662**	–
Net profit		**–**	1,624

[1] Total finance costs for the Trust are $11,578,000 (2005: $8,033,000), being the sum of finance costs to external parties and distributions to unitholders. From 1 July 2005, in order to comply with AASB 132, the unitholders' funds are required to be treated as a liability to unitholders and trust distributions to be treated as an expense in the Income Statement. AASB 132 was effective from 1 July 2005 and therefore does not affect prior year comparatives.

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

Balance Sheet

As at 30 June 2006

	Notes	2006 $'000	2005 $'000
Current assets			
Cash and cash equivalents	5	**1,342**	2,221
Other receivables	6	**–**	5
Other assets	7	**4**	100
Total current assets		**1,346**	2,326
Non-current assets			
Investments accounted for using the equity method	8	**177,723**	152,742
Other assets	9	**760**	386
Total non-current assets		**178,483**	153,128
Total assets		**179,829**	155,454
Current liabilities			
Other payables	10	**1,108**	1,797
Provisions	11	**1,338**	1,309
Other liabilities	12	**–**	159
Total current liabilities		**2,446**	3,265
Non-current liabilities			
Interest-bearing loans and borrowings	13	**92,152**	92,538
Other liabilities	14	**–**	633
Total non-current liabilities		**92,152**	93,171
Total liabilities (excluding net assets attributable to unitholders)		**94,598**	96,436
Net assets attributable to unitholders[1, 2]	17	**85,231**	–
Net assets		**–**	59,018
Unitholders' funds[1]			
Units on issue	15	**–**	60,145
Reserves	16	**–**	(1,127)
Total Unitholders' funds		**–**	59,018

[1] From 1 July 2005, in order to comply with AASB 132, the unitholders' funds are required to be treated as liabilities to unitholders and trust distributions to be treated as an expense in the Income Statement. AASB 132 was effective from 1 July 2005 and therefore does not affect prior year comparatives.

[2] A contingent liability exists for performance fees and is disclosed in Note 23 of the financial statements.

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

Statement of Changes in Equity

For the year ended 30 June 2006

	Unitholders Funds							
	Units on Issue		Undistributed Income		Reserves		Total	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
Opening balance	**60,145**	–	**–**	–	**(1,127)**	577	**59,018**	577
Change in accounting policy as result of AASB 132 and AASB 139[1]	**(60,145)**	–	**–**	–	**1,127**	–	**(59,018)**	–
Restated balance	**–**	–	**–**	–	**–**	577	**–**	577
Net profit for the year	**–**	–	**–**	1,624	**–**	–	**–**	1,624
Unrealised (loss) on financial instruments	**–**	–	**–**	1,370	**–**	(1,370)	**–**	–
Other transfers	**–**	–	**–**	334	**–**	(334)	**–**	–
Transactions with unitholders								
Units issued	**–**	60,145	**–**	–	**–**	–	**–**	60,145
Distributions paid	**–**	–	**–**	(3,328)	**–**	–	**–**	(3,328)
Closing balance	**–**	60,145	**–**	–	**–**	(1,127)	**–**	59,018

[1] From 1 July 2005, in order to comply with AASB 132 "Financial Instruments: Disclosure and Presentation", the unitholders' funds are required to be treated as a liability to unitholders and trust distributions to be treated as an expense in the Income Statement. AASB 132 was effective from 1 July 2005 and therefore does not affect prior year comparatives.

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

Cash Flow Statement

For the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		**51**	–
Cash payments in the course of operations		**(711)**	(1,065)
Distributions received from joint venture entity		**12,493**	13,826
Interest received		**51**	55
Interest paid		**(7,165)**	(10,514)
Net cash from operating activities	19	**4,719**	2,302
Cash flows from investing activities			
Payments for unlisted units in joint venture entity		**(275)**	(435)
Repayment of loan from related party		**–**	160
Net cash from investing activities		**(275)**	(275)
Cash flows from financing activities			
Proceeds from external party financing		**–**	92,538
Repayment of external party financing		**–**	(151,260)
Proceeds from the issue of units to unitholders		**–**	60,145
Distributions paid		**(5,323)**	(2,610)
Net cash from financing activities		**(5,323)**	(1,187)
Net (decrease)/increase in cash and cash equivalents		**(879)**	840
Cash and cash equivalents at the beginning of the financial year		**2,221**	1,381
Cash and cash equivalents at the end of the financial year	5	**1,342**	2,221

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

Notes to the Financial Statements

For the year ended 30 June 2006

1 Summary of significant accounting policies

Stockland Direct Office Trust No. 1 ("the Trust") is a Managed Investment Scheme domiciled in Australia.

The Financial Report was authorised for issue by the Directors of the Responsible Entity on 17 August 2006.

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

(a) Statement of compliance

The 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. International Financial Reporting Standards ("IFRS") form the basis of AASBs adopted by the AASB and for the purpose of this report are called Australian equivalents to IFRS ("AIFRS") to distinguish it from previous Australian GAAP.

This Financial Report is the Trust's first Financial Report to be prepared in accordance with AIFRS. AASB 1 "First time Adoption of Australian Equivalents to International Financial Reporting Standards" has been applied in preparing this Financial Report.

The effects of transition from previous Australian GAAP to AIFRS on the Trust's equity and Income Statement are set out in Note 22.

With the exception of financial instruments, the comparative figures in the Financial Report have been restated to reflect the adjustments required under transition to AIFRS.

The Trust however has adopted the exemption available under AASB 1 to apply AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" from 1 July 2005.

Refer to Note 22 for further information regarding the adoption of this exemption.

(b) Basis of preparation

The Financial Report is presented in Australian dollars.

The Financial Report has been prepared on the basis of the going concern and historical cost basis except for certain financial instruments 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 the Class Order, amounts in the Financial Report and Directors' Report have been rounded off 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 historical experience and various other 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 all periods presented in this Financial Report. They have also been applied in preparing an opening AIFRS Balance Sheet at 1 July 2004 for the purposes of the transition to AIFRS, as required by AASB 1. Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy.

(c) Investments

Joint venture entities

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. 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 Income Statement from the date joint control commences until the date joint control ceases. Other movements in reserves are recognised directly in reserves, classified as a liability to unitholders.

(d) Segment reporting

A segment is a distinguishable component of the Trust 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) Revenue recognition

Revenues arising in the ordinary course of activities are recognised at the fair value of the consideration received or receivable net of the amount of goods and services tax ("GST") levied.

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.

(f) 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.

(g) Income tax

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

Notes to the Financial Statements

For the year ended 30 June 2006

1 Summary of significant accounting policies (continued)

(h) Derivative financial instruments

Current accounting policy

The Trust 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 Trust 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(i).

The fair value of interest rate swaps is the estimated amount that the Trust 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.

Comparative period policy

The Trust is exposed to changes in interest rates from its activities. The Trust uses interest rate swap agreements to hedge this risk. Derivative financial instruments are not held for speculative purposes.

(i) Hedging

Current accounting policy

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

Fair value hedge

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

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

Cash flow hedge

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

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

Amounts accumulated in net assets attributable to unitholders 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 net assets attributable to unitholders 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 net assets attributable to unitholders at that time remains in net assets attributable to unitholders 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 net assets attributable to unitholders is recognised immediately in the Income Statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do 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.

Comparative period policy

Interest rate swaps

Derivative financial instruments which are 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 Income Statement on an accruals basis, as an adjustment to finance costs.

Other interest rate swaps not meeting the accounting requirements for hedges are valued at reporting date and any gains or losses are brought to account in the Income Statement.

(j) 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 arrangement of borrowings.

Where interest rates are hedged, the borrowing 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.

Distributions to unitholders

Distributions to unitholders represent trust distributions made to unitholders and are expensed when approved by the Directors of the Responsible Entity.

Notes to the Financial Statements

For the year ended 30 June 2006

1 Summary of significant accounting policies (continued)

(k) 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 Trusts cash management are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement.

(l) Impairment of assets

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impaired 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.

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 has 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.

(m) Other payables

Other payables are stated at cost.

(n) Interest-bearing loans and borrowings

Current accounting policy

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.

Comparative period policy

Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in payables.

Notes payable are recognised when issued at the net proceeds received, with the premium or discount on issue amortised over the period to maturity. Interest expense is recognised using the effective interest method.

(o) Provisions

A provision is recognised when a present legal, equitable 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.

Distributions to unitholders

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

(p) Change in net assets attributable to unitholders

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 is recorded as a liability to unitholders.

The Directors take into account the effect of unrealised changes in the net market value of investments or financial instruments, net capital losses, tax-deferred income, accrued income not yet assessable, non-deductible expenses and the effect of transition from previous Australian GAAP to new AIFRS reporting when assessing the appropriate distribution payout ratio, to ensure that unitholders are not disadvantaged. These items are distributed to unitholders once the amounts have become assessable for taxation purposes.

Comparative period policy

Transfers to/from unitholders' funds

Under previous AGAAP, non-distributable income, which comprised 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 were transferred to unitholders' funds.

These items were 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.

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 Trust makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results exactly. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

3 Segment reporting

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.

Notes to the Financial Statements

For the year ended 30 June 2006

	2006 $	2005 $
4 Auditors' remuneration		
Audit services		
Audit and review of the Financial Reports (KPMG Australia)	**17,600**	13,250
Other services		
Compliance audit services (KPMG Australia)	**16,500**	15,000
Tax compliance services (KPMG Australia)	**18,359**	–
Other regulatory audit services (KPMG Australia)	**–**	6,900
	34,859	21,900
Total remuneration	**52,459**	35,150

	2006 $'000	2005 $'000
5 Current assets – Cash and cash equivalents		
Cash at bank and on hand	**1,342**	2,221

The weighted average interest rate for cash at bank and on hand as at 30 June 2006 was 5.46% (2005: 4.80%).

	2006 $'000	2005 $'000
6 Current assets – Other receivables		
Other receivables	**–**	5
7 Current assets – Other assets		
Other assets	**4**	100

Notes to the Financial Statements

For the year ended 30 June 2006

	Location	Principal Activity	Holding 2006	Holding 2005	Carrying Amount 2006 $'000	Carrying Amount 2005 $'000
8 Non-current assets – Investments accounted for using the equity method						
SDOT Sub-Trust 1	NSW	Property investment	**50%**	50%	**177,723**	152,742

The joint venture was formed in Australia.

The principal activity is investment in real property.

	2006 $'000	2005 $'000
Movements in carrying amount of investments accounted for using the equity method		
Carrying amount at the beginning of the financial year	**152,742**	154,356
Interest in joint venture entity acquired	**275**	435
Share of change in net assets/profit	**37,199**	11,777
Distributions received/receivable	**(12,493)**	(13,826)
Carrying amount at the end of the financial year	**177,723**	152,742
Share of joint venture entity's assets and liabilities		
Current assets	**3,415**	4,194
Non-current assets	**176,595**	150,831
Total assets	**180,010**	155,025
Current-liabilities	**(2,287)**	(2,283)
Non-current liabilities	**–**	–
Total liabilities	**(2,287)**	(2,283)
Share of net assets after equity accounting adjustments	**177,723**	152,742
Share of joint venture entity's revenue, expenses and results		
Revenue	**40,956**	15,782
Expenses	**(3,757)**	(4,005)
Net profit accounted for using the equity method	**37,199**	11,777
Summarised financial information of the investment using the equity method (100%)		
Current assets	**6,830**	8,387
Non-current assets	**353,190**	301,662
Current liabilities	**(4,574)**	(4,565)
Non-current liabilities	**–**	–
Net assets	**355,446**	305,484
Revenues	**81,912**	31,564
Expenses	**(7,514)**	(8,010)
Net profit	**74,398**	23,554

Notes to the Financial Statements

For the year ended 30 June 2006

	2006 $'000	2005 $'000
9 Non-current assets – Other assets		
Capitalised borrowing costs	**–**	386
Financial instruments asset	**760**	–
	760	386
10 Current liabilities – Other payables		
Interest payable on loan facility	**496**	1,792
Trade payables and accruals	**612**	5
	1,108	1,797
11 Current liabilities – Provisions		
Distributions	**1,338**	1,309
Movement in provisions (Distributions to unitholders)		
Carrying amount at the beginning of the financial year	**1,309**	
Additional provision recognised	**5,352**	
Payments	**(5,323)**	
Carrying amount at the end of the financial year	**1,338**	
12 Current liabilities – Other liabilities		
Financial instruments liability	**–**	159
13 Non-current liabilities – Interest-bearing loans and borrowings		
Loan facility	**92,538**	92,538
Capitalised borrowing costs	**(386)**	–
	92,152	92,538

The Trust has a $98,434,000 (2005: $98,434,000) loan facility agreement with Westpac Banking Corporation. As at 30 June 2006, $92,538,000 has been drawn down (2005: $92,538,000). The weighted average interest rate on the loan facility is 6.62% per annum (2005: 6.57% per annum). The facility matures on 30 June 2010.

Westpac Administration Pty Limited has a fixed and floating charge over the units in the joint venture entity SDOT Sub-Trust 1.

	2006 $'000	2005 $'000
14 Non-current liabilities – Other liabilities		
Financial instruments liability	**–**	633

	2006 Number of units	2005 Number of units	2006 $'000	2005 $'000
15 Units on issue classified as debt/equity				
Units on issue	**66,500,010**	66,500,010	**60,145**	60,145

Date	Details	Number of units	Issue price	$'000
Movements in units				
4 February 2004	Units issued	10	$1.00	–
19 November 2004	Units issued	66,500,000	$1.00	66,500
19 November 2004	Transaction costs	–	–	(6,355)
30 June 2006[1]	Balance	66,500,010		60,145

[1] From 1 July 2005, in order to comply with AASB 132, the unitholders' funds are required to be treated as a liability and trust distributions to be treated as an expense in the Income Statement. AASB 132 was effective from 1 July 2005 and therefore does not affect prior year comparatives.

Rights and restrictions over units:

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

	2006 $'000	2005 $'000
16 Reserves		
Classified as equity		
Balance at the beginning of the financial year[1]	**(1,127)**	577
Change in accounting policy	**1,127**	–
Transfer from unitholders' funds:		
– Unrealised loss on financial instruments	**–**	(1,370)
– Other transfers[2]	**–**	(334)
Balance at the end of the financial year	**–**	(1,127)
Classified as liability		
Balance at the beginning of the financial year[1]	**–**	–
Change in accounting policy	**(1,127)**	–
Change in net assets attributable to unitholders	**24,662**	–
Net change in fair value of hedging instruments	**1,551**	–
Balance at the end of the financial year	**25,086**	–

[1] From 1 July 2005, in order to comply with AASB 132, the unitholders' funds are required to be treated as a liability and trust distributions to be treated as an expense in the Income Statement. AASB 132 was effective from 1 July 2005 and therefore does not affect prior year comparatives.

[2] The other transfers from unitholders' funds predominantly arise from the amount of Responsible Entity fees deferred and the amortisation of borrowing costs during the financial period.

Notes to the Financial Statements

For the year ended 30 June 2006

		Notes	2006 $'000
17 Net assets attributable to unitholders classified as a liability			
1 July 2005	Net assets attributable to unitholders at the beginning of the financial year		–
1 July 2005	Changes in accounting policy		
	– Reclassification of units on issue to liabilities under AASB 132		**60,145**
	– Reclassification of reserves to liabilities under AASB 132		**(1,127)**
1 July 2005	Effect of change in accounting policy as a result of initial adoption of AASB 132 for financial instruments		
	– Reverse unamortised swap liability as at 30 June 2005[1]		**792**
1 July 2005	Effect of change in accounting policy for change in fair value of hedging instruments under AIFRS		
	– Unrealised fair value of interest rate swap[1]		**(1,863)**
30 June 2006	Movement in fair value of interest rate swaps[1]		**2,622**
30 June 2006	Change in net assets for the year attributable to unitholders		**24,662**
30 June 2006	Net assets attributable to unitholders at the end of the financial year		**85,231**

[1] The total of these amounts is $1,551,000 being the net change in fair value of hedging instruments referred to in Note 16.

	Notes	2006 $'000
The above net assets attributable to unitholders is made up as follows:		
Reserves classified as liability	16	**25,086**
Issued units classified as liability	15	**60,145**
		85,231

18 Distributions to unitholders

Distributions to unitholders recognised in the financial year by the Trust are:

	Distribution per unit	Total amount $'000	Date of payment	Tax deferred %
2006				
30 September 2005[3]	2.0125¢	1,338	10 November 2005	100
31 December 2005[3]	2.0125¢	1,338	17 February 2006	100
31 March 2006[3]	2.0125¢	1,338	3 May 2006	100
30 June 2006[3]	2.0125¢	1,338	28 August 2006*	100
Total distributions		5,352		

* Proposed payment date

Distributions to unitholders recognised in the prior year by the Trust are:

	Distribution per unit	Total amount $'000	Date of payment	Tax deferred %
2005				
30 September 2004[1,2]	$6,189	62	23 November 2004	100
31 December 2004[2]	0.9425¢	627	28 February 2005	100
31 March 2005[2]	2.0000¢	1,330	27 May 2005	100
30 June 2005[2]	1.9680¢	1,309	26 August 2005	100
Total distributions		3,328		

[1] A total of 10 units were issued up to and including 18 November 2004.
[2] Paid out of previous Australian GAAP profits.
[3] Paid out of AIFRS profits.

	2006 $'000	2005 $'000
19 Notes to the Cash Flow Statement		
Reconciliation of profit from operating activities to net cash from operating activities		
Profit from operating activities	**30,014**	1,624
Unrealised gain on financial instruments	**–**	1,780
Amortisation of borrowing costs	**96**	–
Change in value of investment using the equity method	**(24,747)**	–
Realised profit on novation of financial instrument	**–**	(312)
Share of joint venture entity net profit	**40**	2,050
Amortisation of unrealised loss on financial instruments on designation as an effective hedge	**–**	(98)
Change in assets and liabilities:		
(Increase) in other assets	**–**	(493)
(Decrease) in payables	**(684)**	(2,249)
Net cash from operating activities	**4,719**	2,302

20 Financial instruments

(a) Financial risk management

The Trust's activities expose it to a variety of financial risks; liquidity risk, cash flow risk and interest rate risk. The Trust's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Trust's financial performance. The Trust 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 Trust 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 marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Trust aims at maintaining flexibility in funding by keeping committed credit lines available.

Cash flow and fair value interest rate risk
As the Trust has no significant interest bearing assets, the income and operating cash flows are substantially independent of changes in market interest rates.

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

The Responsible Entity, on behalf of the Trust, manages the Trust'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.

Notes to the Financial Statements

For the year ended 30 June 2006

20 Financial instruments (continued)

(b) Derivative financial instruments used by the Trust

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 Trust's financial risk management policies as mentioned above.

Interest rate swap contracts

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

Immediately following the issue of the units on 19 November 2004, the Trust's Loan Facility of $92,538,000 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 $32,462,000 was novated to Westpac Banking Corporation at no cost to the Trust. As originally intended and forecast in the PDS on the issue of units, the remaining face value of the swap contract of $92,538,000 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.

A swap is currently in place covering 100% (2005: 100%) of the loan principal outstanding and is timed to expire as the loan repayment falls due. The fixed interest rate is 5.97% p.a. (2005: 5.97% p.a.) and the variable rate is the 90 day Bank bill rate which at 30 June 2006 was 5.90% p.a. (2005: 5.67% p.a.).

At 30 June 2006, the notional principal amounts and periods of expiry of the interest rate swap contract for the loan facility are as follows:

	2006 $'000	2005 $'000
Less than 1 year	**–**	–
1 – 2 years	**–**	–
2 – 3 years	**–**	–
3 – 4 years	**–**	–
4 – 5 years	**92,538**	–
Over 5 years	**–**	92,538

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 has been tested for effectiveness. At 30 June 2006, the swap is considered to be entirely effective, accordingly the full change in the fair value is recognised in net assets attributable to unitholders. Refer accounting policy at Note 1(h). During 2005, the interest rate swap was treated as a hedge to the extent it was effective for accounting purposes under Australian GAAP.

At balance date, the swap contract had a fair value of $760,278 included in other assets on the Balance Sheet.

20 Financial instruments (continued)

(c) Interest rate risk exposures

	Effective interest rate	Floating interest rate $'000	Maturity Profile 1 year or less $'000	2 – 3 years $'000	3 – 4 years $'000	4 – 5 years $'000	More than 5 years $'000	Total $'000
2006								
Financial asset								
Cash and cash equivalents	5.46%	1,342	–	–	–	–	–	1,342
Financial liabilities								
Facility agreement	6.55%	(92,538)	–	–	–	–	–	(92,538)
Effect of interest rate swap	0.07%	92,538	–	–	–	(92,538)	–	–
		1,342	–	–	–	(92,538)	–	(91,196)
2005								
Financial asset								
Cash and cash equivalents	5.22%	2,221	–	–	–	–	–	2,221
Financial liabilities								
Facility agreement	6.46%	(92,538)	–	–	–	–	–	(92,538)
Effect of interest rate swap	0.11%	92,538	–	–	–	–	(92,538)	–
		2,221	–	–	–	–	(92,538)	(90,317)

(d) Fair values of financial assets and liabilities

The carrying amounts of cash and cash equivalents, other receivables, the facility agreement and interest rate swaps as disclosed in the Balance Sheet reflect the fair value of these financial assets and liabilities as at 30 June 2006.

The interest rate swap has been accounted for on the Balance Sheet at its fair value. The interest rate swap has been deemed to be an effective hedge. Accordingly, the unrealised gain has been recognised directly in net assets attributable to unitholders.

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

	2006 $'000 Carrying amount	**2006 $'000 Fair value**	2005 $'000 Carrying amount	2005 $'000 Fair value
Interest rate swap	**760**	**760**	(792)	(1,863)
Unrealised (loss)		**–**		(1,071)

Notes to the Financial Statements

For the year ended 30 June 2006

21 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 directors of the Responsible Entity and their units held in the Trust at 30 June 2006 are as follows:

Director	Number of units held
Mr David Kent	20,000
Mr Terry Williamson	37,500
Mr Matthew Quinn	15,000

Responsible Entity fees and other transactions	**2006 $'000**	2005 $'000
Fund Establishment & procurement fee In the prior financial year, 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.	**–**	5,820
Services arranging fee In the prior financial year, 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. In turn, the Responsible Entity paid $380,000 for trust legal costs, PDS production and financial advisory costs.	**–**	380
Responsible Entity fees The Responsible Entity charged responsible entity fees calculated at 0.45% per annum of the gross value of the assets. As at 30 June 2006, the Responsible Entity has deferred the receipt of responsible entity fees of $188,386 (2005: $185,521).	**756**	425
Other related party fees Property management and leasing fees Stockland Property Management Limited, a related party of the Responsible Entity charged $504,019 (2005: $685,336) for the SDOT Sub-Trust 1 property management services including onsite property management staff and leasing fees. Of this amount $295,685 (2005: $616,439) forms part of the outgoings recoverable from tenants pursuant to leases.	**504**	685
Limited debt guarantee fee Stockland Corporation Limited, a related party of the Responsible Entity, charged $92,538 (2005: $56,537) 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.	**93**	57
Total Responsible Entity fees and other transactions	**1,353**	7,367

Other related party transactions

Limited Liquidity Facility ("LLF")

As detailed in the Product Disclosure Statement for the Trust, Westpac has agreed to acquire up to 521,000 units in the Trust per quarter, from Investors seeking to realise their units. Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, has placed a standing order with Westpac to acquire a maximum of 521,000 units per quarter. This standing order from STML can be terminated at any time. During the financial year STML, as Responsible Entity of Stockland Trust, acquired 445,000 units (2005: nil) in the Trust via the LLF.

22 Impact of adopting Australian equivalents to International Financial Reporting Standards

As stated in Note 1(a), these are the Trust's first Financial Statements prepared in accordance with AIFRS.

The accounting policies in Note 1 have been applied in preparing the condensed interim Financial Statements for the year ended 30 June 2006, the comparative information for the year ended 30 June 2005 and in the preparation of the opening AIFRS Balance Sheet at 1 July 2004 (the Trust's date of transition).

In preparing its opening AIFRS Balance Sheet, the Trust has adjusted amounts reported previously in Financial Statements prepared in accordance with its old basis of accounting (previous Australian GAAP).

Impact of AIFRS from 1 July 2005

Financial Instruments

Change in accounting policy

Under Australian GAAP, financial instruments which were 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 swaps were recognised on an accrual basis. Where the instruments were considered ineffective under Australian GAAP, any unrealised gains and losses were recognised in the Income Statement.

On adoption of AASB 139 'Financial Instruments: Recognition and Measurement' at 1 July 2005, derivatives and hedged items are accounted for in accordance with significant accounting policies set out in Note 1(i). This change has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 139.

Unitholders' Funds and Distributions

Change in accounting policy

On adoption of AASB 132 "Financial Instruments: Disclosure and Presentation", unitholders' funds (previously classified as equity under Australian GAAP) are classified as a financial liability with related distributions to unitholders recorded as distribution expense (previously recorded as equity distributions under Australian GAAP).

23 Contingent liabilities and contingent assets

As at 30 June 2006 a contingent liability exists in relation to performance fees payable to the Responsible Entity by the Trust, as disclosed in Section 6.8 of the Product Disclosure Statement ("PDS").

The performance fee is calculated on a sliding scale and will only become payable by the Trust provided the net sales proceeds of the Trust's property interest exceeds a minimum 10% premium greater than the application price, as disclosed in the PDS. Due to the upward revaluation of the Waterfront Place property during the financial year, the contingent liability has been estimated at approximately $3,500,000.

As at 30 June 2006, the Trust has no contingent assets.

24 Other Information

Life of the Trust

The Trust terminates on the earliest of:

a) the 80th anniversary of the date before the Trust commenced;

b) a date which has been proposed to unitholders by the Responsible Entity, and which the unitholders have approved by Special Resolution; and

c) the date on which the Trust terminates in accordance with the provisions of the Trust Constitution or by law.

25 Events subsequent to balance date

There have been no events subsequent to balance date which would have a material effect on the Trust's Financial Statements at 30 June 2006.

Directors' Declaration

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

1. The Financial Statements and Notes set out on pages 5 to 21, are in accordance with the Corporations Act 2001 including:
   (a) giving a true and fair view of the financial position of the Trust as at 30 June 2006 and of its performance, as represented by the results of its operations and cash flows for the financial year ended on that date; and
   (b) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
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 year ended 30 June 2006 in accordance with the provisions of the Trust Constitution as amended dated 19 August 2004.
4. The Register of Unitholders has, during the year ended 30 June 2006, been properly drawn up and maintained so as to give a true account of the Unitholders of the Trust.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to s.295 (5) of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors:

Matthew Quinn
Director
Dated at Sydney, 17 August 2006

Independent Audit Report

to the Unitholders of Stockland Direct Office Trust No.1

KPMG

Scope

We have audited the financial report of Stockland Direct Office Trust No.1 ("the Trust") for the financial year ended 30 June 2006, consisting of the income statement, statement of changes in equity, balance sheet, statement of cash flows, accompanying notes 1 to 25, and the directors' declaration. The directors of the responsible entity, Stockland Funds Management Limited (the "Responsible Entity"), are responsible for the preparation of the financial report including the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. We have conducted an independent audit of this financial report in order to express an opinion on it to the unitholders.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the Trust's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of Stockland Direct Office Trust No.1 for the year ended 30 June 2006 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 2006 and of its performance for the financial year ended on that date; and

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

b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

Stuart J Marshall
Partner
Sydney, 17th August 2006

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Waterfront Place Brisbane, QLD

Stockland DIRECT

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
Tony Sherlock
Terry Williamson
Matthew Quinn

Company Secretaries of the Responsible Entity
Phillip Hepburn
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