

Stockland Direct Office Trust No. 1

ARSN: 110 688 009

Annual Report 30 June 2011

Registered office:

133 Castlereagh Street
Sydney NSW 2000

Stockland Direct Office Trust No. 1

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Stockland Direct Office Trust No. 1

Directors' Report

For the year ended 30 June 2011

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 2011, the state of the Trust's affairs as at 30 June 2011 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:

Barry Neil

Chairman (Non-Executive)

Mr Neil was appointed as Director on 19 October 2010 and has over thirty seven years experience in property, both in Australia and overseas. He is a Director of Dymocks Holdings Pty Limited and Terrace Tower Group Pty Ltd and was previously Director of Property for Woolworths Limited. He also served as Chief Executive Officer, Investment Division (1999 to 2004), and Executive Director (1987 to 2004) of Mirvac Limited. Mr Neil is Chairman of Stockland Capital Partners Limited, the Responsibility Entity for Stockland's unlisted funds and a member of the Stockland Audit and Corporate Responsibility and Sustainability Committees.

Peter Scott

(Non-Executive)

Retired 19 October 2010

Mr Scott was appointed to the Board on 9 August 2005 and he retired on 19 October 2010. He is Chairman of Sinclair Knight Merz Holdings Limited and Perpetual Limited, where he was appointed a Director on 31 July 2005. Mr Scott is a Director of Pilotlight Australia, a not-for-profit making organisation and O'Connell Street Associates Pty Limited. He was appointed to the Advisory Board of Laing O'Rourke Australia from August 2008 to August 2011. 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 is Chairman of the Stockland Human Resources Committee and a member of the Stockland Risk Committee.

David Kent

(Non-Executive)

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, a Director of the Royal Sydney Golf Club Foundation, Alliance Francaise de Sydney and The Australian Club Inc. 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 Executive General Manager of Axiss Australia and 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 Remuneration and Equity and Finance Committees of Sinclair Knight Merz and of the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

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Directors' Report

For the year ended 30 June 2011

Directors (continued)

Anthony Sherlock (Non-Executive)

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 Audit and Risk Committee, the Stockland and Stockland Capital Partners Financial Services Compliance Committees, and the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

Matthew Quinn

Managing Director – Stockland – (Executive)

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 is a Director of Australian Business and Community Network Limited, having served as Chairman from November 2007 to November 2010, and Carbonxt Group Limited. Mr Quinn is a member of the Stockland Corporate Responsibility and Sustainability Committee, a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds and a member of the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

Tim Foster

Chief Financial Officer – Stockland – (Executive) -Alternate Director for Matthew Quinn

Mr Foster was appointed an alternate Director for Mr Quinn on 26 February 2010. Mr Foster joined Stockland Group in February 2010 with 25 years of financial experience, including 15 years in the financial services industry. For the preceding 10 years before joining Stockland Group he held CFO roles in three major organisations including Colonial First State Investments, Challenger Financial Services and HBOS Australia. In his most recent role at HBOS Australia, Mr Foster led the Corporate Services Division and was also the Chairman of the HBOSA Assets & Liabilities Committee and the HBOSA Learning Council. He has had significant exposure to the property sector throughout his career, including being a Director of the responsible entity listed Colonial First State property trust. Mr Foster commenced his career with a major global accounting firm in the UK.

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
Mr A Sherlock – Non-Executive Director
Mr P Hepburn – Executive Member

Stockland Direct Office Trust No. 1

Directors' Report

For the year ended 30 June 2011

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 auditor in the absence of management at least once a year. The Committee has the power to conduct or authorise investigations into, or consult independent specialists on, any matters within the Committee's scope of responsibility. The Committee has written terms of reference which incorporates best practice. Its members must be independent of management and at least one member of the Committee must have relevant accounting qualifications and experience and all members should 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 was the ownership of property in Waterfront Place situated at 1 Eagle Street, Brisbane, via its 50% investment in SDOT Sub-Trust 1 ("Trust's Investment"). The Trust's Investment was sold on 20 May 2011.

Review and results of operations

The Trust recorded a profit from operating activities of \$188,000 for the financial year ended 30 June 2011 (2010: loss of \$11,314,000).

Distributions paid or declared by the Trust to Unitholders during the financial year are set out in Note 16 of the Financial Statements.

Sale of interest in Waterfront Place

The sale of the Trust's Investment exchanged and settled on 20 May 2011 for \$216,975,000. Under the terms of the sale contract, the Trust is required to retain \$21,000,000 in a retention fund until 15 June 2012 to support warranties provided by the Trust to the purchaser.

Update of debt repayment

As a consequence of the sale of the Trust's Investment, the loan facility has been repaid in full. Further information in relation to the loan facilities can be found in Note 11 to the Financial Report.

Stockland Direct Office Trust No. 1

Directors' Report

For the year ended 30 June 2011

Significant changes in the state of affairs

Upon the sale of the Trust's Investment and following the expiry of the retention period ("Retention Period") on 15 June 2012, management will commence proceedings to wind up the Trust.

Events subsequent to the end of the year

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.

Likely developments

The Trust will continue to operate until the Retention Period has expired, after which management will seek to wind up the Trust following payment of the final distribution to Unitholders.

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 5,680,500 units in the Trust as at 30 June 2011 (2010: 5,680,500).

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 19 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:

<u>Director</u>	<u>Number of units held</u>
Mr David Kent	20,000
Mr Matthew Quinn	15,000

Indemnities and insurance of officers and auditor's

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.

Stockland Direct Office Trust No. 1

Directors' Report

For the year ended 30 June 2011

Indemnities and insurance of officers and auditor's (continued)

Insurance premiums

The Responsible Entity has paid insurance premiums in respect of Directors' and officers' liability insurance contracts. 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 6 and forms part of the Directors' Report for the year ended 30 June 2011.

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, 18 August 2011



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

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 2011, there has 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

18 August 2011

Stockland Direct Office Trust No. 1
Statement of Comprehensive Income
For the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
Revenue and other income			
Interest income		631	124
Distributions received		9,917	7,316
Performance fee write back	12	107	699
Total revenue and other income		10,655	8,139
Share of net loss of investments accounted for using the equity method	9	-	(10,666)
Impairment of investment	8	-	(591)
Loss on disposal of investment	8	(2,373)	-
Finance costs to external parties		(6,706)	(6,603)
Auditor's remuneration	4	(48)	(53)
Responsible Entity fees	19	(965)	(1,016)
Unwind of discount on performance fee provision	12	(296)	(261)
Other expenses		(79)	(263)
Profit/(loss) for the financial year		188	(11,314)
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges	15	-	2,302
Other comprehensive income for the year		-	2,302
Total comprehensive income/(expense) for the year		188	(9,012)

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

Stockland Direct Office Trust No. 1
Balance Sheet
As at 30 June 2011

	Notes	2011 \$'000	2010 \$'000
Current assets			
Cash and cash equivalents	5	4,124	1,728
Trade and other receivables	6	90	-
Other assets	7	22,173	2,477
Investment held for sale	8	-	215,269
Total current assets		26,387	219,474
Total assets		26,387	219,474
Current liabilities			
Trade and other payables	10	1,239	1,490
Interest-bearing loans and borrowings	11	-	100,235
Provisions	12	562	5,800
Other liabilities	13	-	98
Total current liabilities		1,801	107,623
Total liabilities		1,801	107,623
Net assets		24,586	111,851
Unitholders' funds			
Units on issue	14	24,586	60,145
Undistributed profit	15(a)	-	51,706
Total unitholders' funds		24,586	111,851

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

Stockland Direct Office Trust No. 1
Statement of Changes in Equity
For the year ended 30 June 2011

	Notes	Unitholders' Funds							
		Issued capital		Undistributed profit		Reserves		Total	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Opening balance		60,145	60,145	51,706	67,426	-	(2,302)	111,851	125,269
Other comprehensive income for the year	15(b)	-	-	-	-	-	2,302	-	2,302
Profit/(loss) for the financial year		-	-	188	(11,314)	-	-	188	(11,314)
Total comprehensive income/(expense) for the year		-	-	188	(11,314)	-	2,302	188	(9,012)
Transactions with Unitholders in their capacity as owners:									
Distributions paid/payable to Unitholders	16	(35,559)	-	(51,894)	(4,406)	-	-	(87,453)	(4,406)
Closing balance		24,586	60,145	-	51,706	-	-	24,586	111,851

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

Stockland Direct Office Trust No. 1
Cash Flow Statement
For the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
Cash flows from operating activities			
Cash receipts in the course of operations		31	259
Cash payments in the course of operations		(976)	(1,467)
Performance fee paid		(5,427)	-
Distributions received from investment held for sale		12,084	5,149
Distributions received from joint venture entity	9	-	8,818
Interest received		603	124
Interest paid		(7,024)	(6,865)
Net cash (outflow)/inflow from operating activities	17	(709)	6,018
Cash flows from investing activities			
Payments for unlisted units in investment held for sale	8	(2,192)	(1,296)
Payments for selling costs for investment held for sale	8	(1,642)	(223)
Proceeds from sale of investment	8	195,375	-
Net cash from/(utilised) in investing activities		191,541	(1,519)
Cash flows from financing activities			
Proceeds from external party financing		1,500	-
Repayment of borrowings		(101,735)	-
Distributions paid	16	(88,201)	(5,113)
Net cash utilised in financing activities		(188,436)	(5,113)
Net increase/(decrease) in cash and cash equivalents		2,396	(614)
Cash and cash equivalents at the beginning of the year		1,728	2,342
Cash and cash equivalents at the end of the year	5	4,124	1,728

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

Stockland Direct Office Trust No. 1

Notes to the Financial Statements

For the year ended 30 June 2011

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 2011 was authorised for issue by the Directors of the Responsible Entity on 18 August 2011.

(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) New Accounting Standards

Certain new or amended Accounting Standards have been published that are not mandatory for this reporting period. Based on management’s assessment the recently issued or amended Accounting Standards are not expected to have a significant impact on the amounts recognised or disclosures made in the Financial Report when restated for the application of the new or amended Accounting Standards.

(c) Changes in Accounting Standards

There are a number of new and amended Accounting Standards issued by the AASB which are applicable for reporting periods beginning on 1 July 2010. The Trust has adopted all the mandatory new and amended Accounting Standards issued that are relevant to its operations and effective for the current reporting period.

There was no material impact on the Financial Report as a result of the mandatory new and amended Accounting Standards adopted.

(d) 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.

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:

(e) 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 Statement of Comprehensive Income as it accrues using the effective interest method and if not received at balance date, is reflected in the Balance Sheet as a receivable.

Stockland Direct Office Trust No. 1
Notes to the Financial Statements
For the year ended 30 June 2011

1 Summary of significant accounting policies (continued)

(f) Operating segments

An operating segment is a component of the Trust that engages in business activities from which it may earn revenues and incur expenses.

(g) 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.

(h) 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.

(i) 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 Statement of Comprehensive Income. 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(j).

(j) 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 Statement of Comprehensive Income.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Unitholders' funds. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Income.

Amounts in Unitholders' funds are recognised in the Statement of Comprehensive Income in the periods when the hedged item is recognised in the Statement of Comprehensive Income.

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 Unitholders' funds remains in Unitholders' funds and is recognised when the forecast transaction is ultimately recognised in the Statement of Comprehensive Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in Unitholders' funds is recognised immediately in the Statement of Comprehensive Income.

Stockland Direct Office Trust No. 1
Notes to the Financial Statements
For the year ended 30 June 2011

1 Summary of significant accounting policies (continued)

(k) 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 Statement of Comprehensive Income on an accruals basis, and if not paid at balance date are reflected in the Balance Sheet as a liability.

(l) 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.

(m) 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.

Stockland Direct Office Trust No. 1
Notes to the Financial Statements
For the year ended 30 June 2011

1 Summary of significant accounting policies (continued)

(n) 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.

(o) 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 Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

(p) 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 Statement of Comprehensive Income on an accrual basis. Due to the sale of the Trust's Investment on 20 May 2011, the performance fee has been calculated on a sliding scale, based on the net sales proceeds exceeding the application price. As the net sale proceeds exceed the application price by more than 40% a performance fee of 2.8% of net sales proceeds has been recognised in the Statement of Comprehensive Income.

(q) Investments

Joint venture entities

The Trust's 50% investment in SDOT Sub-Trust 1 was treated as an investment in a joint venture entity until 31 December 2009, when the decision was taken to sell the Trust's 50% investment in SDOT Sub Trust 1.

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 Statement of Comprehensive Income 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.

(r) Current assets held for sale

Immediately before classification as held for sale, the measurement of the assets is brought up-to-date in accordance with applicable Australian Accounting Standards. Upon initial classification as held for sale, assets are recognised at the lower of carrying amount and fair value less costs to sell.

Revaluations on initial classification as held for sale are included in the Statement of Comprehensive Income. The same applies to gains and losses on subsequent re-measurement.

(s) Comparatives

No comparatives have been amended from those reported in the previous financial year except for those reclassified to conform with current year's presentation.

Stockland Direct Office Trust No. 1
Notes to the Financial Statements
For the year ended 30 June 2011

2 Critical accounting estimates and judgements

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 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 19 for further details.

Assumptions underlying the Responsible Entity's estimates of performance fee expense

The performance fee, if any, is recognised in the Statement of Comprehensive Income on an accruals basis. The performance fee is calculated in accordance with the Constitution. This involves the assumptions set out below.

As the estimated net sales proceeds exceed the application price by greater than 40%, a performance fee of 2.8% of the net sale proceeds is payable, using the sliding scale.

The calculation of the performance fee uses the unadjusted sales price and assumes no claims will be made against the retention fund. Should a successful claim be made on the retention fund the performance fee will reduce proportionality to the reduction in the net sales proceeds.

3 Operating segments

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

Stockland Direct Office Trust No. 1
Notes to the Financial Statements
For the year ended 30 June 2011

	2011 \$	2010 \$
4 Auditor's remuneration		
Audit services to KPMG (Australia)		
Audit and review of the Financial Report	24,000	28,270
Other audit services	1,000	3,000
Compliance audit services	13,700	13,000
	38,700	44,270
Other services to KPMG (Australia)		
Taxation compliance services	9,000	8,500
	9,000	8,500
Total remuneration	47,700	52,770
	2011	2010
	\$'000	\$'000
5 Current assets – Cash and cash equivalents		
Cash at bank and on hand	4,124	1,728
The weighted average interest rate for cash at bank and on hand as at 30 June 2011 was 4.41% p.a. (2010: 3.45% p.a.).		
6 Current assets – Trade and other receivables		
Trade receivables	90	-
7 Current assets – Other assets		
Goods and services tax ("GST") receivable	543	9
Prepayments	1	301
Distribution receivable	-	2,167
Retention fund (Note 8)	21,000	-
Sale proceeds to be received from purchaser (Note 8)	600	-
Accrued interest	29	-
	22,173	2,477

Stockland Direct Office Trust No. 1
Notes to the Financial Statements
For the year ended 30 June 2011

8 Current assets – Investments held for sale

	Location	Principal Activity	Holding 2011	2010	Carrying amount 2011 \$'000	2010 \$'000
SDOT Sub-Trust 1	NSW	Property investment	-	50%	-	215,269

The joint venture was formed in Australia.

The principal activity was investment in real property.

Following the approval from Unitholders on 11 December 2009 which authorised the Responsible Entity to sell the Trust's Investment, the Trust's Investment was considered to be held for sale in accordance with AASB 5 "Non-current Assets Held for Sale and Discontinued Operations" ("AASB 5").

The sale of the Trust's Investment exchanged and settled on 20 May 2011 for \$216,975,000. Under the terms of the sale contract, the Trust is required to retain \$21,000,000 in a retention fund until 15 June 2012 to support warranties provided by the Trust to the purchaser. As at 30 June 2011, \$195,375,000 of the sales proceeds have been received from the purchaser, \$21,000,000 is receivable once the retention period expires (refer to Note 22) and \$600,000 is expected to be receivable from the purchaser subject to final negotiations upon completion of SDOT No. 1 Sub Trust completion accounts.

	Notes	2011 \$'000	2010 \$'000
Movements in carrying amount of investments held for sale			
Carrying amount at the beginning of the financial year		215,269	-
Investment previously accounted for using the equity method	9	-	214,341
Purchase of units in investment		2,192	1,296
Selling costs paid/payable		1,887	223
Impairment of investment held for sale		-	(591)
Proceeds from disposal of investment		(216,975)	-
Loss on disposal of investment		(2,373)	-
Carrying amount at the end of the financial year		-	215,269

9 Non-current assets – Investments accounted for using the equity method

Movements in carrying amount of investments accounted for using the equity method

Carrying amount at the beginning of the financial year		-	233,825
Share of net loss		-	(10,666)
Distributions received		-	(8,818)
Investment held for sale	8	-	(214,341)
Carrying amount at the end of the financial year		-	-

Stockland Direct Office Trust No. 1
Notes to the Financial Statements
For the year ended 30 June 2011

	2011 \$'000	2010 \$'000
10 Current liabilities – Trade and other payables		
Trade payables and accruals	402	311
Interest payable on loan facility	-	431
Distribution payable	-	748
Withholding tax on distribution	837	-
	<u>1,239</u>	<u>1,490</u>

11 Current liabilities – Interest-bearing loans and borrowings

Loan facility (including capital expenditure)	-	100,235
Less: attributable transaction costs	-	-
Total Balance Sheet carrying amount at amortised cost	<u>-</u>	<u>100,235</u>

Details of the facilities are set out below:

Facility	Maturity date	Facility limit		Utilised	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Loan facility	-	-	92,538	-	92,538
Capital expenditure	-	-	15,896	-	7,697
		<u>-</u>	<u>108,434</u>	<u>-</u>	<u>100,235</u>

Loan facility

Following the sale of the Trust's Investment the loan facility was repaid on 20 May 2011 and the loan facility was cancelled.

The loan facility was effectively hedged through an interest rate swap contract until 1 July 2010. Taking into account the interest rate swap that was no longer in place as of 1 July 2010, the weighted average interest rate on the loan facility until the loan facility was cancelled was 6.85% (2010: 6.46% p.a)

Capital expenditure

Following the sale of the Trust's Investment the capital expenditure facility was repaid on 20 May 2011 and the capital expenditure facility was cancelled.

Interest was charged on the utilised portion of the facility at 90 day BBSY plus a margin of 1.38% p.a. up until the capital expenditure facility was cancelled.

Loan facility (including capital expenditure facility)

Taking into account the interest rate swap was no longer in place as of 1 July 2010, the weighted average interest rate on the total loan facilities until the time of sale was 6.85% p.a (2010: 4.48% p.a). A line fee of 0.92% p.a. was charged on the overall facility limit.

Stockland Direct Office Trust No. 1
Notes to the Financial Statements
For the year ended 30 June 2011

	2011 \$'000	2010 \$'000
12 Current liabilities – Provisions		
Performance fee provision	562	5,800
Movement in performance fee provision		
Performance fee provision at the beginning of the financial year	5,800	6,238
Performance fee paid during the financial year	(5,427)	-
Performance fee provision written back during the financial year	(107)	(699)
Unwind of discount	296	261
Performance fee provision at the end of the financial year	562	5,800

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 at least 10%.

As the estimated net sales proceeds, (subject to a retention fund of \$21,000,000 for potential claims made by the purchaser), exceed the application price by greater than 40%, a performance fee of 2.8% of the net sale proceeds has been recognised using the sliding scale. The calculation of the performance fee uses the unadjusted sales price and assumes no claims will be made against the Retention Fund. The Trust has assessed the likelihood of warranty claims from the vendor as unlikely.

Applying appropriate discount rates to reflect the projected life of the Trust and the inherent risks associated with the Retention Fund, a provision of \$562,000 (2010: \$5,800,000) has been recognised for the portion of the performance fee subject to the Retention Fund.

The remaining performance fee will become payable following the expiry of the Retention Period on 15 June 2012.

13 Current liabilities – Other liabilities

Interest payable under interest rate swap	-	98
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14 Units on issue

	2011 No. of units	2010 No. of units	2011 \$'000	2010 \$'000
Units on issue	66,500,000	66,500,000	24,586	60,145

Date	Details	No. of units	Issue price	\$'000
Movements in units				
1 July 2009	Opening balance	66,500,000	-	60,145
30 June 2010	Balance	66,500,000	-	60,145
29 June 2011	Distribution from contributed equity	-	-	(35,559)
30 June 2011	Closing balance	66,500,000	-	24,586

Rights and restrictions over units

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

Stockland Direct Office Trust No. 1
Notes to the Financial Statements
For the year ended 30 June 2011

	2011 \$'000	2010 \$'000
15 Reserves		
(a) Undistributed Profit		
Balance at the beginning of the financial year	51,706	67,426
Change in Unitholders' funds	(51,706)	(15,720)
Balance at the end of the financial year	<u>-</u>	<u>51,706</u>
(b) Cash flow hedge reserve		
Balance at the beginning of the financial year	-	(2,302)
Effective portion of changes in fair value of the cash flow hedge during the financial year	-	2,302
Balance at the end of the financial year	<u>-</u>	<u>-</u>

The cash flow hedge reserve is used to record the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges. Refer accounting policy at Note 1(j).

16 Distributions to Unitholders

Distributions to Unitholders recognised by the Trust are:

	Distribution per unit	Total amount \$'000	Date of payment	Tax deferred
2011				
30 September 2010	1.5038¢	1,000 ¹	29 October 2010	100%
31 December 2010	1.5038¢	1,000 ¹	28 February 2011	100%
29 June 2011	128.50¢	85,453 ²	29 June 2011	6%
		<u>87,453</u>		

¹ This was an income distribution

² This was part income distribution of \$49,894,000 and part capital distribution of \$35,559,000

	Distribution per unit	Total amount \$'000	Date of payment	Tax deferred
2010				
30 September 2009	2.1875¢	1,455 ¹	29 October 2009	100%
31 December 2009	2.1875¢	1,455 ¹	28 February 2010	100%
31 March 2010	1.1250¢	748 ¹	30 April 2010	100%
30 June 2010	1.1250¢	748 ¹	31 August 2010	100%
Total distributions		<u>4,406</u>		

¹ This was an income distribution

Stockland Direct Office Trust No. 1
Notes to the Financial Statements
For the year ended 30 June 2011

	2011 \$'000	2010 \$'000
17 Notes to the Cash Flow Statement		
Reconciliation of profit/(loss) for the financial year to net cash inflow from operating activities		
Profit/(loss) for the financial year	188	(11,314)
Loss on disposal of investment	2,373	-
Amortisation of borrowing costs	-	125
Investment held for sale impairment loss	-	591
Change in value of investment using the equity method	-	19,484
Net cash inflow from operating activities before change in assets and liabilities	2,561	8,886
Decrease/(increase) in trade, other receivables and other assets	1,814	(2,338)
Decrease in payables and provisions	(5,084)	(530)
Net cash (outflow)/inflow from operating activities	(709)	6,018

18 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.

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 Unitholders' funds.

Management monitored the capital structure of the Trust through the loan-to-value ratio.

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 2011 and 30 June 2010, 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 7 for a breakdown of these financial assets.

Stockland Direct Office Trust No. 1
Notes to the Financial Statements
For the year ended 30 June 2011

18 Financial instruments (continued)

(a) Financial risk and capital management (continued)

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 loan facility was repaid from the sale proceeds from the disposal of the Trust's Investment.

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 and do not equate to carrying amounts of financial liabilities in the Balance Sheet.

Contractual maturity of financial liabilities including derivatives and estimated interest

	Contractual cash flows \$'000	1 year or less \$'000	1-3 years \$'000	3-5 years \$'000	5+ years \$'000
30 June 2011					
Trade and other payables	(402)	(402)	-	-	-
Withholding tax on distribution	(837)	(837)	-	-	-
Loan facility	-	-	-	-	-
	(1,239)	(1,239)	-	-	-
30 June 2010					
Trade and other payables	(311)	(311)	-	-	-
Distribution payable	(748)	(748)	-	-	-
Loan facility	(101,629)	(101,629)	-	-	-
	(102,688)	(102,688)	-	-	-

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 Trust has no exposure to interest rate risk as the debt was repaid on 20 May 2011

Stockland Direct Office Trust No. 1
Notes to the Financial Statements
For the year ended 30 June 2011

18 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Sensitivity analysis

The following sensitivity analysis shows the effect on the Trust's Statement of Comprehensive Income and Unitholders' funds if market interest rates at balance date had been 100 basis points higher/lower (2010:100 basis points) with all other variables held constant.

	2011		2010	
	Interest rates higher	Interest rates lower	Interest rates higher	Interest rates lower
	\$000	\$000	\$000	\$000
Market interest rate movement of 100 basis points (2010: 100 basis points)				
Statement of Comprehensive Income	860	(860)	(1,002)	1,002

(b) Derivative financial instruments used by the Trust

The Trust was 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.

On 1 July 2010 the swap was terminated.

(c) Fair value 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 2011.

(d) Fair value hierarchy

The fair value hierarchy requires the Trust to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements.

As the Trust does not hold any financial instruments, the hierarchy disclosure is not required.

Stockland Direct Office Trust No. 1
Notes to the Financial Statements
For the year ended 30 June 2011

19 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 2011 are as follows:

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

Responsible Entity fees and other transactions	2011 \$'000	2010 \$'000
<i>Responsible Entity fees</i>		
The Responsible Entity charged responsible entity fees calculated at 0.45% p.a. of the gross value of the assets of the Trust.	965	1,016
Total accrued and deferred Responsible Entity fees included in Current liabilities – Trade and other payables as at 30 June 2011 is \$136,123 (2010: \$244,903).		
<i>Performance fees</i>		
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.	189	(438)
Total accrued Performance fee included in Current liabilities – Provisions as at 30 June 2011 is \$562,000 (2010: Non Current liabilities \$5,800,000). \$5,427,000 was paid on 24 June 2011.		
Total Responsible Entity fees and other transactions recognised in the Statement of Comprehensive Income	1,154	578

Stockland Direct Office Trust No. 1
Notes to the Financial Statements
For the year ended 30 June 2011

19 Related Parties (continued)

Other related party transactions

Limited Liquidity Facility (“LLF”)

The LLF closed on 30 September 2009 in accordance with the terms of LLF agreement with Westpac.

Units held by Stockland Trust

As at 30 June 2011 Stockland Trust Management Limited holds 5,680,500 units (2010: 5,680,500) in the Trust.

Property Management and Leasing Fee

Stockland Property Management Limited, a related party of the Responsible Entity, charged \$837,289 (2010: \$1,415,308) to SDOT Sub-Trust 1 for property management services including onsite property management staff and leasing fees. Of this amount, \$793,918 (2010: \$960,658) forms part of the outgoings recoverable from tenants pursuant to leases.

Rent

SDOT Sub-Trust 1 charged rent of \$103,712 (2010: \$98,693) 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 \$88,919 (2010: \$100,235) 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 2011 is \$Nil (2010: \$24,990).

20 Commitments

As at 30 June 2011, the Trust has no commitments (2010: \$nil).

21 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.

22 Contingent liabilities

The Trust’s investment was sold on 20 May 2011. As a condition of the sale, a retention amount of \$21,000,000 will be held until 15 June 2012 to support warranties provided by the Trust to the purchaser. Claims can be made by the purchaser at any time during the Retention Period. If on 15 June 2012 there are no undetermined or unsatisfied claims, the Trust will be entitled to the full retention amount.

23 Events subsequent to the end of the year

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.

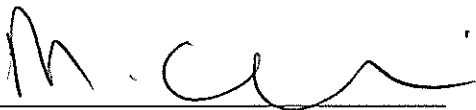
Stockland Direct Office Trust No. 1
Directors' Declaration
For the year ended 30 June 2011

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 7 to 25, 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 2011 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 2011 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 2011, 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, 18 August 2011



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

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 2011, statement of comprehensive income, 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 23 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*, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. 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 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 2011 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

18 August 2011