
Stockland

# Stockland Direct Office Trust No. 1

**ARSN: 110 688 009 Annual Financial Report 30 June 2008**

# one company, diversified portfolio

*Diversity by asset class and geography underpins our continued performance. Our capability is strengthened by being one diversified company with the strength of one platform.*

**About us**

Stockland (ASX:SGP) is one of the largest and most diversified property groups in Australia with interests in retail, commercial, industrial, residential and retirement living investment and development, and funds management. Stockland currently has total assets in Australia and the united Kingdom of $14.7 billion, market capitalisation of $8 billion, and reported an operating profit of $674 million for the year ended 30 June 2008. Additional information can be found on our website **www.stockland.com.au**

Our vision is to create a world class property group. We see that our purpose is to deliver enduring value for our stakeholders through innovative, customer focussed property solutions.

# directors' report

**for the year ended 30 June 2008**

The Directors of Stockland Capital Partners Limited ("SCPL"), 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 2008, the state of the Trust's affairs as at 30 June 2008 and the related Independent Auditor's Report.

Stockland Funds Management Limited ("SFML") was appointed the Responsible Entity at the date the Trust commenced. SFML changed its name to Stockland Capital Partners Limited on 21 December 2007.

## 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"), the Chairman of Sinclair Knight Merz Holdings Limited and was appointed a Director of Perpetual Limited on 31 July 2005. Mr Scott is also a Director of Pilotlight, a non-profit making organisation, O'Connell Street Associates Pty Limited and is on the Advisory Board of Jones Lang LaSalle Australia. Mr Scott was the Chief Executive Officer of MLC and Executive General Manager, Wealth Management of National Australia Bank until January 2005. Prior to this, he held a number of senior positions with Lend Lease, following a successful career as a consulting engineer in Australia and overseas. Mr Scott was appointed as a Director and was elected Chairman of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds, on 22 November 2005 and is a member of Stockland's Human Resources Committee.

**Lyn Gearing**
(Non-Executive)

Appointed 22 November 2005,
retired 30 June 2008

Ms Gearing is currently a Director of Stockland, Hancock Natural Resources Group Australasia Pty Limited, IMB Limited, Queensland Investment Corporation and the Garvan Research Foundation. Ms Gearing was Chief Executive of NSW State Super from 1997 to 2002, and has extensive business experience in superannuation, funds management, corporate finance and management consulting. She is a member of Stockland's Audit and Risk Committee and was a member of Stockland Capital Partners Limited Audit & Risk committee until 30 September 2007. She was also a Director of Stockland Capital Partners Limited, the Responsible Entity of Stockland's unlisted funds, until 30 June 2008. Ms Gearing was appointed Chair of the Stockland and Stockland Capital Partners Financial Services Compliance Committees on 1 July 2006.

**David Kent**
(Non-Executive)

Appointed 9 August 2004

Mr Kent is currently Executive Chairman of Everest Babcock and Brown Limited and a Director of the Australian chapter of the Alternative Investment Management Association ("AIMA"). He was previously Executive General Manager of Axiss Australia and served as a member of the Financial Sector Advisory Council. Mr Kent is a past Senior Trade and Investment Commissioner in Paris and Washington DC for the Australian Trade Commission. Mr Kent formerly worked for Morgan Stanley in Sydney, Melbourne and New York where he became Managing Director and Head of Investment Banking. Mr Kent has previously served as Deputy Chairman of the Art Gallery of NSW Foundation, Chairman of the Brett Whiteley Foundation and is currently on the S.H. Ervin Gallery Committee. He is a member of the Stockland Residential Estates Equity Fund No .1 ("SREEF No .1") Investment Committee.

**Anthony Sherlock**
(Non-Executive)

Appointed 9 August 2004

Mr Sherlock is a former senior partner of Coopers and Lybrand having national responsibility for credit risk management. In that capacity, he obtained experience in the banking and finance, mining, agriculture, building, construction and development sectors. Mr Sherlock is a non-executive Director of Sydney Attractions Group Limited, IBA Health Limited, Export Finance Insurance Corporation and Equatorial Mining Limited. He is a consultant to the Chairman of the Audit Committee of Commander Communications Limited. Mr Sherlock is the former Chairman of Woolmark Company Pty Limited and has acted on a number of committees for both Federal and State governments. He is a member of the Stockland Capital Partners Audit and Risk Committee, the Stockland Trust Management Limited and Stockland Capital Partners Financial Services Compliance Committees and the SREEF No .1 Investment Committee.

# directors' report

for the year ended 30 June 2008

## DIRECTORS (CONTINUED)

**Terry Williamson**
(Non-Executive)

Appointed 2 July 2004,
retired 23 October 2007

Mr Williamson is a Director of Stockland, Avant Insurance Limited and ING Australia Limited and a member of the University of Sydney Faculty of Economics and Business Studies Advisory Board. Mr Williamson was previously Chief Financial Officer of Bankers Trust Australia Limited/BT Financial Group Pty Limited from 1997 to 2002 and prior to that was a partner of Price Waterhouse for 17 years. He retired as Director of Stockland Capital Partners Limited and was replaced by Mr Barry Neil on 23 October 2007. He was also a member of both the Stockland Trust Management Limited and Stockland Capital Partners Limited Compliance Committees until he retired on 23 October 2007. Mr Williamson is Chair of the Stockland and Stockland Capital Partners Audit and Risk Committees and Stockland's Treasury Policy Committee.

**Barry Neil**
(Non-Executive)

Appointed 23 October 2007,
retired 30 June 2008

Mr Neil was appointed to the Board on 23 October 2007 and has over thirty five years experience in property, both in Australia and overseas. He is a Director of Stockland, Dymocks Book Arcade Pty Limited and was, until recently, Director of Property for Woolworths Limited. He previously served as Chief Executive Officer, Investment Division (1999 to 2004), Executive Director (1987 to 2004) of Mirvac Limited. Mr Neil was a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds, from November 2007 to 30 June 2008.

**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 and the Royal Institute of Chartered surveyors. He was appointed Director of Australian Business and Community Network Limited in November 2007. Mr Quinn is a member of Stockland's Corporate Responsibility and Sustainability Committee and a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds.

**Hugh Thorburn**
Finance Director – Stockland – (Executive)

Appointed 25 October 2007

Mr Thorburn was appointed to the Board on 25 October 2007 as an alternate Director for Mr Quinn. He is a Chartered Accountant and has held a number of senior financial and general management roles in Australian companies. Mr Thorburn is also a Director of Stockland and a member of Stockland's Treasury Policy Committee.

## STOCKLAND CAPITAL PARTNERS LIMITED FINANCIAL SERVICES COMPLIANCE COMMITTEE

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

The role of the Committee includes evaluation of the effectiveness of the Trust's Compliance Plans designed to protect the interests of Unitholders. The Compliance Plan has been approved by the Australian Securities and Investments Commission ("ASIC"). The Committee meets regularly and must report breaches of the law and Constitution to the Board which is required to report any material breach of the Compliance Plan to ASIC.

The members of the Committee during and since the end of the financial year were:

Ms L Gearing (Chair) – Non-Executive Director,

Mr A Sherlock – Non-Executive Director

Mr P Hepburn – Executive Member

On 23 October 2007, Mr T Williamson resigned as a member of this Committee and was replaced by Mr P Hepburn.

# directors' report

**for the year ended 30 June 2008**

## STOCKLAND CAPITAL PARTNERS LIMITED AUDIT AND RISK COMMITTEE

The Audit and Risk Committee assists the Board in fulfilling its governance and disclosure responsibilities in relation to financial reporting, internal controls, risk management systems and internal and external audits.

The primary objective of the Committee is to assist the Board of SCPL in discharging its responsibilities for:

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

The Committee meets at least quarterly and its meetings are attended by management and internal and external audit and other parties as relevant. The Committee may meet privately with the external auditors in the absence of management at least once a year. The Committee has the power to conduct or authorise investigations into, or consult independent specialists on, any matters within the Committee's scope of responsibility. The Committee has a written terms of reference which incorporates best practice. Its members must be independent of management and at least one member of the Committee has relevant accounting qualifications and experience and all members have a good understanding of financial reporting.

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

Mr T Williamson (Chair) – Non-Executive Director

Mr A Sherlock – Non-Executive Director

Ms L Gearing – Non-Executive Director, retired 30 September 2007

## PRINCIPAL ACTIVITIES

The principal activity of the Trust is the ownership of property in Waterfront Place situated at 1 Eagle Street, Brisbane via its investment of 50% in SDOT Sub-Trust 1.

## REVIEW OF OPERATIONS

The Trust achieved a profit from operating activities of $43,271,000 for the financial year ended 30 June 2008 (30 June 2007: $59,725,000).

An upwards revaluation totalling $38,984,000 was recognised in the Trust's Income Statement through the recognition of the Trust's share of net profits of the joint venture. During the year an independent valuation was performed with the result of the Waterfront Place property being revalued upwards to $570,000,000 (100% basis). This represents an increase of 18% on the 30 June 2007 carrying value of $482,979,000.

Distributions paid or declared by the Trust to Unitholders during the financial year are set out in Note 15 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 YEAR

There have been no events subsequent to the balance date which would have a material effect on the Trust's Financial Statements at 30 June 2008.

## LIKELY DEVELOPMENTS

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

## ENVIRONMENTAL REGULATION

The Trust's operations are subject to various environmental regulations under both Commonwealth and 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 as the Responsible Entity of Stockland Trust, a related party of the Responsible Entity, holds 2,537,500 (2007: 985,000) units in the Trust as at 30 June 2008.

## 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 winding up of the Trust. The Responsible Entity charges are set out in Note 18 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 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.

**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 5 and forms part of the Directors' Report for the year ended 30 June 2008.

## 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, 21 August 2008

# lead auditor's independence declaration

**under section 307c of the corporations act 2001**

KPMG

To: the Directors of Stockland Capital Partners 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 financial year ended 30 June 2008 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**

**Scott Fleming**
*Partner*

Dated at Sydney 21, August 2008

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a SWISS cooperative.

# income statement

**for the year ended 30 June 2008**

| | NOTES | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Revenue and other income** | | | |
| Interest income | | **135** | 72 |
| Share of profit of investments accounted for using the equity method | 7 | **52,875** | 72,394 |
| **Total revenue and other income** | | **53,010** | 72,466 |
| Finance costs to external parties[1,2] | | **(6,680)** | (6,249) |
| Auditors' remuneration | 4 | **(47)** | (52) |
| Responsible Entity fees | 18 | **(1,231)** | (966) |
| Performance fee | 11 | **(1,193)** | (5,232) |
| Unwind of discount on performance fee provision | 11 | **(372)** | – |
| Other expenses | | **(216)** | (242) |
| **Total expenses before finance costs to Unitholders** | | **(9,739)** | (12,741) |
| **Profit from operating activities** | | **43,271** | 59,725 |
| Distribution (finance) expense to Unitholders[1] | 15 | **(5,653)** | (5,380) |
| **Change in net assets attributable to Unitholders** | 14 | **37,618** | 54,345 |

[1] Total finance costs for the Trust are $12,333,000 (2007: $11,629,000), being the sum of finance costs to external parties and distributions to Unitholders. In order to comply with AASB 132 "Financial Instruments: Disclosure and Presentation" ("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.

[2] Relates to interest expense of the Trust's interest-bearing financial liabilities which is carried at amortised cost.

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

# balance sheet

**as at 30 June 2008**

| | NOTES | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 5 | **2,157** | 175 |
| Other assets | 6 | **176** | 16 |
| **Total current assets** | | **2,333** | 191 |
| **Non-current assets** | | | |
| Investments accounted for using the equity method | 7 | **283,732** | 239,618 |
| Other assets | 8 | **3,257** | 2,255 |
| **Total non-current assets** | | **286,989** | 241,873 |
| **Total assets** | | **289,322** | 242,064 |
| **Current liabilities** | | | |
| Trade and other payables | 9 | **3,331** | 2,761 |
| **Total current liabilities** | | **3,331** | 2,761 |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 10 | **99,503** | 93,000 |
| Provisions | 11 | **6,797** | 5,232 |
| **Total non-current liabilities** | | **106,300** | 98,232 |
| **Total liabilities (excluding net assets attributable to Unitholders)** | | **109,631** | 100,993 |
| **Net assets attributable to Unitholders** | 14 | **179,691** | 141,071 |

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

# statement of changes in equity

**for the year ended 30 June 2008**

| | UNITS ON ISSUE | | UNITHOLDERS' FUNDS UNDISTRIBUTED INCOME | | TOTAL | |
|---|---|---|---|---|---|---|
| | **30 JUNE 2008 $'000** | 30 JUNE 2007 $'000 | **30 JUNE 2008 $'000** | 30 JUNE 2007 $'000 | **30 JUNE 2008 $'000** | 30 JUNE 2007 $'000 |
| **Opening balance** | **–** | – | **–** | – | **–** | – |
| Effective portion of changes in fair value of cash flow hedges | **–** | – | **–** | – | **–** | – |
| **Total non-profit items recognised directly in equity** | **–** | – | **–** | – | **–** | – |
| Profit for the year | **–** | – | **–** | – | **–** | – |
| **Total recognised income and expenses for the year** | **–** | – | **–** | – | **–** | – |
| Units issued for the year | **–** | – | **–** | – | **–** | – |
| Distributions paid | **–** | – | **–** | – | **–** | – |
| **Closing balance** | **–** | – | **–** | – | **–** | – |

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 2008**

| | NOTES | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts in the course of operations | | **107** | 45 |
| Cash payments in the course of operations | | **(1,381)** | (934) |
| Distributions received from joint venture entity | | **15,246** | 12,930 |
| Interest received | | **135** | 72 |
| Interest paid | | **(6,707)** | (6,226) |
| **Net cash inflows from operating activities** | 16 | **7,400** | 5,887 |
| **Cash flows from investing activities** | | | |
| Payments for unlisted units in joint venture entity | 7 | **(6,485)** | (2,431) |
| **Net cash utilised in investing activities** | | **(6,485)** | (2,431) |
| **Cash flows from financing activities** | | | |
| Proceeds from external party financing | | **6,447** | 750 |
| Distributions paid | | **(5,380)** | (5,373) |
| **Net cash inflows from/(utilised in) financing activities** | | **1,067** | (4,623) |
| **Net increase/(decrease) in cash and cash equivalents** | | **1,982** | (1,167) |
| Cash and cash equivalents at the beginning of the financial year | | **175** | 1,342 |
| **Cash and cash equivalents at the end of the financial year** | 5 | **2,157** | 175 |

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 2008

## 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 as at and for the financial year ended 30 June 2008 was authorised for issue by the Directors of the Responsible Entity on 21 August 2008.

### (a) Statement of compliance

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

### (b) Basis of preparation

The Financial Report is presented in Australian dollars, which is the Trust's functional currency.

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

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

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

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

The accounting policies have been applied consistently in the preparation of this Financial Report.

The significant policies which have been adopted in the preparation of the Financial Report are set out below.

### (c) Revenue recognition

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

#### Interest income

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

### (d) Segment reporting

A segment is a distinguishable component of the 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) 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 relevant taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

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

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

### (f) Income tax

Under current Australian 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, plant and equipment depreciation are distributed to Unitholders in the form of tax deferred components of distributions.

### (g) Derivative financial instruments

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

The fair value of interest rate derivatives 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.

# notes to the financial statements

for the year ended 30 June 2008

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Hedging

The Responsible Entity formally designates and documents the relationship between hedging instruments and hedged items at the inception of the transaction, 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.

#### 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. Any cumulative gain or loss recognised 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.

### (i) Finance costs

#### Finance costs to external parties

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

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

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

### (j) Cash and cash equivalents

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

### (k) Impairment of assets

The carrying amounts of the 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. Impairment losses are recognised in the Income Statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess impairment losses recognised through the Income Statement.

#### Calculation of recoverable amount

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

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

#### Reversals of impairment

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

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

# notes to the financial statements

for the year ended 30 June 2008

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Trade and other payables

Trade and other payables are stated at cost.

#### Distributions to Unitholders

Distributions payable are recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the Directors on or before the end of the financial year, but not distributed at balance date.

### (m) Interest-bearing loans and borrowings

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

### (n) Provisions

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

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

#### Performance Fee

The performance fee is recognised in the Income Statement on an accrual basis. The performance fee is calculated in accordance with the Constitution based on the value of the Trust's property interest at the current balance date, discounted to reflect the projected life of the Trust and inherent market risks.

The performance fee recognised will continue to be remeasured at each reporting date to reflect movements in the Trust's performance during the period. Any revision to the performance fee will be adjusted through the Income Statement in the current financial year.

### (o) 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 Responsible Entity takes 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 and non-deductible expenses 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.

### (p) Investments

#### Joint venture entities

The 50% investment in SDOT Sub-Trust 1 is treated as an investment in a joint venture entity.

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.

### (q) New accounting standards

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

Revised AASB 101 "Presentation of Financial Statements" ("AASB 101") introduces as a financial statement (formerly "primary" statement) the "Statement of Comprehensive Income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Trust's 30 June 2010 Financial Report. Application of this standard will not affect any of the amounts recognised in the financial statements but may result in changes in terminology used in the Financial Report.

Revised AASB 123 "Borrowing Costs" ("AASB 123") removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Trust's 30 June 2010 Financial Report. This will have no impact on the Trust.

# notes to the financial statements

for the year ended 30 June 2008

## 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, by definition, seldom equal the related actual results exactly. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

**(a) Key sources of estimation uncertainty**

**Estimates of fair value of investment property interests**

The Trust's joint venture entity holds an investment property that is measured at fair value.

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

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices;

(iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the term of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows; and

(iv) capitalised income projections based upon a property's estimated net market income, which is assumed to be a level annuity in perpetuity, and a capitalisation rate derived from analysis of market evidence. Reversions associated with short term leasing risks/costs, incentives and capital expenditure may be deducted from the capitalised net income figure.

**Assumptions underlying management's estimates of fair value of investment property interest**

The discounted cash flow approach applied for investment properties usually includes assumptions in relation to current and recent investment property prices. If such prices are not available, then the fair value of investment properties is determined using assumptions that are mainly based on market conditions existing at each balance date.

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

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

**Estimates of performance fee expense**

A performance fee is payable to the Responsible Entity if certain out performance is achieved by the Trust. The fee is calculated on a sliding scale and is payable by the Trust provided the net sales proceeds of the Trust's property interest exceed the application price by 10%. Refer Note 18 for further details.

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

The best evidence of the likely sales proceeds is the fair value of the property interest. Current prices in an active market for similar investment properties, leases and other contracts are the best indicator of fair value. Where such information is not available, the Responsible Entity determines the property's fair value within a range of reasonable fair value estimates. In making its judgement, the Responsible Entity considers information from a variety of sources as described in Note 2 (a) (i) – (iv) above.

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

**Assumptions underlying management's estimates of performance fee expense**

The performance fee if any is recognised in the income statement on an accruals basis. The performance fee is calculated in accordance with the Constitution.
This involves the below assumptions.

The discounted cash flow approach applied for determining the fair value of the property interest usually includes assumptions in relation to current and recent investment property prices. If such prices are not available, then the fair value of investment properties is determined using assumptions that are mainly based on market conditions existing at each balance date.

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

## 2 ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

### (a) Key sources of estimation uncertainty (continued)

**Assumptions underlying management's estimates of performance fee expense (continued)**

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

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

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

### FAIR VALUE OF DERIVATIVES

The fair value of derivatives is determined using a discounted cash flow analysis based on assumptions supported by observable market rates. The determination of fair value of derivatives is described further in Note 1(g) and Note 17.

## 3 SEGMENT REPORTING

The Trust operates solely in the business of investment management in Australia.

## 4 AUDITORS' REMUNERATION

| | 2008 $ | 2007 $ |
|---|---|---|
| **Audit services to KPMG (Australia)** | | |
| Audit and review of the Financial Reports | **20,000** | 17,000 |
| Other audit services | **3,000** | 7,300 |
| Compliance audit services | **15,000** | 18,300 |
| | **38,000** | 42,600 |
| **Other services to KPMG (Australia)** | | |
| Tax compliance services | **8,900** | 9,145 |
| | **8,900** | 9,145 |
| Total remuneration | **46,900** | 51,745 |

## 5 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Cash and cash equivalents | **2,157** | 175 |

The weighted average interest rate for cash at bank and on hand as at 30 June 2008 was 6.85% (2007: 5.93%).

## 6 CURRENT ASSETS – OTHER ASSETS

| | | |
|---|---|---|
| Goods and services tax ("GST") receivable | **45** | 16 |
| Prepayments | **4** | – |
| Interest receivable under the interest rate swap | **127** | – |
| | **176** | 16 |

# notes to the financial statements

for the year ended 30 June 2008

## 7 NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | LOCATION | PRINCIPAL ACTIVITY | HOLDING 2008 % | HOLDING 2007 % | CARRYING AMOUNT 2008 $'000 | CARRYING AMOUNT 2007 $'000 |
|---|---|---|---|---|---|---|
| SDOT Sub-Trust 1 | NSW | Property investment | **50** | 50 | **283,732** | 239,618 |

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

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| **Movements in carrying amount of investments accounted for using the equity method** | | |
| Carrying amount at the beginning of the financial year | **239,618** | 177,723 |
| Interest in joint venture entity acquired | **6,485** | 2,431 |
| Share of net profit | **52,875** | 72,394 |
| Distributions received | **(15,246)** | (12,930) |
| Carrying amount at the end of the financial year | **283,732** | 239,618 |
| **Share of joint venture entity's assets and liabilities** | | |
| Current assets | **2,286** | 2,907 |
| Non-current assets | **284,284** | 240,578 |
| Total assets | **286,570** | 243,485 |
| Current-liabilities | **(2,838)** | (3,867) |
| Total liabilities | **(2,838)** | (3,867) |
| Share of net assets after equity accounting adjustments | **283,732** | 239,618 |
| **Share of joint venture entity's revenue, expenses and results** | | |
| Revenue | **57,469** | 76,302 |
| Expenses | **(4,594)** | (3,908) |
| Net profit accounted for using the equity method | **52,875** | 72,394 |
| **Summarised financial information of the investment using the equity method (100%)** | | |
| Current assets | **4,572** | 5,814 |
| Non-current assets | **568,568** | 481,156 |
| Current liabilities | **(5,676)** | (7,734) |
| Net assets | **567,464** | 479,236 |
| Revenues | **114,938** | 152,604 |
| Expenses | **(9,188)** | (7,816) |
| Net profit | **105,750** | 144,788 |

# notes to the financial statements

for the year ended 30 June 2008

## 8 NON-CURRENT ASSETS – OTHER ASSETS

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Fair value of hedging instrument | **3,257** | 2,255 |

## 9 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Trade payables and accruals | **1,059** | 927 |
| Interest payable on loan facility | **654** | 489 |
| Distribution payable | **1,618** | 1,345 |
| | **3,331** | 2,761 |

## 10 NON-CURRENT LIABILITIES – INTEREST-BEARING LOANS AND BORROWINGS

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Loan facility | **99,735** | 93,288 |
| Less: attributable transaction costs | **(232)** | (288) |
| Total Balance Sheet carrying amount at amortised cost | **99,503** | 93,000 |

The Trust has a $108,434,000 (2007: $98,434,000) loan facility agreement with Westpac Banking Corporation. As at 30 June 2008, $99,735,000 had been drawn (2007: $93,288,000). The weighted average interest rate on the loan facility was 8.35% p.a. (2007: 7.01% p.a.). Line fees of 0.10% p.a. is charged on the overall facility limit. 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.

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.

The face value of the swap contract of $92,538,000 is designated as an effective hedge of a portion of the loan facility fixing the cost of borrowing of the Trust for the term of the loan facility.

### Capital Expenditure

The Responsible Entity increased the capital expenditure component of the above facility by $10,000,000 in October 2007 which is secured by a fixed and floating charge over the units of the Trust's investment in the joint venture entity SDOT Sub-Trust 1. The new capital expenditure facility limit is $15,896,000. Interest will be charged on the utilised portion of the facility at 90 day BBSY plus a margin of 0.50% p.a. As at 30 June 2008, $7,197,000 had been drawn down.

Details of the facilities are set out below:

| FACILITY | MATURITY DATE | FACILITY LIMITS 2008 $'000 | UTILISED 2008 $'000 | FACILITY LIMITS 2007 $'000 | UTILISED 2007 $'000 |
|---|---|---|---|---|---|
| Loan facility | 30 June 2010 | **92,538** | **92,538** | 92,538 | 92,538 |
| Capital expenditure | 30 June 2010 | **15,896** | **7,197** | 5,896 | 750 |
| | | **108,434** | **99,735** | 98,434 | 93,288 |

The variable interest rates on the loan facility have been swapped to fixed rates. Refer Note 17(b).

## 11 NON-CURRENT LIABILITIES – PROVISIONS

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Opening performance fee provision | **5,232** | – |
| Performance fee provision made during the period | **1,193** | 5,232 |
| Unwind of discount | **372** | – |
| **Closing performance fee provision** | **6,797** | 5,232 |

The Responsible Entity is entitled to a performance fee. The fee is calculated on a sliding scale and is payable by the Trust provided the net sales proceeds of the Trust's property interest exceed the application price by 10%.

A performance fee provision has been recognised as the consistent history of strong upward revaluations of the Waterfront Place property indicates it is likely an amount will be payable by the Trust.

Based upon the value of the property interest at 30 June 2008 the estimated net sales proceeds exceed the application price by greater than 40%. Using the sliding scale, a performance fee of 2.8% of the net sales proceeds will be payable in the future. Applying appropriate discount rates to reflect the projected life of the Trust and the inherent risks associated with market value movements in the property, a provision of $6,797,000 (2007: $5,232,000) has been recognised.

## 12 UNITS ON ISSUE CLASSIFIED AS DEBT

| | 2008 NO. OF UNITS | 2007 NO. OF UNITS | 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|
| Units on issue | **66,500,010** | 66,500,010 | **60,145** | 60,145 |

| DATE | DETAILS | NO. OF UNITS | ISSUE PRICE | $'000 |
|---|---|---|---|---|
| **Movements in units** | | | | |
| 1 July 2006 | Opening balance | **66,500,010** | – | **60,145** |
| 30 June 2007 | Balance | **66,500,010** | – | **60,145** |
| **30 June 2008** | **Closing balance** | **66,500,010** | **–** | **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.

## 13 RESERVES

| | NOTE | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Classified as liability** | | | |
| Balance at the beginning of the financial year[1] | | **80,926** | 25,086 |
| Change in net assets attributable to Unitholders | | **37,618** | 54,345 |
| Effective portion of changes in fair value of the cash flow hedge during the year | 8 | **1,002** | 1,495 |
| **Balance at the end of the financial year** | | **119,546** | 80,926 |

[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.

## 14 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS CLASSIFIED AS A LIABILITY

| | | $'000 |
|---|---|---|
| 1 July 2006 | Opening balance | 85,231 |
| 30 June 2007 | Movement in fair value of interest rate swaps | 1,495 |
| 30 June 2007 | Change in net assets for the year attributable to Unitholders | 54,345 |
| 30 June 2007 | Balance | 141,071 |
| 30 June 2008 | Movement in fair value of interest rate swaps | **1,002** |
| 30 June 2008 | Change in net assets for the year attributable to Unitholders | **37,618** |
| **30 June 2008** | **Closing balance** | **179,691** |

The above net assets attributable to Unitholders is made up as follows:

| | NOTE | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| Issued units classified as liability | 12 | **60,145** | 60,145 |
| Reserves classified as liability | 13 | **119,546** | 80,926 |
| | | **179,691** | 141,071 |

## 15 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 |
|---|---|---|---|---|
| **2008** | | | | |
| 30 September 2007 | 2.0225¢ | **1,345** | 31 October 2007 | 100% |
| 31 December 2007 | 2.0225¢ | **1,345** | 29 February 2008 | 100% |
| 31 March 2008 | 2.0225¢ | **1,345** | 27 April 2008 | 100% |
| 30 June 2008 | 2.4325¢ | **1,618** | 29 August 2008[1] | 100% |
| Total distributions | | **5,653** | | |

[1] Proposed payment date.

Distributions to Unitholders recognised in the prior financial year by the Trust are:

| | DISTRIBUTION PER UNIT | TOTAL AMOUNT $'000 | DATE OF PAYMENT | TAX DEFERRED |
|---|---|---|---|---|
| 2007 | | | | |
| 30 September 2006 | 2.0225¢ | 1,345 | 3 November 2006 | 100% |
| 31 December 2006 | 2.0225¢ | 1,345 | 28 February 2007 | 100% |
| 31 March 2007 | 2.0225¢ | 1,345 | 27 April 2007 | 100% |
| 30 June 2007 | 2.0225¢ | 1,345 | 28 August 2007 | 100% |
| Total distributions | | 5,380 | | |

# notes to the financial statements

**for the year ended 30 June 2008**

## 16 NOTES TO THE CASH FLOW STATEMENT

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| **Reconciliation of profit from operating activities to net cash inflows from operating activities** | | |
| Profit from operating activities | **43,271** | 59,725 |
| Amortisation of borrowing costs | **56** | 98 |
| Change in value of investment using the equity method | **(37,629)** | (59,464) |
| Change in assets and liabilities: | | |
| (Increase) in trade and other receivables | **(160)** | (12) |
| Increase in trade and provisions | **1,862** | 5,540 |
| Net cash inflows from operating activities | **7,400** | 5,887 |

## 17 FINANCIAL INSTRUMENTS

### (a) Financial risk management

The Trust's activities expose it to a variety of financial risks: credit risk, liquidity risk, and interest rate risk. The Trust's overall financial risk management 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 and capital management is carried out by a central treasury department under policies approved by the Directors of the Responsible Entity. The Directors provide written principles of overall risk management, as well as written policies covering specific areas such as managing capital, mitigating interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

#### Capital management

The Responsible Entity's objective when managing capital is to safeguard the ability to continue as a going concern, whilst providing returns for Unitholders and benefits for other stakeholders and to maintain a capital structure to minimise the cost of capital.

The Trust considers capital to include interest-bearing liabilities and net assets attributable to Unitholders.

Management monitor the capital structure of the Trust through the loan-to-value ratio. The ratio is calculated as the amount of the loan facility drawn divided by the latest valuation of the Waterfront property. The loan-to-value ratio at 30 June 2008 is 35% (2007: 39%).

#### Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will default on their contractual obligations resulting in a financial loss to the Trust.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

As at 30 June 2008 and 30 June 2007, there were no significant financial assets that were past due. Additionally, there were no significant financial assets that would otherwise be past due whose terms have been renegotiated.

The carrying amount of financial assets included in the Balance Sheet represents the Trust's maximum exposure to credit risk in relation to these assets. Refer to Note 5, 6 and 8 for a breakdown of these financial assets.

#### Liquidity risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Trust aims at maintaining flexibility in funding by keeping sufficient committed credit lines available.

The current weighted average debt maturity is 2.0 years (2007: 3.0 years) being the expected end of the Trust's life.

## 17 FINANCIAL INSTRUMENTS (CONTINUED)

### (a) Financial risk management (continued)

#### Liquidity risk (continued)

The table below reflects all contractual maturities of financial liabilities including principal and estimated interest cash flows calculated based on conditions existing at balance date. The amounts presented represent the future undiscounted cash flows.

| 30 JUNE 2008 | CONTRACTUAL CASH FLOWS $'000 | 1 YEAR OR LESS $'000 | 1-2 YEARS $'000 | 2-3 YEARS $'000 | 3+YEARS $'000 | END OF TRUST LIFE $'000 |
|---|---|---|---|---|---|---|
| **Contractual maturity of financial liabilities including derivatives and estimated interest** | | | | | | |
| Trade and other payables | **(2,677)** | **(2,677)** | **–** | **–** | **–** | **–** |
| Loan facility | **(117,513)** | **(8,816)** | **(108,697)** | **–** | **–** | **–** |
| Interest rate swap | **3,586** | **1,969** | **2,881** | **(1,264)**[2] | **–** | **–** |
| Net assets attributable to Unitholders classified as a liability[1] | **(179,691)** | **–** | **–** | **–** | **–** | **(179,691)**[1] |
| | **(296,295)** | **(9,524)** | **(105,816)** | **(1,264)** | **–** | **(179,691)** |

| 30 JUNE 2007 | CONTRACTUAL CASH FLOWS $'000 | 1 YEAR OR LESS $'000 | 1-2 YEARS $'000 | 2-3 YEARS $'000 | 3+YEARS $'000 | END OF TRUST LIFE $'000 |
|---|---|---|---|---|---|---|
| **Contractual maturity of financial liabilities including derivatives and estimated interest** | | | | | | |
| Trade and other payables | (2,272) | (2,272) | – | – | – | – |
| Loan facility | (115,180) | (6,797) | (7,364) | (101,019) | – | – |
| Interest rate swap | 2,553 | 485 | 1,097 | 2,303 | (1,332)[2] | – |
| Net assets attributable to Unitholders classified as a liability[1] | (141,071) | – | – | – | – | (141,071)[1] |
| | (255,970) | (8,584) | (6,267) | (98,716) | (1,332) | (141,071) |

[1] Under the provisions of the Trust Constitution, the net assets attributable to Unitholders are repayable on the termination of the Trust which can occur at a date which the Unitholders determine by extraordinary resolution (as defined by the Corporations Act). This is scheduled to be decided by Unitholders on or before 31 December 2009 at a meeting convened by the Responsible Entity. The amount may not be called in the near future and therefore it is categorised as "End of Trust life" rather than at a stated maturity.

[2] The loan facility matures on 30 June 2010. The interest rate swap matures on 1 July 2010.

#### Interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows associated with instruments will fluctuate due to changes in market interest rates.

The income and the associated operating cash flows of the Trust's financial assets are substantially independent of changes in market interest rates.

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. The fixed/hedged percentage at 30 June 2008 was 93% (2007: 99%). 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. Refer to Note 17 (b) for further details about the interest rate swap contracts.

# notes to the financial statements

for the year ended 30 June 2008

## 17 FINANCIAL INSTRUMENTS (CONTINUED)

### (a) Financial risk management (continued)

#### Sensitivity analysis

The following sensitivity analysis shows the effect on the Trust Income Statement and reserves if market interest rates at balance date had been 25 basis points higher/lower with all other variables held constant.

An increase of 25 basis points in market interest rate would result in a loss to the Income Statement of $18,000 (2007: $2,000) and an increase in reserves of $376,000 (2007: $572,000). A decrease of 25 basis points in market interest rate would result in a gain to the Income Statement of $18,000 (2007: $2,000) and a decrease in reserves of $378,000 (2007: $577,000).

### (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 contract

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.

The 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 93% (2007: 99%) 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. (2007: 5.97% p.a.) and the variable rate is the 90 day Bank bill rate which at 30 June 2008 was 7.70% p.a. (2007: 6.36% p.a.).

At 30 June 2008, the notional principal amounts and periods of expiry of the interest rate swap contract for the loan facility are as follows:

| | **2008 $'000** | 2007 $'000 |
|---|---|---|
| Less than 1 year | **–** | – |
| 1-2 years | **–** | – |
| 2-3 years | **92,538** | – |
| 3-4 years | **–** | 92,538 |
| Over 4 years | **–** | – |

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.

This swap has been designated as an effective cash flow hedge in accordance with AASB 139 "Financial Instruments: Recognition and Measurement" and has been tested for effectiveness. At 30 June 2008, the swap is considered to be effective and accordingly the full change in the fair value is recognised in net assets attributable to Unitholders. Refer accounting policy at Note 1(h).

At balance date, the swap contract had a fair value of $3,257,000 (2007: $2,255,000) included in other assets on the Balance Sheet.

### (c) Fair values of financial assets and liabilities

The carrying amounts of cash and cash equivalents, other receivables, the facility agreement and interest rate swap as disclosed in the Balance Sheet reflect the fair value of these financial assets and liabilities as at 30 June 2008.

The fair value of the interest rate swap has been determined in accordance with generally accepted pricing models by discounting the expected future cash flows at prevailing market interest rates.

# notes to the financial statements

for the year ended 30 June 2008

## 18 RELATED PARTIES

Stockland Capital Partners Limited ("SCPL"), formerly known as 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 2008 are as follows:

| DIRECTOR | NUMBER OF UNITS HELD |
|---|---|
| Mr David Kent | 20,000 |
| Mr Matthew Quinn | 15,000 |

| RESPONSIBLE ENTITY FEES AND OTHER TRANSACTIONS | 2008 $'000 | 2007 $'000 |
|---|---|---|
| **Responsible Entity fees**<br>The Responsible Entity charged responsible entity fees calculated at 0.45% per annum of the gross value of the assets.<br>As at 30 June 2008, the Responsible Entity has agreed for the Trust to defer payment of part of the Responsible Entity fees amounting to $Nil (2007: $209,180). | **1,231** | 966 |
| **Performance fees**<br>The Responsible Entity is entitled to a performance fee which is calculated on a sliding scale and is payable by the Trust provided the net sales proceeds of the Trust's property interest exceeds the application price by at least 10%. Refer Note 11. | **6,797** | 5,232 |
| **Total Responsible Entity fees and other transactions** | **8,028** | 6,198 |

### Other related party transactions

#### Limited Liquidity Facility ("LLF")

Westpac has agreed to acquire up to 521,000 units in the Trust per quarter at a 2.5% discount to NTA per unit less transaction costs, from Unitholders 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 at a price calculated in accordance with a predetermined formula. This standing order from STML can be terminated at any time. During the financial year STML, as Responsible Entity of Stockland Trust, acquired 1,552,500 units (2007: 540,000) in the Trust via the LLF.

#### Units held by Stockland Trust

As at 30 June 2008, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 2,537,500 (30 June 2007: 985,000) of the units in the Trust.

#### Property Management and Leasing Fee

Stockland Property Management Limited, a related party of the Responsible Entity charged $1,336,589 (2007: $1,145,631) for the SDOT Sub-Trust 1 property management services including onsite property management staff and leasing fees. Of this amount $821,816 (2007: $209,404) forms part of the outgoings recoverable from tenants pursuant to leases.

#### Rent

SDOT Sub-Trust 1 charged rent of $86,349 (2007: $49,317) to Stockland Property Management Limited, a related party of the Responsible Entity for the occupancy of the management office at the property.

#### Limited debt guarantee fee

Stockland Corporation Limited, a related party of the Responsible Entity, charged $97,798 (2007: $92,976) 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.

# notes to the financial statements

**for the year ended 30 June 2008**

## 19 COMMITMENTS

The Trust has no commitments at balance date (2007: $Nil).

## 20 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.

## 21 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2008, the Trust has no contingent liabilities (2007: $Nil) or contingent assets (2007: $Nil).

## 22 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 2008.

# Directors' Declaration

**for the year ended 30 June 2008**

In the opinion of the Directors of Stockland Capital Partners Limited, the Responsible Entity of Stockland Direct Office Trust No .1:

1. the Financial Statements and Notes set out on pages 6 to 23, 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 2008 and of its performance for the financial year ended on that date; and
   (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
2. the Financial Report also complies with International Financial Reporting Standards as disclosed in Note 1(a);
3. 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;
4. the Trust has operated during the year ended 30 June 2008 in accordance with the provisions of the Trust Constitution as amended dated 19 August 2004; and
5. the Register of Unitholders has, during the year ended 30 June 2008, been properly drawn up and maintained so as to give a true account of the Unitholders of the Trust.

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

Signed in accordance with a resolution of the Directors:

**Matthew Quinn**
Director

Dated at Sydney, 21 August 2008

# independent auditor's report

to the unitholders of stockland direct office trust no .1

KPMG

**Independent auditor's report to the unitholders of Stockland Direct Office Trust No.1**

**Report on the financial report**

We have audited the accompanying financial report of Stockland Direct Office Trust No.1 (the Trust), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 22 and the directors' declaration.

*Directors' responsibility for the financial report*

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

*Auditor's responsibility*

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

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

# independent auditor's report

**to the unitholders of stockland direct office trust no .1**

KPMG

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

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

*Independence*

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

*Auditor's opinion*

In our opinion:

(a) the financial report of Stockland Direct Office Trust No.1 is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Trust's financial position as at 30 June 2008 and of its performance for the year ended on that date; and

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

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

KPMG

Scott Fleming
*Partner*

Sydney

21 August 2008

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

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