2009

Stockland

Stockland Direct Office Trust No.1

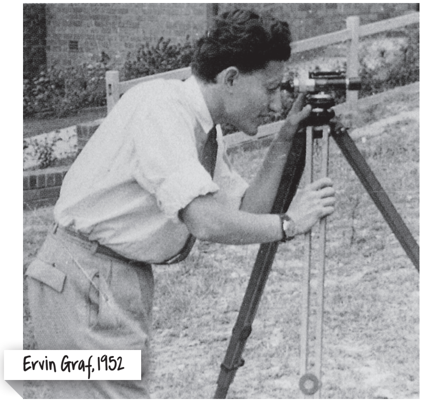
ARSN: 110 688 009 ANNUAL FINANCIAL REPORT 30 JUNE 2009

Contents

STOCKLAND PUBLICATIONS
Our detailed Financial Report, Corporate Responsibility and Sustainability Report and Property Portfolio are available at www.stockland.com.

ABOUT STOCKLAND

We have a long and proud history of creating places that meet the needs of our customers and communities.



Ervin Graf, 1952

OUR STORY

Ervin Graf founded Stockland in 1952 with a vision to *"not merely achieve growth and profits but to make a worthwhile contribution to the development of our cities and great country".*

Pursuing that vision has seen Stockland grow to become one of Australia's leading diversified property groups – developing and managing a large portfolio of residential community, apartment, retirement living, retail, office and industrial assets.

With the benefit of our diverse property skills, we connect together property styles in shared locations, to create communities of uncommon diversity and connectedness; places that inspire people to gather, to share and to live life.

We recognise our responsibilities to the environment and are striving to become a leader in sustainable business practices. Our positive and adaptable team shares Graf's vision of making a worthwhile contribution to our community.

We work hard, we expect a lot of one another, and we seek true work-life balance. For over half a century, we've worked hard to grow our diverse portfolio of assets and projects while maintaining a conservative balance sheet. It's proven to be a sound approach and we're now Australia's largest diversified property group and a top 50 ASX listed company.

Directors' Report

For the Year Ended 30 June 2009

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 2009, the state of the Trust's affairs as at 30 June 2009 and the Independent Auditor's Report thereon.

SCPL was appointed the Responsible Entity at the date the Trust commenced.

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"), Chairman of Sinclair Knight Merz Holdings Limited and was appointed a Director of Perpetual Limited on 31 July 2005. Mr Scott is a Director of Pilotlight, a non-profit making organisation and O'Connell Street Associates Pty Limited. He was appointed to the Advisory Board of Laing O'Rourke Australia in August 2008 and was on the Advisory Board of Jones Lang LaSalle Australia until his resignation on 31 December 2008. 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 and is Chairman of Stockland's Human Resources Committee.

DAVID KENT

(Non-Executive)
Appointed 9 August 2004

Mr Kent was appointed a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds, in August 2004. He is Chairman of the S H Ervin Gallery Committee and a Director of the Royal Sydney Golf Club Foundation. Mr Kent spent the majority of his executive career at Morgan Stanley where he became Managing Director and Head of Investment Banking. He held positions in Sydney, Melbourne and New York for Morgan Stanley. Other positions held have included Chairman of Everest Financial Group, Director of the Everest Alternative Investment Trust, Executive General Manager of Axiss Australia; Senior Trade & Investment Commissioner in Paris and Washington DC for the Australian Trade Commission. Mr Kent has been a Member of the Financial Sector Advisory Council and the Australian Chapter of the Alternative Investment Management Association. He has previously served as Deputy Chairman of the AGNSW Foundation and Chairman of the Brett Whiteley Foundation. He is a member of the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

ANTHONY SHERLOCK

(Non-Executive)
Appointed 9 August 2004

Mr Sherlock was appointed as a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds, in August 2004. He is a former Senior Partner of Coopers & 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 IBA Health Limited, Export Finance Insurance Corporation and Equatorial Mining Limited. He is the former Chairman of Australian Wool Corporation Limited and The Woolmark Company Pty Ltd, a former non-executive Director of Austral Coal Limited and Sydney Attractions Group Limited, and has acted on a number of committees for both Federal and State governments. He is a member of the Stockland Capital Partners Limited Audit and Risk Committee, the Stockland and Stockland Capital Partners Limited Financial Services Compliance Committees and the Stockland Residential Estates Equity Fund No. 1 Investment 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 and the Royal Institute of Chartered Surveyors. He was appointed Chairman 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 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:

Mr T Williamson (Chair) – Non-Executive Director of Stockland (appointed December 2008)

Mr A Sherlock – Non-Executive Director

Mr P Hepburn – Executive Member

Ms L Gearing (Chair) – Non-Executive Director of Stockland (resigned December 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 of Stockland

Mr A Sherlock – Non-Executive Director

PRINCIPAL ACTIVITY

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

REVIEW AND RESULTS OF OPERATIONS

The Trust recorded a loss from operating activities of $43,043,000 for the financial year ended 30 June 2009 (2008: profit of $43,271,000).

A downwards revaluation of the Waterfront Place property totalling $49,250,000 was recognised in the Trust's Income Statement through the recognition of the Trust's share of net loss in SDOT Sub-Trust 1. During the financial year, an independent valuation was performed resulting in the Waterfront Place property being revalued downwards to $471,500,000 (100% basis). This represents a decrease of 17% on the 30 June 2008 carrying value of $570,000,000 (100% basis).

For the financial year ended 30 June 2009, a fair value decrement of $5,559,000 (2008: increment of $1,002,000) in the valuation of the interest rate swap was recorded in Reserves as set out in Note 15 of the Financial Statements. As at 30 June 2009, the fair value of the interest rate swap was $2,302,000 liability (2008: $3,257,000 asset) as set out in Note 8 and 13 of the Financial Statements.

Distributions paid or declared by the Trust to Unitholders during the financial year are set out in Note 17 of the Financial Statements.

PROPOSED EXTENSION OF THE TRUST'S LIFE

As disclosed in the Trust's Product Disclosure Statement ("PDS") dated 10 September 2004, it was expected that the term of the Trust be at least six years. Also outlined is the requirement for the Responsible Entity, on or before 31 December 2009, to make a recommendation to Unitholders concerning the future strategy of the Trust at a meeting of Unitholders convened by the Responsible Entity. Investors will vote by Special Resolution (75% by value of the units voted on the resolution) on the recommended future strategy of the Trust.

Given the impending expiry of the original term of the Trust, a comprehensive review is being undertaken by the Responsible Entity. Discussions with independent advisers have confirmed that current market conditions make the execution of a sale of a 50% share in a large premium grade asset such as the Waterfront Place property, extremely difficult. The Responsible Entity is likely to recommend to Unitholders that the duration of the Trust is extended for a further four years with a mandate to sell the Trust's 50% interest in SDOT Sub-Trust 1 within that period. The Responsible Entity considers that this is in the Unitholders' best interests, to allow for an orderly sale that would maximise Unitholders' value. A meeting of Unitholders is planned for late November 2009, with explanatory documentation being issued to Unitholders in late October 2009.

UPDATE OF DEBT RENEWAL

As at 30 June 2009, the Trust has a $108,434,000 (2008: $108,434,000) loan and capital expenditure facility agreement with Westpac Banking Corporation ("Westpac") of which $100,235,000 had been drawn (2008: $99,735,000). The facilities are due to mature on 1 July 2010. Further information in relation to the loan facilities can be found in Note 11 to the Financial Report.

Due to the maturity date being within 12 months of the date of this report, there is uncertainty surrounding the Trust's ability to renew or repay the facilities should Westpac call upon the debt upon the scheduled maturity date. Despite this uncertainty, the Directors believe reasonable grounds exist to expect the facilities will be renewed or refinanced. At the date of this report, being 20 August 2009, the Directors have formed the view that the Trust's Financial Report for the year ended 30 June 2009 can be prepared on a going concern basis. Further information in relation to this can be found in Note 1(b) of the Financial Report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of the affairs of the Trust during the financial year.

EVENTS SUBSEQUENT TO THE END OF THE YEAR

As at 1 July 2009, the $108,434,000 total loan facility with Westpac matures within 12 months, being 1 July 2010 and hence is a current liability subsequent to the end of the financial year. As at 1 July 2009, $100,235,000 has been drawn down. Negotiations have commenced and are ongoing with the Trust's financiers in relation to renegotiation and extension of the loan facility. The Directors consider it is likely that a successful renegotiation will be achieved. The Directors believe that while this is a material uncertainty, it does not cast doubt on the Trust's ability to continue as a going concern.

Apart from the above, there has not arisen, in the interval between the end of the current financial year and the date of this report, any other item, transaction or event of a material or unusual nature, likely, in the opinion of the Directors, to affect significantly the operations of the Trust, the results of operations, or the state of the affairs of the Trust, in future financial years.

Directors' Report (continued)

For the Year Ended 30 June 2009

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.

Given the impending expiry of the original term of the Trust, a comprehensive review is being undertaken by the Responsible Entity. On or before 31 December 2009, the Responsible Entity will make a recommendation to Unitholders concerning the future strategy of the Trust at a meeting of Unitholders convened by the Responsible Entity. Investors will vote by Special Resolution on the recommended future strategy of the Trust at the meeting.

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 4,621,500 units in the Trust as at 30 June 2009 (2008: 2,537,500).

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 20 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 4 and forms part of the Directors' Report for the year ended 30 June 2009.

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, 20 August 2009

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 year ended 30 June 2009 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

Sydney
20 August 2009

Income Statement

For the Year Ended 30 June 2009

	Notes	2009 $'000	2008 $'000
Revenue and other income			
Interest income		**90**	135
Total revenue and other income		**90**	135
Share of net (loss)/profit of investments accounted for using the equity method	7	**(35,495)**	52,875
Finance costs to external parties[1,2]		**(6,693)**	(6,680)
Auditors' remuneration	4	**(51)**	(47)
Responsible Entity fees	20	**(1,248)**	(1,231)
Performance fee write back/(expense)	12	**1,009**	(1,193)
Unwind of discount on performance fee provision[1]	12	**(450)**	(372)
Other expenses		**(205)**	(216)
(Loss)/profit from operating activities		**(43,043)**	43,271
Distribution/finance expense to Unitholders[1]	17	**(5,820)**	(5,653)
Change in net assets attributable to Unitholders	16	**(48,863)**	37,618

[1] Total finance costs for the Trust are $12,963,000 (2008: $12,705,000), being the sum of finance costs to external parties, unwind of discount on performance fee provision and distributions to Unitholders. In order to comply with AASB 132 "Financial Instruments: 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 2009

	Notes	2009 $'000	2008 $'000
Current assets			
Cash and cash equivalents	5	**2,342**	2,157
Other assets	6	**138**	176
Total current assets		**2,480**	2,333
Non-current assets			
Investments accounted for using the equity method	7	**233,825**	283,732
Other assets	8	**–**	3,257
Total non-current assets		**233,825**	286,989
Total assets		**236,305**	289,322
Current liabilities			
Trade and other payables	9	**2,172**	3,331
Other liabilities	10	**214**	–
Total current liabilities		**2,386**	3,331
Non-current liabilities			
Interest-bearing loans and borrowings	11	**100,110**	99,503
Provisions	12	**6,238**	6,797
Other liabilities	13	**2,302**	–
Total non-current liabilities		**108,650**	106,300
Total liabilities (excluding net assets attributable to Unitholders)		**111,036**	109,631
Net assets attributable to Unitholders	16	**125,269**	179,691

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

Statement of Changes in Equity

For the Year Ended 30 June 2009

	Unitholders' Funds					
	Units on issue		Undistributed income		Total	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000
Opening balance	**–**	–	**–**	–	**–**	–
Effective portion of changes in fair value of cash flow hedges	**–**	–	**–**	–	**–**	–
Total income and expenses recognised directly in equity for the financial year	**–**	–	**–**	–	**–**	–
Profit for the financial year	**–**	–	**–**	–	**–**	–
Total recognised income and expenses for the financial year	**–**	–	**–**	–	**–**	–
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 2009

	Notes	2009 $'000	2008 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		**129**	107
Cash payments in the course of operations		**(2,270)**	(1,381)
Distributions received from joint venture entity	7	**14,981**	15,246
Interest received		**90**	135
Interest paid		**(6,693)**	(6,707)
Net cash inflow from operating activities	18	**6,237**	7,400
Cash flows from investing activities			
Payments for unlisted units in joint venture entity	7	**(569)**	(6,485)
Net cash utilised in investing activities		**(569)**	(6,485)
Cash flows from financing activities			
Proceeds from external party financing		**500**	6,447
Distributions paid		**(5,983)**	(5,380)
Net cash (utilised in)/inflow from financing activities		**(5,483)**	1,067
Net increase in cash and cash equivalents		**185**	1,982
Cash and cash equivalents at the beginning of the financial year		**2,157**	175
Cash and cash equivalents at the end of the financial year	5	**2,342**	2,157

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

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 of the Trust as at and for the financial year ended 30 June 2009 was authorised for issue by the Directors of the Responsible Entity on 20 August 2009.

(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 complies with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

(b) BASIS OF PREPARATION

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

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 Financial Report has been prepared on the basis of the going concern and historical cost conventions except for derivative financial instruments and investment property held by the joint venture entity, which are stated at their fair value.

While the management of the Responsible Entity remains in discussions with Westpac on the loan facility extension, the Directors are not aware of any circumstances that may lead to the Trust not obtaining an extension to the existing loan facility prior to the expiry on 1 July 2010. On the date of this report, being 20 August 2009, based on information known at this date, the Directors have formed the view that the Financial Report for the year ended 30 June 2009, can be prepared on a going concern basis as they believe reasonable grounds exist to expect the loan facilities will be renewed or refinanced. The Directors consider it is likely that a successful renegotiation will be achieved. The Directors acknowledge that while this is a material uncertainty, it does not cast doubt on the Trust's ability to continue as a going concern.

This view was formed by taking into account a number of factors including the financial position of the Trust as at 30 June 2009 and information known at the date of this report, and includes the following:

- As at 30 June 2009, the Trust's total assets equal $236,305,000. This value is 2.4 times the amount of drawn debt of $100,235,000; and
- The Trust can demonstrate that it can service the interest payments on the existing loan facilities.

Further information in relation to the loan facilities can be found in Note 11 to the Financial Report.

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Refer to Note 2 for significant areas of estimation.

The accounting policies have been applied consistently for the purposes of this Financial Report.

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

(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 related 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 relevant taxation authority is included as a current asset or liability in the Balance Sheet.

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

(f) INCOME TAX

Under current Australian income tax legislation, the Trust 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.

(g) DERIVATIVE FINANCIAL INSTRUMENTS

The Trust holds derivative financial instruments to hedge interest rate risk exposures arising from operational, financing and investment activities. In accordance with the Responsible Entity's treasury 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 at each balance date. 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).

(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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) HEDGING (CONTINUED)

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 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.

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 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.

Calculation of recoverable amount

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

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

Reversals of impairment

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

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

(l) TRADE AND OTHER PAYABLES

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.

(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 are recorded as a liability to Unitholders. Any undistributed amounts are 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) INVESTMENTS

Joint venture entities

The Trust's 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 entity's 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 or amended accounting standards have been published that are not mandatory for this reporting year. The impact of these new or amended standards (to the extent relevant to the Trust) and interpretations are 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.

AASB 2008-2 "Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation" ("AASB 2008-02") changes the definition of a financial liability requiring puttable instruments that meet certain conditions to be classified as equity. The amendments, which become mandatory for the Trust's 30 June 2010 Financial Report, are not expected to have any impact on the Financial Statements.

AASB 2008-5 and AASB 2008-6 "Amendments to Australian Accounting Standards arising from the Annual Improvement Projects: The improvement project" is an annual project that provides a mechanism for making non urgent, but necessary, amendments to IFRSs. These standards will become mandatory for the Trust's 30 June 2010 Financial Report.

These recently issued or amended standards are not expected to have a significant impact on the amounts recognised or disclosures made in these Financial Statements when restated for the application of these new or amended accounting standards.

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. 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 interest

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

The best evidence of fair value is current prices in an active market for similar investment properties. Where such information is not available, the Responsible Entity determines the property's 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 leases 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 the Responsible Entity'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 Trust and those reported by the market.

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

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 20 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. See 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.

2 ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(a) KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimates of performance fee expense (continued)

Assumptions underlying the Responsible Entity'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 assumptions set out below.

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.

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.

Assumptions underlying the Responsible Entity's estimates of fair value of derivatives

The fair value of derivatives is determined using a generally accepted pricing model based on a discounted cash flow analysis using assumptions supported by observable market rates. The determination of fair value of derivatives is described further in Note 19.

3 SEGMENT REPORTING

The Trust operates solely in the business of investment management in Australia, this being one segment.

	2009 $	2008 $
4 AUDITORS' REMUNERATION		
AUDIT SERVICES TO KPMG (AUSTRALIA)		
Audit and review of the Financial Reports	**27,000**	20,000
Other audit services	**–**	3,000
Compliance audit services	**15,000**	15,000
	42,000	38,000
OTHER SERVICES TO KPMG (AUSTRALIA)		
Taxation compliance services	**8,750**	8,900
	8,750	8,900
Total remuneration	**50,750**	46,900

	2009 $'000	2008 $'000
5 CURRENT ASSETS – CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	**2,342**	2,157

The weighted average interest rate for cash at bank and on hand as at 30 June 2009 was 4.24% p.a. (2008: 6.85% p.a.).

6 CURRENT ASSETS – OTHER ASSETS

	2009 $'000	2008 $'000
Goods and services tax ("GST") receivable	**134**	45
Prepayments	**4**	4
Interest receivable under the interest rate swap	**–**	127
	138	176

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

			Holding		Carrying amount	
	Location	Principal activity	2009 %	2008 %	2009 $'000	2008 $'000
SDOT Sub-Trust 1	NSW	Property investment	**50**	50	**233,825**	283,732

The joint venture was formed in Australia.

The principal activity is investment in real property.

During the financial year, an independent valuation was performed as at 30 June 2009, resulting in the Waterfront Place property being revalued downwards from $570,000,000 to $471,500,000 (100% basis). The capitalisation rate used in the June 2009 valuation was 7.25% (2008: 6.50%). The weighted average lease expiry is 4.81 years (2008: 5.57 years).

	2009 $'000	2008 $'000
Movements in carrying amount of investments accounted for using the equity method		
Carrying amount at the beginning of the financial year	**283,732**	239,618
Interest in joint venture entity acquired during the financial year	**569**	6,485
Share of net (loss)/profit	**(35,495)**	52,875
Distributions received	**(14,981)**	(15,246)
Carrying amount at the end of the financial year	**233,825**	283,732
Share of joint venture entity's assets and liabilities		
Current assets	**1,949**	2,286
Non-current assets	**235,023**	284,284
Total assets	**236,972**	286,570
Current-liabilities	**(3,147)**	(2,838)
Total liabilities	**(3,147)**	(2,838)
Share of net assets after equity accounting adjustments	**233,825**	283,732
Share of joint venture entity's revenue, expenses and results		
Revenue	**20,762**	18,486
(Loss)/gain from fair value adjustment of investment property	**(50,840)**	38,983
Expenses	**(5,417)**	(4,594)
Net (loss)/profit accounted for using the equity method	**(35,495)**	52,875
Summarised financial information of the investment using the equity method (100%)		
Current assets	**3,899**	4,572
Non-current assets	**470,046**	568,568
Current liabilities	**(6,294)**	(5,676)
Net assets	**467,651**	567,464
Revenues	**41,524**	36,971
(Loss)/gain from fair value adjustment of investment property	**(101,680)**	77,967
Expenses	**(10,833)**	(9,188)
Net (loss)/profit	**(70,989)**	105,750

	2009 $'000	2008 $'000
8 NON-CURRENT ASSETS – OTHER ASSETS		
Fair value of hedging instrument	**–**	3,257
9 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES		
Trade payables and accruals	**412**	1,059
Interest payable on loan facility	**305**	654
Distribution payable	**1,455**	1,618
	2,172	3,331
10 CURRENT LIABILITIES – OTHER LIABILITIES		
Interest payable under interest rate swap	**214**	–
11 NON-CURRENT LIABILITIES – INTEREST-BEARING LOANS AND BORROWINGS		
Loan facility (including capital expenditure)	**100,235**	99,735
Less: attributable transaction costs	**(125)**	(232)
Total Balance Sheet carrying amount at amortised cost	**100,110**	99,503

Details of the facilities are set out below:

		Facility limit		Utilised	
Facility	Maturity date	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Loan facility	1 July 2010	**92,538**	92,538	**92,538**	92,538
Capital expenditure	1 July 2010	**15,896**	15,896	**7,697**	7,197
		108,434	108,434	**100,235**	99,735

LOAN FACILITY

The Trust has a $92,538,000 (2008: $92,538,000) loan facility agreement with Westpac Banking Corporation ("Westpac"). As at 30 June 2009, $92,538,000 had been drawn down (2008: $92,538,000). The loan facility has been effectively hedged through an interest rate swap contract. Taking into account the interest rate swap in place, the weighted average interest rate on the loan facility for the year ended 30 June 2009 is 6.47% p.a. (2008: 6.47% p.a.).

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

CAPITAL EXPENDITURE

The capital expenditure facility limit is $15,896,000 (2008: $15,896,000).

Interest is charged on the utilised portion of the facility at 90 day BBSY plus a margin of 0.50% p.a. As at 30 June 2009, $7,697,000 (2008: $7,197,000) had been drawn down.

Taking into account the interest rate swap in place, the weighted average interest rate on the total loan facilities for the year ended 30 June 2009 was 6.58% p.a. (2008: 6.72% p.a.).
A line fee of 0.10% p.a. is charged on the overall facility limit.

The facilities were originally due to expire on 30 June 2010. During the year, the loan facilities were extended to 1 July 2010 to align to the maturity of the interest rate swap currently in place.

Given the impending expiry of the facilities, the Responsible Entity continues to be in ongoing, positive discussions with Westpac regarding the renewal or refinancing of the facilities, with the outcome of the extension of the life of the Trust being a significant consideration with regards to the terms of the renewed facility.

11 NON-CURRENT LIABILITIES – INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

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 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 (2008: $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. The swap covers 100% (2008: 100%) of the loan facility outstanding and is now timed to expire as the loan repayment falls due. Given the impending expiry of the interest rate swap contract, the Responsible Entity continues to be in ongoing, positive discussions with Westpac regarding renewal or refinancing the swap, with the outcome of the extension of the life of the Trust being a significant consideration with regards to the terms of the renewed swap.

The fixed rate is 5.97% p.a. (2008: 5.97% p.a.) and the variable rate is the 90 day Bank bill rate which as at 30 June 2009 was 3.21% p.a. (2008: 7.70% p.a.).

	2009 $'000	2008 $'000
12 NON-CURRENT LIABILITIES – PROVISIONS		
Performance fee provision at the beginning of the financial year	**6,797**	5,232
Performance fee provision (written back)/made during the financial year	**(1,009)**	1,193
Unwind of discount	**450**	372
Performance fee provision at the end of the financial year	**6,238**	6,797

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 there has been, until recently, a history of strong upward revaluations of the Waterfront Place property, which indicates it is likely an amount will be payable by the Trust.

Based upon the value of the property interest as at 30 June 2009 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 $6,238,000 (2008: $6,797,000) has been recognised.

13 NON-CURRENT LIABILITIES – OTHER LIABILITIES		
Fair value of hedging instrument	**2,302**	–

14 UNITS ON ISSUE CLASSIFIED AS A LIABILITY

	2009 No. of units	2008 No. of units	2009 $'000	2008 $'000
Units on issue	**66,500,000**	66,500,000	**60,145**	60,145

Date	Details	No. of units	Issue price	$'000
Movements in units				
1 July 2007	Opening balance	66,500,000	–	60,145
30 June 2008	Balance	66,500,000	–	60,145
30 June 2009	**Closing balance**	**66,500,000**	**–**	**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.

	Notes	2009 $'000	2008 $'000
15 RESERVES			
Classified as a liability			
Balance at the beginning of the financial year[1]		**119,546**	80,926
Change in net assets attributable to Unitholders		**(48,863)**	37,618
Effective portion of changes in fair value of the cash flow hedge during the financial year	8, 13	**(5,559)**	1,002
Balance at the end of the financial year		**65,124**	119,546

[1] 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.

16 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS CLASSIFIED AS A LIABILITY

Date	Details	$'000
1 July 2008	Opening balance	141,071
30 June 2008	Movement in fair value of cash flow hedge	1,002
30 June 2008	Change in net assets for the financial year attributable to Unitholders	37,618
1 July 2008	Balance	179,691
30 June 2009	Movement in fair value of cash flow hedge	**(5,559)**
30 June 2009	Change in net assets for the financial year attributable to Unitholders	**(48,863)**
30 June 2009	**Closing balance**	**125,269**

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

	Notes	2009 $'000	2008 $'000
Units on issue classified as a liability	14	**60,145**	60,145
Reserves classified as a liability	15	**65,124**	119,546
		125,269	179,691

17 DISTRIBUTIONS TO UNITHOLDERS

Distributions to Unitholders recognised by the Trust are:

	Distribution per unit	Total amount $'000	Date of payment	Tax deferred
2009				
30 September 2008	**2.1875¢**	**1,455**	31 October 2008	100%
31 December 2008	**2.1875¢**	**1,455**	27 February 2009	100%
31 March 2009	**2.1875¢**	**1,455**	28 April 2009	100%
30 June 2009	**2.1875¢**	**1,455**	28 August 2009[1]	100%
Total distributions		**5,820**		
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	100%
Total distributions		5,653		

[1] Proposed payment date.

18 NOTES TO THE CASH FLOW STATEMENT

Reconciliation of (loss)/profit from operating activities to net cash inflow from operating activities

	2009 $'000	2008 $'000
(Loss)/profit from operating activities	**(43,043)**	43,271
Amortisation of borrowing costs	**107**	56
Change in value of investment using the equity method	**50,476**	(37,629)
Net cash inflow from operating activities before change in assets and liabilities	**7,540**	5,698
Decrease/(increase) in trade and other receivables	**38**	(160)
(Decrease)/increase in payables and provisions	**(1,341)**	1,862
Net cash inflow from operating activities	**6,237**	7,400

19 FINANCIAL INSTRUMENTS

(a) FINANCIAL RISK AND CAPITAL 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 Board of the Responsible Entity. The Board provides 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.

19 FINANCIAL INSTRUMENTS (CONTINUED)

(a) FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

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 Responsible Entity can alter the capital structure of the Trust by adjusting the amount of distributions paid to Unitholders.

In this context, the Trust considers capital to include interest-bearing loans and borrowings 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 50% of the latest valuation of the Waterfront Place property. The loan-to-value ratio as at 30 June 2009 is 43% (2008: 35%).

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 deposits are currently limited to high credit quality financial institutions.

As at 30 June 2009 and 30 June 2008, 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. Management prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flow.

The Trust manages liquidity risk through monitoring the maturity of its debt portfolio. The current weighted average debt maturity is 1.0 year (2008: 2.0 years). The Responsible Entity continues to be in ongoing, positive discussions with Westpac regarding the renewal or refinancing of the facilities, with the outcome of the extension of the life of the Trust being a significant consideration with regards to the tenure of the renewed facility.

The table on the next page 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 and do not equate to carrying amounts of financial liabilities in the Balance Sheet.

19 FINANCIAL INSTRUMENTS (CONTINUED)

(a) FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Contractual maturity of financial liabilities including derivatives and estimated interest

	Contractual cash flows $'000	1 year or less $'000	1-2 years $'000	2-3 years $'000	End of Trust life[1] $'000
30 June 2009					
Trade and other payables	**(412)**	**(412)**	**–**	**–**	**–**
Distribution payable	**(1,455)**	**(1,455)**	**–**	**–**	**–**
Loan facility	**(104,702)**	**(4,081)**	**(100,621)[2]**	**–**	**–**
Interest rate swap	**(2,566)**	**(2,414)**	**(152)**	**–**	**–**
Net assets attributable to Unitholders classified as a liability[1]	**(125,269)**	**–**	**–**	**–**	**(125,269)**
	(234,404)	**(8,362)**	**(100,773)**	**–**	**(125,269)**
30 June 2008					
Trade and other payables	(1,059)	(1,059)	–	–	–
Distribution payable	(1,618)	(1,618)	–	–	–
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)
	(296,295)	(9,524)	(105,816)	(1,264)	(179,691)

[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] At 30 June 2008, the loan facility's maturity date was 30 June 2010 and the interest rate swap's maturity date was on 1 July 2010. However, during the current financial year, the loan facility's maturity date was extended to 1 July 2010 to align it with the maturity of the swap.

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 interest rate risk by using floating-to-fixed interest rate swaps. The interest rate swap has the economic effect of converting borrowings from floating rates to fixed rates. The debt fixed/hedged percentage as at 30 June 2009 was 92% (2008: 93%). 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 19(b) for further details about the interest rate swap contracts.

Sensitivity analysis

The following sensitivity analysis shows the effect on the Trust's Income Statement and net assets attributable to Unitholders if market interest rates at balance date had been 25 basis points higher/lower (2008: 25 basis points) with all other variables held constant.

An increase of 25 basis points (2008: 25 basis points) in market interest rate would result in a loss to the Income Statement of $19,243 (2008: loss of $18,000) and an increase in net assets attributable to Unitholders of $192,316 (2008: $376,000). A decrease of 25 basis points (2008: 25 basis points) in market interest rate would result in a gain to the Income Statement of $19,243 (2008: gain of $18,000) and a decrease in net assets attributable to Unitholders of $192,876 (2008: $378,000).

19 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 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.

The fixed interest rate is 5.97% p.a. (2008: 5.97% p.a.) and the variable rate is the 90 day Bank bill rate which as at 30 June 2009 was 3.21% p.a. (2008: 7.70% p.a.).

As at 30 June 2009, the notional principal amounts and periods of expiry of the interest rate swap contract for the loan facility are as follows:

	2009 $'000	2008 $'000
Less than 1 year	**–**	–
1-2 years	**92,538**	–
2-3 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.

This swap has been designated as an effective cash flow hedge in accordance with AASB 139 "Financial Instruments: Recognition and Measurement" ("AASB 139") and has been tested for effectiveness. As at 30 June 2009, 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 $2,302,000 (2008: asset of $3,257,000) included in Non-current liabilities – Other liabilities on the Balance Sheet (2008: Non-current assets – Other assets).

(c) FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The carrying amounts of cash and cash equivalents, other receivables, trade and other payables, interest-bearing loans and borrowings and the interest rate swap as disclosed in the Balance Sheet reflect the fair value of these financial assets and liabilities as at 30 June 2009.

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.

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.

20 RELATED PARTIES

Stockland Capital Partners Limited ("SCPL") 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 as at 30 June 2009 are as follows:

Directors	Number of units
Mr David Kent	20,000
Mr Matthew Quinn	15,000

Responsible Entity fees and other transactions	2009 $'000	2008 $'000
Responsible Entity fees		
The Responsible Entity charged responsible entity fees calculated at 0.45% p.a. of the gross value of the assets of the Trust.	**1,248**	1,231
For the year ended 30 June 2009, the Trust has not deferred payment of the Responsible Entity Fee (2008: $Nil).		
Total accrued and deferred Responsible Entity fees included in Current liabilities – Trade and other payables as at 30 June 2009 is $289,695 (2008: $977,222).		
Performance fees		
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 12.	**(559)**	6,797
Total accrued Performance fee included in Non-current liabilities – Provisions as at 30 June 2009 is $6,238,000 (2008: $6,797,000).		
Total Responsible Entity fees and other transactions recognised in the Income Statement	**689**	8,028

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 Net Tangible Asset ("NTA") per unit less transaction costs, from Unitholders seeking to transfer their units. Stockland Trust Management Limited ("STML"), 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. The LLF can be terminated by Westpac should STML withdraw its standing order with Westpac to acquire units on Stockland Trust's behalf, which it may do at any time at its discretion. As per the Product Disclosure Statement, the LLF will terminate on 30 September 2009.

During the financial year, STML, as Responsible Entity of Stockland Trust, acquired 2,084,000 units (2008: 1,552,500) in the Trust via the LLF.

Units held by Stockland Trust

As at 30 June 2009, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 4,621,500 units (2008: 2,537,500) in the Trust.

20 RELATED PARTIES (CONTINUED)

OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

Property Management and Leasing Fee

Stockland Property Management Limited, a related party of the Responsible Entity, charged $1,073,257 (2008: $1,336,589) to SDOT Sub-Trust 1 for property management services including onsite property management staff and leasing fees. Of this amount, $841,205 (2008: $821,816) forms part of the outgoings recoverable from tenants pursuant to leases.

Rent

SDOT Sub-Trust 1 charged rent of $90,050 (2008: $86,349) 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 $100,146 (2008: $97,798) to the Trust 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.

Total accrued limited debt guarantee fee included in Current liabilities – Trade and other payable as at 30 June 2009 is $25,037 (2008: $8,266).

21 COMMITMENTS

As at 30 June 2009, the Trust has no commitments (2008: $Nil).

22 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.

23 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2009, the Trust has no contingent liabilities and no contingent assets (2008: $Nil).

24 EVENTS SUBSEQUENT TO THE END OF THE YEAR

There have been no events subsequent to the end of the year which would have a material effect on the Trust's Financial Statements as at 30 June 2009.

Directors' Declaration

For the Year Ended 30 June 2009

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 5 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 2009 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 financial year ended 30 June 2009 in accordance with the provisions of the Trust Constitution as amended dated 19 August 2004; and
5. the Register of Unitholders has, during the financial year ended 30 June 2009, 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, 20 August 2009

Independent Auditor's Report

to the Untiholders of Stockland Direct Office Trust No.1

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 2009, 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 24 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 (including the Australian Accounting Interpretations) 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.

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

Independent Auditor's Report

to the Untiholders of Stockland Direct Office Trust No.1

KPMG

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 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 2009 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

KPMG

S. R. Fleming

Scott Fleming
Partner

Sydney

20 August 2009

Stockland Corporation Ltd
ACN 000 181 733

Head Office
Level 25, 133 Castlereagh Street
Sydney NSW 2000

Sydney
Telephone 02 9035 2000

Melbourne
Telephone 03 9095 5000

Brisbane
Telephone 07 3305 8600

Perth
Telephone 08 9368 9222

United Kingdom
37 Maddox Street
London
W1S 2PP
Telephone +44 (0) 845 070 4633

www.stockland.com.au

Stockland