

Stockland Direct Office Trust No. 1

ARSN: 110 688 009

Interim Financial Report for the half year ended 31 December 2007

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 half year ended 31 December 2007

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 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 2007, the state of the Trust's affairs as at 31 December 2007 and the Independent Auditor's Review Report thereon.

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

Directors

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

| Name | Date of appointment/retirement |
|---------------------------------------|-------------------------------------------------------------|
| Non - executive Directors | |
| 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; Retired 23 October 2007 ¹ |
| Barry Neil | Appointed 23 October 2007 |
| Executive Director | |
| Matthew Quinn | Appointed 19 October 2000 |
| Hugh Thorburn (alternate to Mr.Quinn) | Appointed 25 October 2007 |

¹ Mr T Williamson remains chair of the SCPL Audit and Risk Committee.

Principal activities

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

Review of operations

The Trust achieved a profit from operating activities of \$50,462,000 for the half year ended 31 December 2007 (31 December 2006: \$56,785,000).

An upwards revaluation totalling \$48,835,000 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 resulting in the Waterfront Place property being revalued upwards to \$585,000,000 (100% basis). This represents an increase of 21% on the 30 June 2007 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 4 and forms part of the Directors' Report for the half year ended 31 December 2007.

Stockland Direct Office Trust No. 1

Directors' Report

For the half year ended 31 December 2007

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, 21 February 2008



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 Capital Partners Limited.

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2007 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

Scott Fleming
Partner

Sydney

21 February 2008

Stockland Direct Office Trust No. 1
Interim Income Statement
For the half year ended 31 December 2007

| | | Half year ended | |
|----------------------------------------------------------------------|--------------|------------------------|----------------|
| | Notes | 2007 | 2006 |
| | | \$'000 | \$'000 |
| Revenue and other income | | | |
| Interest income | | 34 | 33 |
| Share of profit of investments accounted for using the equity method | 4 | 55,735 | 65,604 |
| Total revenue and other income | | 55,769 | 65,637 |
| Finance costs to external parties¹ | | | |
| Responsible Entity fees | 10 | (572) | (431) |
| Performance fee | 10 | (1,327) | (5,136) |
| Other expenses | | (138) | (141) |
| Total expenses before finance costs to unitholders | | (5,307) | (8,852) |
| Profit from operating activities | | | |
| | | 50,462 | 56,785 |
| Distribution (finance) expense to unitholders ¹ | 9 | (2,690) | (2,690) |
| Change in net assets for the year attributable to unitholders | 8 | 47,772 | 54,095 |

¹Total finance costs for the Trust are \$5,960,000 (31 December 2006: \$5,834,000), 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 2007

| | Notes | 31 Dec 2007 \$'000 | 30 June 2007 \$'000 |
|-----------------------------------------------------------------------------|-------|--------------------------|---------------------------|
| Current assets | | | |
| Cash and cash equivalents | | 2,719 | 175 |
| Other assets | | 97 | 16 |
| Total current assets | | 2,816 | 191 |
| Non-current assets | | | |
| Investments accounted for using the equity method | 4 | 292,729 | 239,618 |
| Other assets | | 3,156 | 2,255 |
| Total non-current assets | | 295,885 | 241,873 |
| Total assets | | 298,701 | 242,064 |
| Current liabilities | | | |
| Trade and other payables | | 2,946 | 2,761 |
| Total current liabilities | | 2,946 | 2,761 |
| Non-current liabilities | | | |
| Interest-bearing loans and borrowings | 5 | 99,452 | 93,000 |
| Provisions | 6 | 6,559 | 5,232 |
| Total non-current liabilities | | 106,011 | 98,232 |
| Total liabilities (excluding net assets attributable to unitholders) | | 108,957 | 100,993 |
| Net assets attributable to unitholders | 8 | 189,744 | 141,071 |

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 2007

| | Units on issue | | Unitholders' Funds Undistributed Income | | Total |
|----------------------------------------------------------------|--------------------------|--------------------------|--------------------------------------------|--------------------------|-------|
| | 31 Dec 2007 \$'000 | 31 Dec 2006 \$'000 | 31 Dec 2007 \$'000 | 31 Dec 2006 \$'000 | |
| Opening balance | - | - | - | - | - |
| Effective portion of changes in fair value of cash flow hedges | - | - | - | - | - |
| Total non-profit items recognised directly in equity | - | - | - | - | - |
| Profit for the half year | - | - | - | - | - |
| Total recognised income and expenses for the half year | - | - | - | - | - |
| Closing balance | - | - | - | - | - |

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 Statements
For the half year ended 31 December 2007

| | Half year ended | |
|--------------------------------------------------------------|------------------------|----------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Cash flows from operating activities | | |
| Cash receipts in the course of operations | 56 | 15 |
| Cash payments in the course of operations | (633) | (244) |
| Distributions received from joint venture entity | 7,407 | 6,246 |
| Interest received | 34 | 33 |
| Interest paid | (3,294) | (3,124) |
| Net cash flows from operating activities | 3,570 | 2,926 |
| Cash flows from investing activities | | |
| Payments for unlisted units in joint venture entity | (4,783) | (760) |
| Net cash flows from investing activities | (4,783) | (760) |
| Cash flows from financing activities | | |
| Proceeds from external party financing | 6,447 | 750 |
| Distributions paid | (2,690) | (2,683) |
| Net cash flows from financing activities | 3,757 | (1,933) |
| Net increase in cash and cash equivalents | 2,544 | 233 |
| Cash and cash equivalents at the beginning of the half year | 175 | 1,342 |
| Cash and cash equivalents at the end of the half year | 2,719 | 1,575 |

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 2007

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 2007 was authorised for issue by the Directors of the Responsible Entity on 21 February 2008.

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 AASB 134 "Interim Financial Reporting" 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 Financial Report of the Trust for the year ended 30 June 2007.

(b) Significant accounting policies

The accounting policies applied by the Trust in this Financial Report are the same as those applied by the Trust in the Financial Report of the Trust for the year ended 30 June 2007.

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.

2 Accounting estimates and assumptions

The preparation of the Interim Financial Statements requires the directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these Interim Financial Statements the significant judgements made by the directors in applying the Trust's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Financial Report of the Trust for the year ended 30 June 2007.

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 2007

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

| | Location | Principal activity | Holding | | Carrying amount | |
|------------------|----------|---------------------|-------------|--------------|--------------------|--------------------|
| | | | 31 Dec 2007 | 30 June 2007 | 31 Dec 2007 \$'000 | 30 Jun 2007 \$'000 |
| SDOT Sub-Trust 1 | NSW | Property investment | 50% | 50% | 292,729 | 239,618 |

The joint venture was formed in Australia.

The principal activity is investment in real property.

| | 31 Dec 2007 \$'000 | 30 June 2007 \$'000 |
|-----------------------------------------------------------------------------------|--------------------|---------------------|
| Movements in carrying amount of investments accounted for using the equity method | | |
| Carrying amount at the beginning of the financial period | 239,618 | 177,723 |
| Interest in joint venture entity acquired | 4,783 | 2,431 |
| Share of change in net assets/profit | 55,735 | 72,394 |
| Distributions received | (7,407) | (12,930) |
| Carrying amount at the end of the financial period | 292,729 | 239,618 |
| Share of joint venture entity's assets and liabilities | | |
| Current assets | 2,432 | 2,907 |
| Non-current assets | 292,300 | 240,578 |
| Total assets | 294,732 | 243,485 |
| Current-liabilities | (2,003) | (3,867) |
| Non-current liabilities | - | - |
| Total liabilities | (2,003) | (3,867) |
| Share of net assets after equity accounting adjustments | 292,729 | 239,618 |
| Share of joint venture entity's revenue, expenses and results | | |
| Revenues | 57,961 | 67,634 |
| Expenses | (2,226) | (2,030) |
| Net profit accounted for using the equity method | 55,735 | 65,604 |

Stockland Direct Office Trust No. 1

Notes to the Interim Financial Statements

For the half year ended 31 December 2007

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

| | 31 Dec 2007 \$'000 | 30 June 2007 \$'000 |
|---------------------------------------------------|--------------------------|---------------------------|
| Loan facility | 99,735 | 93,288 |
| Less: attributable transaction costs | (283) | (288) |
| Total Balance Sheet carrying amount at fair value | <u>99,452</u> | <u>93,000</u> |

The Trust has a \$108,434,000 (30 June 2007: \$98,434,000) loan facility agreement with Westpac Banking Corporation. As at 31 December 2007, \$99,735,000 has been drawn down (30 June 2007: \$93,288,000). The weighted average interest rate on the loan facility for the period to 31 December 2007 was 7.87% p.a. (30 June 2007: 7.01% p.a.). Line fees of 0.10% p.a. is charged on the overall facility limit. The facility matures on 30 June 2010.

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

Capital Expenditure

The Trust increased the capital expenditure component of the above facility by \$10,000,000 in October 2007 which is secured by a fixed and floating charge over the Trust's units in the joint venture entity SDOT Sub-Trust 1. The new capital expenditure facility limit is \$15,896,000. Interest will be charged on the utilised portion of the facility at 90 day BBSY plus a margin of 0.50% p.a. As at 31 December 2007, \$7,197,000 has been drawn down.

6 Non-current liabilities - Provisions

| | | |
|-----------------|--------------|--------------|
| Performance Fee | <u>6,559</u> | <u>5,232</u> |
|-----------------|--------------|--------------|

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 exceed the application price by at least 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 2007, the estimated net sales proceeds exceed the application price by greater than 40%. Using the sliding scale, a performance fee of 2.8% of the net sales proceeds will be payable in the future. Applying appropriate discount rates to reflect the projected life of the Trust and the inherent risks associated with market value movements in the property, a provision of \$6,559,000 has been recognised.

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Notes to the Interim Financial Statements

For the half year ended 31 December 2007

7 Units on issue classified as debt

| | 31 Dec 2007 | 30 June 2007 | 31 Dec 2007 | 30 June 2007 |
|----------------|-----------------|-----------------|-------------|--------------|
| | Number of units | Number of units | \$'000 | \$'000 |
| Units on issue | 66,500,010 | 66,500,010 | 60,145 | 60,145 |

| Date | Details | Number of units | Price per unit | \$'000 |
|---------------------------|-----------------|-----------------|----------------|--------|
| Movements in units | | | | |
| 1 July 2006 | Opening Balance | 66,500,010 | - | 60,145 |
| 30 June 2007 | Balance | 66,500,010 | | 60,145 |
| 31 December 2007 | Closing balance | 66,500,010 | | 60,145 |

Rights and restrictions over units:

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

8 Net assets attributable to unitholders classified as a liability

| | | \$'000 |
|------------------|--------------------------------------------------------------------|---------|
| 1 July 2006 | Opening balance | 85,231 |
| 30 June 2007 | Movement in fair value of interest rate swaps | 1,495 |
| 30 June 2007 | Change in net assets for the year attributable to unitholders | 54,345 |
| 30 June 2007 | Balance | 141,071 |
| 31 December 2007 | Movement in fair value of interest rate swaps | 901 |
| 31 December 2007 | Change in net assets for the half year attributable to unitholders | 47,772 |
| 31 December 2007 | Closing balance | 189,744 |

9 Distributions to unitholders

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

| | Distribution per unit | Total amount \$'000 | Date of payment | Tax deferred % |
|---------------------|-----------------------|---------------------|-------------------|----------------|
| 2007 | | | | |
| 30 September 2007 | 2.0225¢ | 1,345 | 31 October 2007 | 100 |
| 31 December 2007 | 2.0225¢ | 1,345 | 29 February 2008* | 100 |
| Total distributions | | 2,690 | | |

* Proposed payment date

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

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

Stockland Direct Office Trust No. 1

Notes to the Interim Financial Statements

For the half year ended 31 December 2007

10 Related parties

Stockland Capital Partners Limited ("SCPL"), formerly known as SFML, is the Responsible Entity of the Trust. The Key Management Personnel of the Trust has been defined as the Responsible Entity. The Responsible Entity does not hold any units in the Trust.

| | Half year ended | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---------------|
| | 2007 | 2006 |
| Responsible Entity fees and other transactions | \$'000 | \$'000 |
| <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. | 572 | 431 |
| As at 31 December 2007, the Responsible Entity has agreed for the Trust to defer payment of part of the Responsible Entity fees amounting to \$583,087 (31 December 2006: \$467,195). | | |
| <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 6. | 1,327 | 5,136 |
| Total Responsible Entity fees and other transactions | <u>1,899</u> | <u>5,567</u> |

Other related party transactions

Limited Liquidity Facility ("LLF")

Westpac has agreed to acquire up to 521,000 units in the Trust per quarter at a 2.5% discount to NTA per unit less transaction costs, from unitholders seeking to realise their units. Stockland Trust Management Limited ("STML"), as Responsible Entity for Stockland Trust, has placed a standing order with Westpac to acquire a maximum of 521,000 units per quarter at a price calculated in accordance with a predetermined formula. This standing order from STML can be terminated at any time. During the half year STML, as Responsible Entity of Stockland Trust, acquired 859,500 units (30 June 2007: 540,000 units) in the Trust via the LLF.

Units held by Stockland Trust

As at 31 December 2007, STML, a related party of the Responsible Entity, holds 1,844,500 (30 June 2007: 985,000 units) of the units in the Trust.

Property Management and Leasing Fee

Stockland Property Management Limited, a related party of the Responsible Entity charged \$807,293 (31 December 2006: \$421,160) to SDOT Sub-Trust 1 for property management services including onsite property management staff and leasing fees. Of this amount \$395,628 (31 December 2006: \$386,139) forms part of the outgoings recoverable from tenants pursuant to leases.

Rent

SDOT Sub-Trust 1 charged rent of \$42,380 (31 December 2006: \$12,000) to Stockland Property Management Limited, a related party of the Responsible Entity for the occupancy of the management office at the property.

Stockland Direct Office Trust No. 1

Notes to the Interim Financial Statements

For the half year ended 31 December 2007

10 Related parties (continued)

Other related party transactions (continued)

Limited debt guarantee fee

Stockland Corporation Limited, a related party of the Responsible Entity, charged \$48,335 (31 December 2006: \$46,713) 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.

11 Commitments

The Trust has no commitments at balance date (30 June 2007: \$Nil).

12 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.

13 Contingent liabilities and contingent assets

As at 31 December 2007, the Trust has no contingent liabilities or contingent assets (30 June 2007: \$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 2007.

Stockland Direct Office Trust No. 1

Directors' declaration

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

1. the Financial Statements and Notes set out on pages 5 to 14, 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 2007 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 AASB 134 "Interim Financial Reporting" 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.

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, 21 February 2008



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

Report on the financial report

We have reviewed the accompanying half-year financial report of Stockland Direct Office Trust No.1 ("the Trust"), which comprises the balance sheet as at 31 December 2007, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies and other explanatory notes 1 to 14 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 half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year 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 half-year financial report based on our review. We conducted our review in accordance with 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 half-year 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 2007 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 Stockland Direct Office Trust No.1, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year 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 half-year financial report of Stockland Direct Office Trust No.1 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 2007 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 Corporations Regulations 2001.

KPMG

Scott Fleming
Partner

Sydney

21 February 2008