

# **Stockland Direct Office Trust No. 1**

ARSN: 110 688 009

## **Interim Financial Report for the half year ended 31 December 2006**

Registered office:

157 Liverpool Street  
Sydney NSW 2000

# **Stockland Direct Office Trust No. 1**

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# Stockland Direct Office Trust No. 1

## Directors' Report

### For the half year ended 31 December 2006

The Directors of Stockland Funds Management Limited ("SFML"), the Responsible Entity of Stockland Direct Office Trust No. 1 (the "Trust"), present their report together with the interim Financial 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 2006, the state of the Trust's affairs as at 31 December 2006 and the related Independent Auditor's Review Report.

#### Directors

The Directors of the Responsible Entity at any time during or since the end of the half year ("the Directors") are:

Name	Date of appointment
<b>Non - executive Directors</b>	
Peter Scott, <i>Chairman</i>	Appointed 22 November 2005
Lyn Gearing	Appointed 22 November 2005
David Kent	Appointed 9 August 2004
Tony Sherlock	Appointed 9 August 2004
Terry Williamson	Appointed 2 July 2004
<b>Executive Director</b>	
Matthew Quinn	Appointed 19 October 2000

#### Principal activities

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

#### Review of operations

The Trust achieved a profit from operating activities of \$56,785,000 for the half year ended 31 December 2006 (31 December 2005: \$27,445,000).

An upwards revaluation totalling \$59,352,000 was recognised in the Trust's Income Statement through the recognition of the Trust's share of net profits of the joint venture. During the year an independent valuation was performed with the result of the Waterfront Place property being revalued upwards to \$475,000,000 (100% basis). This represents an increase of 34% on the 30 June 2006 carrying value.

Distributions paid or declared by the Trust to unitholders during the half year are set out in Note 9 of the Financial Statements.


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

The external auditor's independence declaration is set out on page 3 and forms part of the Directors' Report for the half year ended 31 December 2006.

#### Rounding

The Trust is an entity of the kind referred to in ASIC Class Order 98/100 (as amended) and in accordance with that Class Order, amounts in the interim 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, 15 February 2007



**Stockland Direct Office Trust No. 1**  
**Lead Auditor's Independence Declaration**  
**under Section 307C of the Corporations Act 2001**

To: The Directors of the Responsible Entity of Stockland Direct Office Trust No. 1, Stockland Funds Management Limited.

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2006 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Scott Fleming

Partner

Sydney

15 February 2007

**Stockland Direct Office Trust No. 1**  
**Interim Income Statement**  
**For the half year ended 31 December 2006**

		<b>Half year ended</b>	
	<b>Notes</b>	<b>2006</b>	<b>2005</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Revenue and other income</b>			
Interest income		33	26
Share of profit of investments accounted for using the equity method	4	65,604	31,030
<b>Total revenue and other income</b>		<b>65,637</b>	<b>31,056</b>
 Finance costs to external parties <sup>1</sup>		<b>(3,144)</b>	<b>(3,135)</b>
Responsible Entity fees	10	(431)	(356)
Performance fee	10	(5,136)	-
Other expenses		(141)	(120)
<b>Total expenses before finance costs to unitholders</b>		<b>(8,852)</b>	<b>(3,611)</b>
 <b>Profit from operating activities</b>		<b>56,785</b>	<b>27,445</b>
Distribution (finance) expense to unitholders <sup>1</sup>	9	(2,690)	(2,676)
<b>Change in net assets for the year attributable to unitholders</b>	8	<b>54,095</b>	<b>24,769</b>

<sup>1</sup>Total finance costs for the Trust are \$5,834,000 (31 December 2005:\$5,811,000), being the sum of finance costs to external parties and distributions to unitholders. In order to comply with AASB 132, the unitholders' funds are required to be treated as a liability to unitholders and trust distributions to be treated as an expense in the Income Statement.

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

# Stockland Direct Office Trust No. 1

## Interim Balance Sheet

As at 31 December 2006

	Notes	31 Dec 2006 \$'000	30 June 2006 \$'000
<b>Current assets</b>			
Cash and cash equivalents		1,575	1,342
Trade and other receivables		-	-
Other assets		8	4
<b>Total current assets</b>		<u>1,583</u>	<u>1,346</u>
<b>Non-current assets</b>			
Investments accounted for using the equity method	4	237,841	177,723
Other assets		1,478	760
<b>Total non-current assets</b>		<u>239,319</u>	<u>178,483</u>
<b>Total assets</b>		<u>240,902</u>	<u>179,829</u>
<b>Current liabilities</b>			
Trade and other payables		1,427	1,108
Provisions		1,345	1,338
<b>Total current liabilities</b>		<u>2,772</u>	<u>2,446</u>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	5	92,950	92,152
Provisions	6	5,136	-
<b>Total non-current liabilities</b>		<u>98,086</u>	<u>92,152</u>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>100,858</u>	<u>94,598</u>
<b>Net assets attributable to unitholders<sup>1</sup></b>	8	<u>140,044</u>	<u>85,231</u>

<sup>1</sup> From 1 July 2005, in order to comply with AASB 132, the unitholders' funds are required to be treated as liabilities to unitholders and trust distributions to be treated as an expense in the Income Statement.

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

**Stockland Direct Office Trust No. 1**  
**Interim Statement of Changes in Equity**  
**For the half year ended 31 December 2006**

	Units on Issue		Unitholders Funds Reserves		Total	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Opening balance</b>	-	60,145	-	(1,127)	-	59,018
Change in accounting policy as result of AASB 132 and AASB 139 <sup>1</sup>	-	(60,145)	-	1,127	-	(59,018)
<b>Restated balance</b>	-	-	-	-	-	-
Net profit for the year	-	-	-	-	-	-
Unrealised (loss) on financial instruments	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-
<b>Closing balance</b>	-	-	-	-	-	-

<sup>1</sup>From 1 July 2005, in order to comply with AASB 132 "Financial Instruments: Disclosure and Presentation", the unitholders' funds are required to be treated as a liability to unitholders and trust distributions to be treated as an expense in the Income Statement.

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

**Stockland Direct Office Trust No. 1**  
**Interim Cash Flow Statement**  
**For the half year ended 31 December 2006**

	<b>Half year ended</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>		
Cash receipts in the course of operations	15	7
Cash payments in the course of operations	(244)	(346)
Distributions received from joint venture entity	6,246	5,149
Interest received	33	26
Interest paid	(3,124)	(4,012)
<b>Net cash flows from operating activities</b>	<b>2,926</b>	<b>824</b>
<b>Cash flows from investing activities</b>		
Payments for units in joint venture entity	(760)	-
<b>Net cash flows from investing activities</b>	<b>(760)</b>	<b>-</b>
<b>Cash flows from financing activities</b>		
Proceeds from external party financing	750	-
Distributions paid	(2,683)	(2,648)
<b>Net cash flows from financing activities</b>	<b>(1,933)</b>	<b>(2,648)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>233</b>	<b>(1,824)</b>
Cash and cash equivalents at the beginning of the half year	1,342	2,221
<b>Cash and cash equivalents at the end of the half year</b>	<b>1,575</b>	<b>397</b>

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



# **Stockland Direct Office Trust No. 1**

## **Notes to the Interim Financial Statements**

### **For the half year ended 31 December 2006**

#### **1 Summary of significant accounting policies**

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

The interim Financial Report as at and for the half year ended 31 December 2006 was authorised for issue by the Directors of the Responsible Entity on 15 February 2007.

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

##### **(a) Statement of compliance**

The interim Financial Report is a general purpose Financial Report which has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

The interim Financial Report does not include all of the information required for a full annual Financial Report, and should be read in conjunction with the Annual Financial Report of the Trust as at and for the year ended 30 June 2006.

##### **(b) Basis of preparation**

The accounting policies applied by the Trust in this interim Financial Report are the same as those applied by the Trust for the year ended 30 June 2006.

The interim Financial Report is presented in Australian dollars.

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

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

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

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

##### **(c) Revenue recognition**

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

##### ***Interest income***

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

##### **(d) Segment reporting**

A segment is a distinguishable component of the Trust that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

# **Stockland Direct Office Trust No. 1**

## **Notes to the Interim Financial Statements**

### **For the half year ended 31 December 2006**

#### **1 Summary of significant accounting policies (continued)**

##### **(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 taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

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

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

##### **(f) Income tax**

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

##### **(g) Derivative financial instruments**

The Trust uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with the Responsible Entity's policy, the Trust does not hold or issue derivative financial instruments for trading purposes.

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

The fair value of interest rate swaps is the estimated amount that the Trust would receive or pay to terminate the swap at the balance date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

##### **(h) Hedging**

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

##### ***Fair value hedge***

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

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

# **Stockland Direct Office Trust No. 1**

## **Notes to the Interim Financial Statements**

### **For the half year ended 31 December 2006**

#### **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 accumulated in net assets attributable to unitholders are recognised in the Income Statement in the periods when the hedged item is recognised in the Income Statement. When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously in net assets attributable to unitholders are transferred into the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss existing in net assets attributable to unitholders at that time remains in net assets attributable to unitholders and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in net assets attributable to unitholders is recognised immediately in the Income Statement.

###### ***Derivatives that do not qualify for hedge accounting***

Certain derivative instruments may not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

##### **(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 borrowing costs are recognised net of any realised effect of the hedge.

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

###### ***Distributions to unitholders***

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

##### **(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.

# **Stockland Direct Office Trust No. 1**

## **Notes to the Interim Financial Statements**

### **For the half year ended 31 December 2006**

#### **1 Summary of significant accounting policies (continued)**

##### **(k) Impairment of assets**

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess impairment losses recognised through the Income Statement.

##### ***Calculation of recoverable amount***

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

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

##### ***Reversals of impairment***

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

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

##### **(l) Other payables**

Other payables are stated at cost.

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

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

##### **(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.

# **Stockland Direct Office Trust No. 1**

## **Notes to the Interim Financial Statements**

### **For the half year ended 31 December 2006**

#### **1 Summary of significant accounting policies (continued)**

##### **(n) Provisions (continued)**

###### ***Distributions to unitholders***

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

###### ***Performance Fee***

The performance fee will be 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 period.

##### **(o) Change in net assets attributable to unitholders**

Non-distributable income, which may comprise unrealised changes in the net market value of investments or financial instruments, net capital losses, tax-deferred income, accrued income not yet assessable and non-deductible expenses is recorded as a liability to unitholders.

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

##### **(p) Investments**

###### ***Joint venture entities***

The 50% investment in SDOT Sub-Trust 1 is treated as an investment in a joint venture entity with the remaining 50% held by Stockland Trust Management Limited ("STML") as Responsible Entity for Stockland Trust.

Investments in joint venture entities are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and the recoverable amount.

The Trust's share of the joint venture entities net profit or loss is recognised in the Trust's Income Statement from the date joint control commences until the date joint control ceases. Other movements in reserves are recognised directly in reserves, classified as a liability to unitholders.

# **Stockland Direct Office Trust No. 1**

## **Notes to the Interim Financial Statements**

### **For the half year ended 31 December 2006**

#### **2 Accounting estimates and assumptions**

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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

###### ***Estimates of performance fee expense***

A performance fee is payable 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%.

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

The best evidence of the likely sales proceeds is the fair value of the property interest. Current prices in an active market for similar investment properties, leases and other contracts are the best indicator of fair value. Where such information is not available, the joint venture entity determines the property's fair value within a range of reasonable fair value estimates. In making its judgement, the joint venture entity considers information from a variety of sources including:

- i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices;
- iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the term of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows; and
- iv) capitalised income projections based upon a property's estimated net market income, which is assumed to be a level annuity in perpetuity, and a capitalisation rate derived from analysis of market evidence. Reversions associated with short term leasing risks/costs, incentives and capital expenditure may be deducted from the capitalised net income figure.

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.

## **Stockland Direct Office Trust No. 1**

### **Notes to the Interim Financial Statements**

#### **For the half year ended 31 December 2006**

#### **2. Accounting estimates and assumptions (continued)**

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

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

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.

#### **3 Segment reporting**

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

# Stockland Direct Office Trust No. 1

## Notes to the Interim Financial Statements

### For the half year ended 31 December 2006

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

	Location	Principal activity	Holding		Carrying amount	
			31 Dec 2006	30 June 2006	31 Dec 2006 \$'000	30 June 2006 \$'000
SDOT Sub-Trust 1	NSW	Property investment	50%	50%	237,841	177,723

The joint venture was formed in Australia.

The principal activity is investment in real property.

31 Dec 2006 \$'000	30 June 2006 \$'000
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#### Movements in carrying amount of investments accounted for using the equity method

Carrying amount at the beginning of the financial period	177,723	152,742
Interest in joint venture entity acquired	760	275
Share of change in net assets/profit	65,604	37,199
Distributions received/receivable	(6,246)	(12,493)
Carrying amount at the end of the financial period	237,841	177,723

#### Share of joint venture entity's assets and liabilities

Current assets	3,924	3,415
Non-current assets	236,219	176,595
Total assets	240,143	180,010
Current-liabilities	(2,302)	(2,287)
Non-current liabilities	-	-
Total liabilities	(2,302)	(2,287)
Share of net assets after equity accounting adjustments	237,841	177,723

6 months to 31 Dec 2006 \$'000	6 months to 31 Dec 2005 \$'000
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#### Share of joint venture entity's revenue, expenses and results

Revenue	67,634	32,915
Expenses	(2,030)	(1,885)
Net profit accounted for using the equity method	65,604	31,030



**Stockland Direct Office Trust No. 1**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2006**

**5 Non-current liabilities – Interest-bearing loans and borrowings**

	<b>31 Dec 2006 \$'000</b>	<b>30 June 2006 \$'000</b>
Loan facility	<b>93,288</b>	92,538
Capitalised borrowing costs	<b>(338)</b>	(386)
	<b>92,950</b>	92,152

The Trust has a \$98,434,000 (30 June 2006: \$98,434,000) loan facility agreement with Westpac Banking Corporation. As at 31 December 2006, \$93,288,000 has been drawn down (30 June 2006: \$92,538,000). The weighted average interest rate on the loan facility is 6.62% p.a. (30 June 2006: 6.62% p.a.). The facility matures on 30 June 2010.

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

**6 Non-current liabilities - Provisions**

Performance Fee	<b>5,136</b>	-
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The Responsible Entity is entitled to a performance fee as disclosed in Section 6.8 of the Product Disclosure Statement ("PDS"). The fee is calculated on a sliding scale and is payable by the Trust provided the net sales proceeds of the Trust's property interest exceed the application price by 10%.

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

Based upon the value of the property interest at 31 December 2006, 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 \$5,136,000 has been recognised.

**7 Units on issue classified as debt**

	<b>31 Dec 2006 Number of units</b>	<b>30 June 2006 Number of units</b>	<b>31 Dec 2006 \$'000</b>	<b>30 June 2006 \$'000</b>
Units on issue	<b>66,500,010</b>	66,500,010	<b>60,145</b>	60,145

**Stockland Direct Office Trust No. 1**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2006**

**7 Units on issue classified as debt (continued)**

<b>Date</b>	<b>Details</b>	<b>Number of units</b>	<b>Price per unit</b>	<b>\$'000</b>
<b>Movements in units</b>				
1 July 2005	Opening Balance	66,500,010	-	60,145
30 June 2006	Balance	66,500,010	-	60,145
<b>31 December 2006</b>	<b>Balance</b>	<b>66,500,010</b>	<b>-</b>	<b>60,145</b>

Rights and restrictions over units:

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

**8 Net assets attributable to unitholders classified as a liability**

		<b>\$'000</b>
1 July 2005	Opening balance	57,947
30 June 2006	Movement in fair value of interest rate swaps	2,622
30 June 2006	Change in net assets for the full year attributable to unitholders	24,662
30 June 2006	Balance	85,231
31 December 2006	Movement in fair value of interest rate swaps	718
31 December 2006	Change in net assets for the half year attributable to unitholders	54,095
<b>31 December 2006</b>	<b>Balance</b>	<b>140,044</b>

**9 Distributions to unitholders**

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

	<b>Distribution per unit</b>	<b>Total amount \$'000</b>	<b>Date of payment</b>	<b>Tax deferred %</b>
<b>2006</b>				
30 September 2006	2.0225¢	1,345	3 November 2006	100
31 December 2006	2.0225¢	1,345	28 February 2007*	100
Total distributions		<u>2,690</u>		

\* Proposed payment date

Distributions to unitholders recognised in the comparative half year by the Trust are:

	<b>Distribution per unit</b>	<b>Total amount \$'000</b>	<b>Date of payment</b>	<b>Tax deferred %</b>
<b>2005</b>				
30 September 2005	2.0125¢	1,338	10 November 2005	100
31 December 2005	2.0125¢	1,338	17 February 2006	100
Total distributions		<u>2,676</u>		

# Stockland Direct Office Trust No. 1

## Notes to the Interim Financial Statements

### For the half year ended 31 December 2006

#### 10 Related parties

Stockland Funds Management Limited ("SFML") is the Responsible Entity of the Trust. The Key Management Personnel of the Trust has been defined as the Responsible Entity. The Responsible Entity does not hold any units in the Trust.

Responsible Entity fees and other transactions	Half year ended	
	2006 \$'000	2005 \$'000
During the half year there were no fund establishment, procurement or services arranging fees.		
<i>Responsible Entity fees</i>		
The Responsible Entity charged responsible entity fees calculated at 0.45% per annum of the gross value of the assets.	431	356
As at 31 December 2006, the Responsible Entity has deferred the receipt of responsible entity fees of \$467,195 (31 December 2005: \$273,709).		
<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%, as disclosed in the PDS. Refer Note 6.	5,136	-
<i>Property management and leasing fees</i>		
Stockland Property Management Limited, a related party of the Responsible Entity charged \$139,521 (31 December 2005: \$245,105) for the SDOT Sub-Trust 1 property management services including onsite property management staff and leasing fees. Of this amount \$104,495 (31 December 2005: \$104,317) forms part of the outgoings recoverable from tenants pursuant to leases.	140	245
<i>Leasing fee</i>		
SDOT Sub-Trust 1 charged rent of \$12,000 (31 December 2005: \$12,000) to Stockland Property Management Limited, a related party of the Responsible Entity for the occupancy of the management office at the property.	12	12
<i>Limited debt guarantee fee</i>		
Stockland Corporation Limited, a related party of the Responsible Entity, charged \$46,713 (31 December 2005: \$46,649) 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.	47	47
Total Responsible Entity fees and other transactions	5,766	660

**Stockland Direct Office Trust No. 1**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2006**

**10 Related parties(continued)**

**Other related party transactions**

***Limited Liquidity Facility (“LLF”)***

As detailed in the PDS for the Trust, Westpac has agreed to acquire up to 521,000 units in the Trust per quarter, from Investors seeking to realise their units. Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, has placed a standing order with Westpac to acquire a maximum of 521,000 units per quarter at a price calculated in accordance with a predetermined formula. This standing order from STML can be terminated at any time. During the half year STML, as Responsible Entity of Stockland Trust, acquired 133,250 units (30 June 2006: 445,000) in the Trust via the LLF.

***Units held by Stockland Trust***

As at 31 December 2006, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 578,250 (30 June 2006: 445,000) of the units in the Trust.

**11 Commitments**

The Trust has no commitments at balance date (30 June 2006: \$nil).

**12 Other Information**

**Life of the Trust**

The Trust terminates on the earliest of:

- a) the 80<sup>th</sup> 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.

**13 Contingent liabilities and contingent assets**

As at 31 December 2006, the Trust has no contingent liabilities (30 June 2006: \$3,500,000) or contingent assets (30 June 2006: Nil).

**14 Events subsequent to balance date**

There have been no events subsequent to balance date which would have a material effect on the Trust's interim Financial Statements at 31 December 2006.

## **Stockland Direct Office Trust No. 1**

### **Directors' declaration**

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

1. the Financial Statements and Notes set out on pages 4 to 19, 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 31 December 2006 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and
  - (b) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
2. At the date of this declaration there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.
3. The Trust has operated during the half year ended 31 December 2006 in accordance with the provisions of the Trust Constitution as amended dated 19 August 2004.
4. The Register of Unitholders has, during the half year ended 31 December 2006, been properly drawn up and maintained so as to give a true account of the Unitholders of the Trust.

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

Signed in accordance with a resolution of the Directors:



Matthew Quinn

*Director*

Dated at Sydney, 15 February 2007



## Independent Auditor's Review Report to the unitholders of Stockland Direct Office Trust No. 1

We have reviewed the accompanying interim financial report of Stockland Direct Office Trust No. 1 ("the Trust"), which comprises the interim balance sheet as at 31 December 2006, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, explanatory notes 1 to 14 and the directors' declaration set out on page 20.

### Directors' Responsibility for the Financial Report

The directors of the Trust are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the interim 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.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Trust's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of the Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of the Trust is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Trust's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Scott Fleming

Partner

Sydney, 15 February 2007