Stockland Direct Office Trust No.1

ARSN: 110 688 009

Financial report
for the half year ended
31 December 2004

Stockland Direct Office Trust No.1

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Directors' Report

For the half year ended 31 December 2004

The Directors of Stockland Funds Management Limited ("SFML"), the Responsible Entity of Stockland Direct Office Trust No.1 (the "Trust") submit their report made in accordance with a resolution of the directors with respect to the results of the Trust for the half year ended 31 December 2004 and the state of the Trust's affairs as at 31 December 2004.

Stockland Trust Management Limited ("STML") was appointed as Manager at the date the Trust commenced on 4 February 2004. SFML replaced STML as the Manager on 19 August 2004.

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

The Responsible Entity

The directors of the Responsible Entity at any time during or since the end of the half year are shown below.

Since appointment on 19 August 2004 the directors of SFML are:

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

Prior to 19 August 2004 the directors of the former Manager, STML were:

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

Principal activities

The Trust has been established solely for the purpose of investing in 50% of SDOT Sub-Trust 1, conferring an indirect interest in the Waterfront Place property situated at 1 Eagle Street, Brisbane.

Review of operations

During the period, SFML issued a product disclosure statement ("PDS") offering 66,500,000 units in the Trust to be issued by SFML as Responsible Entity of the Trust, at an application price of $1 per unit. The offer closed on 28 October 2004 fully subscribed, and the units were allotted on the 19 November 2004.

The Trust achieved a net profit of $670,612 for the half year ended 31 December 2004 before unrealised losses on financial instruments, realised profits on novation of financial instruments and the amortisation of the swap liability. This result includes a net profit of $61,888 relating to the period 1 July 2004 to 18 November 2004. This amount has been distributed to the previous unit holder.

The distribution per unit for the period 19 November 2004 to 31 December 2004 is 0.9425 cents. The distribution is 100% tax preferred.

The distribution includes a return of capital to unitholders of 0.025 cents.

Profit Reconciliation	2004 $'000
Net loss	**(779)**
Unrealised loss on financial instruments	**1,780**
Realised profit on novation of financial instrument	**(312)**
Amortisation of swap liability	**(18)**
Net profit before unrealised loss on financial instruments, realised profit on novation of financial instruments and amortisation of swap liability	**671**

On 12 February 2004, the Trust entered into a series of forward dated swap contracts to hedge the forecast variable interest rate exposure of the Trust in anticipation of the issue of units in the Trust pursuant to a Product Disclosure Statement. On 18 November, immediately prior to the issue of units pursuant to the Stockland Direct Office Trust No.1 Product Disclosure Statement dated 10 September 2004 (the PDS), the value of the swap contract was an unrealised loss of $1.2 million (30 June 2004: $0.6 million unrealised gain).

Immediately following the allotment of units on 19 November 2004 the Trust's Term Loan Facility of $92.5 million was drawn down as forecasted in the PDS. At the same time the difference between the existing face value of the swap contracts and the Term Loan Facility of $32.5 million was novated to Westpac Banking Corporation at nil cost to the Trust. As originally intended and forecast in the PDS, the remaining face value of the swaps of $92.5 million is an effective hedge of the Term Loan Facility effectively fixing the cost of borrowing of the Trust for the term of the loan.

External 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 half year ended 31 December 2004.

Stockland Direct Office Trust No.1

Directors' Report (continued)

For the half year ended 31 December 2004

Comparatives

Comparatives have not been provided in the Statement of Financial Performance and the Statement of Cash Flows, as this is the first half year reporting period for the Trust.

Rounding

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

Dated at Sydney this 8th day of February 2005.

Signed in accordance with a resolution of the directors:

Matthew Quinn
Director

Independence declaration under Section 307C of the Corporations Act 2001

To: The directors' of Stockland Funds Management Limited

I declare that, to the best of my knowledge and belief, during the half year ended 31 December 2004 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Stuart J Marshall
Partner
8th February 2005

Stockland Direct Office Trust No.1

Statement of Financial Performance

For the half year ended 31 December 2004

	31 December 2004
	$'000
Revenue from ordinary activities	
Realised profit on novation of financial instruments	**312**
Interest income	**31**
Total revenue from ordinary activities	**343**
Share of net profits of joint venture entity accounted for using the equity method	**5,910**
Borrowing costs	**(5,011)**
Unrealised loss on financial instruments	**(1,780)**
Other	**(241)**
Net loss	**(779)**
Total revenue and expenses attributable to unitholders of the Trust recognised directly in equity	**-**
Total changes in equity other than those resulting from transactions with unitholders as owners	**(779)**

The Statement of Financial Performance is to be read in conjunction with the notes to and forming part of the Financial Statements set out on pages 10 to 15.

Stockland Direct Office Trust No.1

Statement of Financial Position

As at 31 December 2004

	Notes	31 December 2004 $'000	30 June 2004 $'000
Current assets			
Cash		**988**	1,381
Receivables		**438**	160
Other		**48**	578
Total current assets		**1,474**	2,119
Non-current assets			
Investment accounted for using the equity method		**154,736**	154,356
Other		**482**	-
Total non-current assets		**155,218**	154,356
Total assets		**156,692**	156,475
Current liabilities			
Interest-bearing liabilities		**-**	151,260
Payables		**3,401**	4,047
Provisions		**627**	591
Other liabilities		**871**	-
Total current liabilities		**4,899**	155,898
Non-current liabilities			
Interest-bearing liabilities		**92,538**	-
Total non-current liabilities		**92,538**	-
Total liabilities		**97,437**	155,898
Net assets		**59,255**	577
Unitholders' funds			
Units on issue	3	**60,145**	-
Reserves	4	**(890)**	577
Total unitholders' funds		**59,255**	577

The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the Financial Statements set out on pages 10 to 15.

Stockland Direct Office Trust No.1

Statement of Cash Flows

For the half year ended 31 December 2004

	31 December 2004
	$'000
Cash flows from operating activities	
Cash payments in the course of operations	**(1,889)**
Distributions received from joint venture entity	**5,530**
Interest received	**31**
Borrowing costs paid	**(4,995)**
Net cash provided by operating activities	**(1,323)**
Cash flows from investing activities	
Repayment of loan from related party	**160**
Net cash used in investing activities	**160**
Cash flows from financing activities	
Proceeds from borrowing	**92,538**
Repayment of borrowings	**(151,260)**
Proceeds from the issue of units	**60,145**
Distributions paid	**(653)**
Net cash provided by financing activities	**770**
Net decrease in cash held	**(393)**
Cash at the beginning of the half year	**1,381**
Cash at the end of the half year	**988**

The Statements of Cash Flows is to be read in conjunction with the notes to and forming part of the Financial Statements set out on pages 10 to 15.

Stockland Direct Office Trust No.1

Notes to the Financial Statements

For the half year ended 31 December 2004

1 Statement of significant accounting policies

Basis of preparation of half year financial report

The Half Year Financial Report is a general purpose financial report which has been prepared in accordance with Australian Accounting AASB 1029 *Interim Financial Reporting*, the recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"), the Corporations Act 2001 and the Trust Constitution dated 4 February 2004.

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

These accounting policies have been consistently applied by the Trust.

The Half Year Financial Report does not include full note disclosures of the type normally included in an Annual Financial Report. Accordingly, this report should be read in conjunction with the 30 June 2004 Annual Financial Report and any announcements made by the Responsible Entity of Stockland Direct Office Trust No. 1 during the half year ended 31 December 2004.

Comparatives have not been provided in the Statement of Financial Performance and the Statement of Cash Flows, as this is the first half year reporting period for the Trust.

2 Distributions

Distributions recognised in the current period by the Trust are:

	Distribution per unit	Total amount $'000	Date of payment	Total Tax Preferred %	Tax Preferred: Tax deferred %	Tax Preferred: CGT Concession %
The distributions paid/payable are as follows:						
31 March 2004	$13,751*	138	23 Aug 2004	78.1%	78.1%	-
30 June 2004	$45,327*	453	27 Sep 2004	78.1%	78.1%	-
		591				
30 September 2004[1]	$6,188*	62	23 Nov 2004	100%	100%	-
		653				
31 December 2004[1]	0.9425¢	627	28 Feb 2005	100%	100%	-

* A total of 10 units were issued up to and including 18 November 2004.

[1] Total distributions in the current period are $688,311.

		31 December 2004 $'000	30 June 2004 $'000
3	**Units on issue**		
	66,500,010 (June 2004:10) ordinary units on issue	**60,145**	-
	Movements in units		
	Balance at the beginning of the financial period	-	-
	Units issued		
	19 November 2004 – 66,500,000 units @ $1.00 (Issued by SFML as Responsible Entity)	**66,500**	-
	Transaction Costs		
	19 November 2004	**(6,355)**	-
		60,145	-

No units were redeemed during the period.

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

4	**Reserves**		
	General	**(890)**	577
	Reconciliation		
	Balance at the beginning of the financial period	**577**	-
	Transfer (to)/from undistributed income	**(1,449)**	577
	Distribution of capital	**(18)**	-
	Balance at the end of the financial period	**(890)**	577
5	**Undistributed income**		
	Balance at the beginning of the financial period	-	-
	Net (loss)/profit	**(779)**	1,168
	Transfer from/(to) general reserve	**1,449**	(577)
	Distribution of capital	**18**	-
	Distributions paid and/or payable	**(688)**	(591)
	Balance at the end of the financial period	**-**	-

6 Segment information

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

7 Contingent liabilities and contingent assets

The Trust has no contingent liabilities or contingent assets as at 31 December 2004.

8 Events subsequent to balance date

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

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the Trust must comply with International Financial Reporting Standards ("IFRS") as issued by the AASB. The first financial report to be completed under IFRS will be for the half year ending 31 December 2005 and year ending 30 June 2006, with the comparatives also restated to comply with IFRS.

This financial report has been prepared in accordance with Australian Accounting Standards and other financial reporting requirements ("Australian GAAP"). As Manager of the Trust, SFML has identified the following differences between Australian GAAP and IFRS as potentially having a significant effect on the Trust's financial performance and financial position. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The effects of the differences discussed below have not been quantified at the date of transition to IFRS commencing 1 July 2004. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The Responsible Entity has a project team working on the conversion to IFRS. The key potential implications of the conversion to IFRS on the Trust identified to date are as follows:

- financial instruments must be recognised in the Statement of Financial Position and all derivatives and most financial assets must be carried at fair value;
- changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

8 Events subsequent to balance date (continued)

International Financial Reporting Standards (continued)

The investment in the joint venture entity will also be impacted by IFRS, the key potential implications of conversion identified to date are as follows:

- investment properties will be fair valued with increments and decrements accounted through the Statement of Financial Performance or measured at cost and depreciated.
- the recognition of qualifying contingent rental income and lease incentives expense on a straight line basis over the lease term.

The effects of the differences discussed above have not been quantified. Accordingly, there can be no assurances that the Trust's financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the Trust's financial reports in the future. The potential impacts on the Trust's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The Responsible Entity has established a formal project to achieve transition to IFRS reporting. The Responsible Entity's implementation project consists of three phases as described below:

Assessment and planning phase

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

This phase includes:

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

The Responsible Entity considers the assessment and planning phase to be complete in most respects as at 31 December 2004.

8 Events subsequent to balance date (continued)

International Financial Reporting Standards (continued)

Design phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to facilitate transition to IFRS. The design phase incorporates:

- formulating revised accounting policies and procedures for compliance with IFRS requirements;
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS;
- developing revised IFRS disclosures;
- designing accounting and business processes to support IFRS reporting obligations;
- identifying and planning required changes to financial reporting and business source systems; and
- developing training programs for staff.

The Responsible Entity has commenced its design phase, with work progressing in each of the areas described above. The design phase is expected to be completed during the upcoming financial year.

Implementation phase

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

Except for certain training that has been given to operational staff, the Responsible Entity has not yet commenced the implementation phase. However, the Responsible Entity expects this phase will be substantially complete by 30 June 2005 which will ensure that the Responsible Entity will meet the AASB implementation dates.

The key potential implications on the Trust identified by the project team and being examined in respect of the conversion to IFRS are as follows:

- the disclosure requirements are generally more extensive and prescriptive than those required under current Australian Accounting Standards. All material items should be disclosed separately on the face of the income statement or in the notes.

- operating lease income, including future rent reviews predetermined by fixed increases but excluding future turnover rents, and all lease incentives expense, will be recognised on a straight-line basis over the lease term.

8 Events subsequent to balance date (continued)

International Financial Reporting Standards (continued)

- the vendor of the investment property held by SDOT Sub-Trust 1 has provided income support to compensate SDOT Sub-Trust 1 should the agreed annualised net rental yield not be achieved in the years ending 30 June 2004 to 30 June 2008. IFRS requires income support to be separated from the valuations of investment property and be amortised over the period of the income support.

- financial instruments must be recognised in the Statement of Financial Position and all derivatives and most financial assets must be carried at fair value. The criteria for the use of hedge accounting includes an expectation that the hedge will be highly effective at inception and over the life of the hedge. Actual hedge effectiveness must be measured on an ongoing basis. Effective cash flow hedges are fair valued with changes in fair value recognised in equity. Effective fair value hedges are fair valued with changes in fair value recognised in the income statement.

- it is presently uncertain whether Trust units on issue will be required to be treated as a financial liability under IFRS. In the event that such treatment is required it may transpire that Trust units on issue will no longer form part of contributed equity and instead be classified as non-current liabilities on the balance sheet with distributions classified as an expense in the income statement.

- any revaluation increments and decrements relating to revalued property, plant and equipment will be monitored and recognised on an individual asset basis, not on a class of assets basis.

- impairment of assets will be determined by ascertaining recoverable amount, being the higher of fair value and value in use, and comparing to the carrying amount. Impairment testing will be required at an asset, cash generating unit level or group of cash generating unit’s level and may result in additional write downs.

- investment properties will be fair valued with increments and decrements going through the Statement of Financial Performance instead of the Asset Revaluation Reserve.

- changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

Stockland Direct Office Trust No.1

Directors' Declaration

For the half year ended 31 December 2004

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

   (a) the financial statements and notes set out on pages 3 to 15, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the financial position of the Trust as at 31 December 2004 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and

      (ii) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

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

2. The Trust has operated during the half year ended 31 December 2004 in accordance with the provisions of the Trust Constitution dated 4 February 2004.

3. The Register of Unitholders has, during the half year ended 31 December 2004, been properly drawn up and maintained so as to give a true account of the Unitholders of the Trust.

On behalf of the Board

Matthew Quinn
Director

Sydney, 8th February 2005

KPMG

Independent Review Report to the Unitholders of Stockland Direct Office Trust No.1

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial statements (notes 1 to 8) and the directors' declaration for Stockland Direct Office Trust No.1 ("the Trust") for the half year ended 31 December 2004.

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

Review approach

We conducted an independent review of the financial report audit in order to express an opinion to the unitholders of the Trust. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Trust's financial position, and of its performance, as represented by the results of its operations and its cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of the Responsible Entity personnel and;
- analytical procedures applied to the financial data.

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

These procedures do not provide all of the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

Independent Review Report to the Unitholders of Stockland Direct Office Trust No.1 (continued)

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the Half Year Financial Report of the Trust is not in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the Trust's financial position as at 31 December 2004 and of its performance for the half year ended on that date; and

(ii) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

Stuart J Marshall
Partner
8th February 2005