

**Stockland Direct Retail Trust No. 1
and its controlled entities**

ARSN: 121 832 086

**Annual Financial Report
30 June 2014**

Registered office:

133 Castlereagh Street
Sydney NSW 2000

Stockland Direct Retail Trust No. 1 and its controlled entities

Contents

Directors' Report	1
Auditor's Independence Declaration	5
Consolidated Statement of Profit or Loss and Other Comprehensive Income	6
Consolidated Balance Sheet	7
Consolidated Statement of Changes in Equity	8
Consolidated Cash Flow Statement	9
Notes to the Consolidated Financial Statements	10
1 Summary of significant accounting policies	10
2 Critical accounting estimates and judgements	16
3 Operating segments	19
4 Auditor's remuneration	19
5 Current assets – Cash and cash equivalents	19
6 Current assets – Trade and other receivables	19
7 Current assets – Other assets	19
8 Non-current assets – Investment properties	20
9 Non-current assets – Trade and other receivables	21
10 Non-current assets – Other assets	21
11 Current liabilities – Trade and other payables	21
12 Current liabilities – Interest-bearing loans and borrowings	21
13 Current liabilities – Other Liabilities	22
14 Units on issue	22
15 Reserves	22
16 Distributions to Unitholders	22
17 Notes to the Cash Flow Statement	23
18 Financial instruments	23
19 Related parties	27
20 Controlled entities	29
21 Commitments	29
22 Contingent liabilities and contingent assets	29
23 Parent Entity Disclosures	29
24 Events subsequent to the end of the year	30
Directors' Declaration	31
Independent Auditor's Report	32

This financial report covers Stockland Direct Retail Trust No. 1 ("the Trust") and its controlled entities which was formed and is domiciled in Australia.

Stockland Direct Retail Trust No. 1 and its controlled entities

Directors' Report

For the year ended 30 June 2014

The Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity of Stockland Direct Retail Trust No. 1 ("the Trust"), present their report together with the Financial Report made in accordance with a resolution of the Directors with respect to the results of the Trust and its controlled entities ("the consolidated entity") for the year ended 30 June 2014, the state of the consolidated entity's affairs as at 30 June 2014 and the Independent Auditor's Report thereon.

SCPL was appointed as Responsible Entity at the date the Trust commenced on 26 April 2006. On 4 October 2006, the Trust was registered as a managed investment scheme with Australian Securities and Investment Commission ("ASIC") and SCPL was appointed as the Responsible Entity.

Directors

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

Barry Neil

Chairman (Non-Executive)

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

Anthony Sherlock

(Non-Executive)

Mr Sherlock was appointed as a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds, in August 2004. He is a former Senior Partner of Coopers & Lybrand having national responsibility for credit risk management. In that capacity, he obtained experience in the banking and finance, mining, agriculture, building, construction and development sectors. Mr Sherlock is a non-executive Director of Equatorial Mining Limited and Kerrygold Limited. He is the former Chairman of Australian Wool Corporation Limited and The Woolmark Company Pty Ltd, a former non-executive Director of Austral Coal Limited, Sydney Attractions Group Limited, IBA Health Limited and Export Finance Insurance Corporation Limited and has acted on a number of committees for both Federal and State governments. He is a member of the Stockland Capital Partners Audit and Risk Committee and the Stockland and Stockland Capital Partners Financial Services Compliance Committees.

Mark Steinert

Managing Director – Stockland – (Executive) – Appointed 29 January 2013

Mr Steinert was appointed Managing Director & CEO of Stockland in January 2013. He has 25 years of experience in property and financial services including eight years in direct property primarily with Jones Lang LaSalle and 10 years in listed real estate with UBS. Mr Steinert was appointed as Head of Australasian Equities at UBS in 2004 and as Global Head of Research in New York in late 2005. In 2012 he was appointed as Global Head of Product Development and Management for Global Asset Management at UBS, a \$559 billion Global Fund Manager. Mr Steinert is a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted property funds.

Stockland Direct Retail Trust No. 1 and its controlled entities
Directors' Report
For the year ended 30 June 2014

Stockland Capital Partners Limited Financial Services Compliance Committee

A Financial Services Compliance Committee has been set up to oversee the Compliance Plan approved by the Responsible Entity for the Trust.

The role of the Committee includes evaluation of the effectiveness of the Trust's Compliance Plans designed to protect the interests of Unitholders. The Compliance Plan has been approved by the Australian Securities and Investments Commission ("ASIC"). The Committee meets regularly and must report breaches of the law and Constitution to the Board which is required to report any material breach of the Compliance Plan to ASIC.

The members of the Committee during or since the end of the financial year were:

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

Mr A Sherlock – Non-Executive Director

Mr P Hepburn – Executive Member

During the year 4 meetings (2013: 4 meetings) were held.

Stockland Capital Partners Limited Audit and Risk Committee

The Audit and Risk Committee assists the Board in fulfilling its governance and disclosure responsibilities in relation to financial reporting, internal controls, risk management systems and internal and external audits.

The primary objective of the Committee is to assist the Board of SCPL in discharging its responsibilities for:

- financial reporting and audit practices;
- accounting policies;
- the management of risk; and
- the adequacy and effectiveness of internal controls.

The Committee meets at least quarterly and its meetings are attended by management and internal and external audit and other parties as relevant. The Committee may meet privately with the external auditor in the absence of management at least once a year. The Committee has the power to conduct or authorise investigations into, or consult independent specialists on, any matters within the Committee's scope of responsibility. The Committee has written terms of reference which incorporates best practice. Its members must be independent of management and at least one member of the Committee must have relevant accounting qualifications and experience and all members should have a good understanding of financial reporting.

The members of the Committee during or since the end of the financial year were:

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

Mr A Sherlock – Non-Executive Director

During the year 4 meetings (2013: 4 meetings) were held.

Principal activity

The principal activity of the consolidated entity is the investment in a portfolio of neighbourhood shopping centres located in Queensland and a bulky goods centre located in New South Wales.

Stockland Direct Retail Trust No. 1 and its controlled entities

Directors' Report

For the year ended 30 June 2014

Review and results of operations

The consolidated entity recorded a profit of \$5,520,000 for the financial year ended 30 June 2014 (2013: \$3,469,000).

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

Independent valuations were undertaken on all of the consolidated entity's investment properties as at 30 June 2014 resulting in an upwards revaluation totalling \$2,598,000 (30 June 2013: \$923,000) being recognised in the consolidated entity's consolidated statement of comprehensive income. The total portfolio was revalued upwards to \$70,950,000. This represents an increase of 5.27% on the 30 June 2013 total carrying value of \$67,400,000. Refer to Note 8 for individual property values.

Loan facility

As at 30 June 2014, the Trust had a \$40,000,000 (30 June 2013: \$40,000,000) loan facility agreement with National Australia Bank ("NAB") of which \$39,349,000 was drawn (30 June 2013: \$39,349,000).

To extend the Trusts' banking facilities, the Responsible Entity renegotiated with NAB to extend the prior loan facility for a further 12 months to 31 December 2014. The Responsible Entity charged a finance renegotiation fee of \$100,000 (equivalent to 0.25% of the facility limit) for services performed to negotiate the terms and maturity of the external debt facility with NAB for a further 12 months to 31 December 2014 (refer to Note 12 and Note 19 for detail).

The new banking facility incurs interest based on the bank bill bid rate and a margin of 90bps p.a. As at 30 June 2014, the total interest rate including the margin of 90bps and line fees of 90bps was approximately 3.66% p.a. and the effect of including the attributable transaction costs increases this to 4.70% p.a. compared with the prior year weighted average interest rate of 5.55% p.a.

The weighted average interest rate on the loan facility for the period to 30 June 2014 was 4.70% p.a. (30 June 2013: 5.55% p.a.).

A meeting of Unitholders was held on 27 June 2014 to consider the resolution to sell the properties or interests in the properties of the Trust, and terminate and wind up the Trust. The vote failed to reach the required 75% majority to be passed. A second resolution was also put to Unitholders to authorise the Responsible Entity to convene another meeting of Unitholders to consider the termination of the Trust by 30 June 2019. Unitholders voted in favour of this resolution.

Subsequent to year end and following the Unitholder vote to continue the Trust, discussions commenced with external financiers to refinance the loan facility. The Directors have no reason to believe the loan will not be refinanced.

In addition, the Responsible Entity has negotiated a loan facility arrangement from Stockland Trust Management Limited, as Responsible Entity for Stockland Trust that in the event external financing is not obtained the Responsible Entity may draw down on behalf of the Trust. The facility has been negotiated on market terms and conditions which may be accepted at any time up to 28 February 2015. A line fee of 0.30% per annum is charged on the available facility.

Significant changes in the state of affairs

At the Unitholders meeting on 27 June 2014, an ordinary resolution was passed to continue the Trust and convene another meeting to consider the termination of the Fund by 30 June 2019. Due to the outcome of the meeting, the Responsible Entity is in the process of determining the future strategy for the Trust that will be in the best interests of Unitholders.

Other than the above, there have been no significant changes in the state of the affairs of the consolidated entity during the financial year.

Events subsequent to the end of the year

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

Likely developments

The Responsible Entity will continue to review investment management strategies with a view to optimising both the income and capital return over the investment term.

Stockland Direct Retail Trust No. 1 and its controlled entities

Directors' Report

For the year ended 30 June 2014

Environmental regulation

The consolidated entity's operations are subject to various environmental regulations under both Commonwealth and State legislation. The Responsible Entity believes that the consolidated entity has adequate systems in place for the management of its environmental responsibilities and is not aware of any breach of environmental requirements as they may apply to the consolidated entity.

Related parties

Stockland Trust Management Limited, as Responsible Entity of Stockland Trust, a related party of the Responsible Entity, holds 7,867,500 units in the consolidated entity as at 30 June 2014 (2013: 7,397,500).

Interests of the Responsible Entity

The Responsible Entity has not held any units in the consolidated entity either directly or indirectly during the financial year.

Responsible Entity's remuneration

The Responsible Entity charged a responsible entity fee of 0.45% p.a. of the gross assets of the consolidated entity, calculated monthly. The Responsible Entity may defer a portion of annual fees each year. The Responsible Entity is entitled to recover all fees deferred either from consolidated entity earnings or on the winding up of the consolidated entity. The Responsible Entity charges are set out in Note 19 of the Financial Report.

Directors' interests

No directors of the Responsible Entity held any units in the Trust at the date of this report.

Indemnities and insurance of officers and auditor

Indemnification

Under the Trust Constitution, the Responsible Entity, including its officers and employees, is indemnified out of the consolidated entity's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the consolidated entity.

The consolidated entity has not indemnified or made a relevant agreement for indemnifying against a liability in respect of any person who is the auditor of the consolidated entity.

Insurance premiums

The Responsible Entity has paid insurance premiums in respect of Directors' and officers' liability insurance contracts. Such insurance contracts insure against certain liabilities (subject to specified exclusions) for persons who are or have been Directors and officers of the Responsible Entity.

In addition, the Responsible Entity has paid insurance premiums for professional indemnity insurance policies to cover certain risks for the Directors.

Details of the nature and the amount of the liabilities covered or the amount of the premium paid has not been included as such disclosure is prohibited under the terms of the insurance contracts.

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

The external auditor's independence declaration is set out on page 5 and forms part of the Directors' Report for the year ended 30 June 2014.

Rounding

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

Signed in accordance with a resolution of the Directors:



Mark Steinert
Director

Dated at Sydney, 28 August 2014

Stockland Direct Retail Trust No. 1 and its controlled entities
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2014

		Consolidated	
	Notes	2014	2013
		\$'000	\$'000
Revenue and other income			
Rent from investment properties		8,724	8,108
Interest income		5	8
Net gain from fair value adjustment of investment properties		2,598	923
Total revenue and other income		11,327	9,039
 Net loss from fair value movement of derivative financial instruments		-	(21)
Investment property expenses		(2,844)	(2,690)
Finance cost relating to interest-bearing liabilities at amortised cost		(2,206)	(2,373)
Auditor's remuneration	4	(91)	(74)
Responsible Entity fees	19	(313)	(307)
Other expenses		(353)	(105)
Total expenses		(5,807)	(5,570)
 Profit for the financial year		5,520	3,469
 Other comprehensive income which may be recycled through Profit or Loss			
Amortisation of cash flow hedge reserve transferred to profit or loss	15	-	183
Other comprehensive income for the year		-	183
Total comprehensive income for the year		5,520	3,652

The above Consolidated Statement of Profit or Loss and other Comprehensive Income should be read in conjunction with the accompanying notes.

Stockland Direct Retail Trust No. 1 and its controlled entities
Consolidated Balance Sheet
For the year ended 30 June 2014

		Consolidated	
	Notes	2014	2013
		\$'000	\$'000
Current assets			
Cash and cash equivalents	5	1,325	824
Trade and other receivables	6	367	301
Other assets	7	342	225
Total current assets		2,034	1,350
Non-current assets			
Investment properties	8	69,552	66,076
Trade and other receivables	9	568	422
Other assets	10	600	679
Total non-current assets		70,720	67,177
Total assets		72,754	68,527
Current liabilities			
Trade and other payables	11	2,766	1,943
Interest-bearing loans and borrowings	12	39,278	39,256
Other liabilities	13	713	475
Total current liabilities		42,757	41,674
Total liabilities		42,757	41,674
Net assets		29,997	26,853
Unitholders' funds			
Units on issue	14	26,114	26,114
Reserves	15	-	-
Undistributed profit		3,883	739
Total Unitholders' funds		29,997	26,853

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

Stockland Direct Retail Trust No. 1 and its controlled entities
Consolidated Statement of Changes in Equity
For the year ended 30 June 2014

	Note	Unitholders' funds						
		Units on issue		Undistributed		Reserves		Total
		2014	2013	2014	2013	2014	2013	
Consolidated		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance		26,114	26,114	739	(830)	-	(183)	25,101
Profit for the financial year		-	-	5,520	3,469	-	-	3,469
Amortisation of cash flow hedge reserve transferred to profit and loss	15	-	-	-	-	-	183	183
Total comprehensive income for the financial year		-	-	5,520	3,469	-	183	3,652
Transactions with Unitholders in their capacity as owners:								
Distributions paid/payable to Unitholders	16	-	-	(2,376)	(1,900)	-	-	(1,900)
Closing balance		26,114	26,114	3,883	739	-	-	26,853

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

Stockland Direct Retail Trust No. 1 and its controlled entities
Consolidated Cash Flow Statement
For the year ended 30 June 2014

		Consolidated	
	Notes	2014	2013
		\$'000	\$'000
Cash flows from operating activities			
Cash receipts in the course of operations		9,161	8,151
Cash payments in the course of operations		(3,428)	(3,230)
Interest received		5	7
Interest paid		(2,232)	(2,306)
Net cash inflow from operating activities	17	3,506	2,622
Cash flows from investing activities			
Payments for investment properties		(867)	(937)
Net cash utilised in investing activities		(867)	(937)
Cash flows from financing activities			
Distribution paid to Unitholders		(2,138)	(1,925)
Net cash utilised in financing activities		(2,138)	(1,925)
Net increase/(decrease) in cash and cash equivalents		501	(240)
Cash and cash equivalents at the beginning of the financial year		824	1,064
Cash and cash equivalents at the end of the financial year	5	1,325	824

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

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

1 Summary of significant accounting policies

Stockland Direct Retail Trust No. 1 ("the Trust") is a Managed Investment Scheme domiciled in Australia. The consolidated Financial Report as at and for the financial year ended 30 June 2014 comprises the Financial Report of the Trust and its controlled entities ("the consolidated entity").

The Financial Report as at and for the financial year ended 30 June 2014 was authorised for issue by the Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity for the Trust, on 28 August 2014.

(a) Statement of compliance

The consolidated Annual Report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated Annual Report complies with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

(b) New and amended Accounting Standards

Mandatory for the year to 30 June 2014

The Trust has adopted all the mandatory amended Accounting Standards issued that are relevant to its operations and effective for the current reporting period. Of the Accounting Standards that have been amended and published that are mandatory for this reporting period, the following have been noted for their potential impact on the Trust:

- *AASB 10 Consolidated Financial Statements*: Replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns.
- *AASB 11 Joint Arrangements*: introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture.
- *AASB 12 Disclosure of interests in Other Entities*: sets out the required disclosures for entities reporting under the two new standards.
- *AASB 13 Fair Value Measurement*: explains how to measure fair value and aims to enhance fair value disclosures.

The consolidated entity has adopted the new standards and note that the required disclosures have been enhanced where required. There has been no impact to the accounting for investments in subsidiaries.

Mandatory in future years

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2014 and have not been early adopted by the Trust. The Trust's assessment of the impact of these new standards and interpretations is set out below:

AASB 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2018): AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 but is available for early adoption. When adopted, the standard is not expected to have a significant impact on the Trust's financial assets or liabilities. The Trust has not yet decided when to adopt AASB 9.

AASB 2013-3 Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets (effective 1 January 2014): The AASB has made small changes to some of the disclosures that are required under AASB 136 Impairment of Assets. These may result in additional disclosures if the Trust recognises an impairment loss or the reversal of an impairment loss during the period. They will not affect any of the amounts recognised in the financial statements. The Trust intends to apply the amendment from 1 July 2014.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

1 Summary of significant accounting policies (continued)

(c) Basis of preparation

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

The Trust and SHT1 are entities of the kind referred to in ASIC Class Order 98/100 (as amended) and in accordance with that Class Order, amounts in the Financial Report have been rounded to the nearest thousand dollars, unless otherwise stated.

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

A meeting of Unitholders was held on 27 June 2014 to consider the resolution to sell the properties or interests in the properties of the Trust, and terminate and wind up the Trust. The vote failed to reach the required 75% majority to be passed. A second resolution was also put to Unitholders to authorise the Responsible Entity to convene another meeting of Unitholders to consider the termination of the Trust by 30 June 2019. Unitholders voted in favour of this resolution.

The entity is in a net current asset deficiency position as at 30 June 2014 due primarily to borrowings of \$39,349,000 maturing on 31 December 2014 and therefore being classified as current liabilities.

The ability of the Trust to continue as a going concern and meet its debts and commitments as they fall due is dependent upon the Trust being successful in refinancing this loan facility. Discussions commenced subsequent to year end with external financiers to refinance the loan facility. The Directors have no reason to believe the loan will not be refinanced.

In addition, the Responsible Entity has negotiated a loan facility arrangement from Stockland Trust Management Limited, as Responsible Entity for Stockland Trust that in the event external financing is not obtained the Responsible Entity may draw down on behalf of the Trust. The facility has been negotiated on market terms and conditions which may be accepted at any time up to 28 February 2015. A line fee of 0.30% per annum is charged on the available facility.

As a result, the Directors have formed the view that the consolidated Annual Report for the year ended 30 June 2014, can be prepared on a going concern basis.

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

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Refer to Note 2 for significant areas of estimation.

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

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

(d) 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.

Revenue is recognised for the major business activities as follows:

Rent from investment properties

Rent from investment properties is recognised in the Profit and Loss on a straight-line basis over the lease term. Rent not received at balance date is reflected in the Balance Sheet as a receivable or if paid in advance, as rents in advance. Lease incentives granted are recognised over the lease term, on a straight-line basis, as a reduction of rent.

Interest income

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

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

1 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

Distributions

Revenue from distributions from controlled entities are recognised in the Profit and Loss on the date the Trust's right to receive payment is established, being the date when they are declared by those entities.

(e) Operating segments

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

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred is not recoverable from the relevant taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the Balance Sheet.

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

(g) Income tax

Under current Australian income tax legislation, the Trust and the consolidated entity are 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.

Derivative financial instruments

The consolidated entity holds derivative financial instruments to hedge interest rate risk exposures arising from operational, financing and investment activities. In accordance with the Responsible Entity's treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes.

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

(h) Hedging

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

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 Profit and Loss.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Profit and Loss.

Amounts in equity are recognised in the Statement of Comprehensive Income in the periods when the hedged item is recognised in the Statement of Comprehensive Income.

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 equity are transferred into the initial measurement of the cost of the asset or liability.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

1 Summary of significant accounting policies (continued)

(h) Hedging (continued)

Cash flow hedge (continued)

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

(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 the arrangement of borrowings.

Where interest rates are hedged, the finance costs are recognised net of any realised effect of the hedge.

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

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and at call deposits. Bank overdrafts that are repayable on demand and form part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement.

(k) Impairment of assets

The carrying amounts of the consolidated entity'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 Profit and Loss, 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 Profit and Loss.

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.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

1 Summary of significant accounting policies (continued)

(l) Trade and other payables

Trade and other payables are stated at amortised cost.

Distributions to Unitholders

Distributions payable are recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the Directors of the Responsible Entity on or before the end of the financial year, but not distributed at balance date.

(m) Interest-bearing loans and borrowings

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

(n) Provisions

A provision is recognised when a present legal or constructive obligation exists as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, provisions are determined by discounting the expected future cash flows at the rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Performance fee

The performance fee is recognised in the Profit and Loss on an accrual basis. The performance fee is calculated in accordance with the Constitution based on the value of the consolidated entity's property interest at the current balance date, discounted to reflect the projected life of the consolidated entity and inherent market risks. The performance fee recognised will continue to be remeasured at each reporting date to reflect movements in the consolidated entity's performance during the period. Any revision to the performance fee will be adjusted through the Profit and Loss in the current financial year.

(o) Basis of consolidation

This consolidated Financial Report has been prepared based upon a business combination of the Trust and its controlled entities.

Controlled entities are entities controlled by the Trust. Control exists when the Trust has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of controlled entities are included in the consolidated Financial Report from the date that control commences until the date that control ceases.

Any balances, unrealised gains and losses or income and expenses resulting from transactions with or between controlled entities are eliminated in full within the consolidated entity.

(p) Investments

Controlled entities

Investments in controlled entities are carried at the lower of cost and recoverable amount in the consolidated entity's Financial Statements.

(q) Investment properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of producing rental income, capital appreciation, or both.

Investment properties are initially recognised at cost including any acquisition costs. Investment properties are subsequently stated at fair value at each balance date with any gain or loss arising from a change in fair value recognised in the Profit and Loss in the period.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

1 Summary of significant accounting policies (continued)

(q) Investment properties (continued)

Where a property is undergoing redevelopment, it is carried at fair value. Where property does not qualify as investment property but is to be redeveloped into investment property it is treated as investment property and carried at fair value.

Lease incentives provided by the consolidated entity to lessees, and rental guarantees which may be received by the consolidated entity from third parties (arising from the acquisition of investment properties) are included in the measurement of fair value of investment property and are treated as separate assets. Such assets are amortised over the respective periods to which the lease incentives and rental guarantees apply, either using a straight-line basis, or a basis which is more representative of the pattern of benefits.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the consolidated entity holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Fair value

When assessing fair value, the Directors of the Responsible Entity will consider the discounted cash flows of the investment property based on reliable estimates of future cash flows; other contracts and recent prices for similar properties; and capitalised income projections based on the property's net market income. In addition, independent valuations are performed at regular intervals appropriate to the nature of the investment property. These valuations are considered by the Directors of the Responsible Entity when determining fair value.

Subsequent costs

The consolidated entity recognises in the carrying amount of an investment property the cost of replacing part of that investment property when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost can be measured reliably. All other costs are recognised in the Profit and Loss as an expense as incurred.

Disposal of revalued assets

The gain or loss on disposal of revalued assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal and is included in the Profit and Loss in the financial year of disposal.

(r) Unitholders Funds

Units within SDRT1 have been classified as equity as the units are redeemable on liquidation, the life of the trust is indefinite and the Responsible Entity determines the level of distributions on a discretionary basis as the Unitholders are entitled to a pro rata share of the entity's net assets on termination.

(s) Life of the Trust

The underlying constitution of the Trust indicates that the life is indefinite and Unitholder approval is required to wind up the Trust.

A meeting of Unitholders was held on 27 June 2014 to consider the resolution to sell the properties or interests in the properties of the Trust, and terminate and wind up the Trust. The vote failed to reach the required 75% majority to be passed. A second resolution was also put to Unitholder to authorise the Responsible Entity to convene another meeting of Unitholders to consider the termination of the Trust by 30 June 2019. Unitholders voted in favour of this resolution.

(t) Comparatives

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

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

2 Critical accounting estimates and judgements

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

The consolidated entity makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Key sources of estimation uncertainty

Fair value measurement, valuation techniques and inputs

The following table shows the valuation techniques used in measuring the fair value of investment properties, as well as significant unobservable inputs used.

Class of property	Fair Value Hierarchy	Fair Value 30 June 2014 \$'000	Valuation Technique	Inputs used to Measure Fair Value	Range of Unobservable Inputs 30 June 2014
Retail	Level 3	70,950	DCF, income capitalisation method and comparable transactions	Net passing rent (per sqm p.a.) Net market rent (per sqm p.a.) 10 year average market rental growth Adopted capitalisation rate Adopted terminal yield Adopted discount rate	\$120 – 510 \$121 – 498 2.71% - 4.26% 7.50% - 10.50% 7.75% - 10.75% 8.75% - 10.50%
Total		70,950			

The adopted valuation for the investment property is the mid-point of the valuations determined using the discounted cash flow (DCF) method and the income capitalisation method. Both the DCF and income capitalisation methods use unobservable inputs in determining fair value, as per the table above.

The table below explains the key inputs used in to measure fair value for commercial properties:

Discounted cash flow method	Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. The DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of the income stream associated with the real property.
Income capitalisation method	This method involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value, with allowances for capital expenditure reversions.
Net passing rent	Net passing rent is the contracted amount for which a property or space within a property is leased. In a net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).
Net market rent	A net market rent is the estimated amount for which a property or space within a property should lease between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. In a net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

2 Critical accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

Fair value measurement, valuation techniques and inputs (continued)

10 year average market rental growth	The expected annual rate of change in market rent over a 10 year forecast period in alignment with expected market movements.
Adopted capitalisation rate	The rate at which net market income is capitalised to determine the value of a property. The rate is determined with regards to market evidence and the prior external valuation.
Adopted terminal yield	The capitalisation rate used to convert income into an indication of the anticipated value of the property at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regards to market evidence and the prior external valuation.
Adopted discount rate	The rate of return used to convert a monetary sum, payable or receivable in the future, into present value. It reflects the opportunity cost of capital, that is, the rate of return the capital can earn if put to other uses having similar risk. The rate is determined with regards to market evidence and the prior external valuation.

Valuation process

The aim of the valuation process is to ensure that all investment property assets are held at fair value in the Trust's accounts and that the Trust is compliant with applicable regulations (for example ASIC regulations) and the SCPL Responsible Entity Constitution and Compliance Plan.

The Trust's external valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the investment properties valued.

External Valuations

The STML Responsible Entity Compliance Plan for the Trust requires that the asset must be valued by an independent external valuer at least every three years however, the unitholders require that it be performed annually.

Sensitivity information

Significant input	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Net passing rent	Increase	Decrease
Gross market rent	Increase	Decrease
Net market rent	Increase	Decrease
10 year average market rental growth	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase
Adopted terminal yield	Decrease	Increase
Adopted discount rate	Decrease	Increase

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

2 Critical accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

Fair value measurement, valuation techniques and inputs (continued)

Generally, a change in the assumption made for the adopted capitalisation rate is accompanied by a directionally similar change in the adopted terminal yield. The adopted capitalisation rate forms part of the income capitalisation approach and the adopted terminal yield forms part of the discounted cash flow approach.

When calculating the income capitalisation approach, the net market rent has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the net market rent and an increase (softening) in the adopted capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. A directionally opposite change in the net market rent and the adopted capitalisation rate could potentially magnify the impact to the fair value.

When assessing a discounted cash flow, the adopted discount rate and adopted terminal yield have a strong interrelationship in deriving a fair value given the discount rate will determine the rate in which the terminal value is discounted to the present value.

In theory, an increase (softening) in the adopted discount rate and a decrease (tightening) in the adopted terminal yield could potentially offset the impact to the fair value. The same can be said for a decrease (tightening) in the discount rate and an increase (softening) in the adopted terminal yield. A directionally similar change in the adopted discount rate and the adopted terminal yield could potentially magnify the impact to the fair value.

Estimates of performance fee expense

The Responsible Entity may be entitled to charge a performance fee if certain out-performance is achieved by the consolidated entity. In the event a performance fee is applicable, the fee is calculated at 2.5% of the gross value of the property on the calculation date calculated on a cumulative basis. The consolidated entity has not provided for a performance fee as at 30 June 2014. Refer to Note 19 for further details.

The Responsible Entity determines the value of the performance fee to be provided based on the current property valuation and estimates regarding the likely sales proceeds on disposal of the consolidated entity's property.

The best evidence of the likely sales proceeds is the fair value of the property. 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 consolidated entity determines the property's fair value within a range of reasonable fair value estimates. In making its judgement, the consolidated entity considers information from a variety of sources as described in Note 2 above.

An estimate of the performance fee expense is then made factoring in the current fair value of the consolidated entity's property and expectations regarding future property market volatility.

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

The performance fee, if any, is recognised in the Profit and Loss on an accruals basis. It is calculated in accordance with the Constitution. This involves the assumptions set out below.

The discounted cash flow approach applied for determining the fair value of the property 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 consolidated entity 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.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

2 Critical accounting estimates and judgements (continued)

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

It is assumed payment of the performance fee will occur in accordance with the Constitution and the projected life of the consolidated entity. The consolidated entity has then applied an appropriate discount rate to reflect the projected life of the Trust.

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

The fair value of derivatives is determined using a generally accepted pricing model based on a discounted cash flow analysis using assumptions supported by observable market rates. The determination of fair value of derivatives is described further in Note 18.

3 Operating segments

The consolidated entity and the Trust operate solely in the business of investment management in Australia, this being its one operating segment.

		Consolidated	
		2014	2013
		\$	\$
4 Auditor's remuneration			
<i>Audit services</i>			
Audit and review of the Financial Report			
PwC Australia		52,152	48,000
Compliance audit services			
PwC Australia		12,971	9,500
		65,123	57,500
<i>Other services</i>			
<i>Other non-audit related services</i>			
Taxation compliance services			
PwC Australia		25,600	16,000
Total remuneration		90,723	73,500
		Consolidated	
		2014	2013
		\$'000	\$'000
5 Current assets – Cash and cash equivalents			
Cash at bank and on hand		1,325	824
The weighted average interest rate for cash at bank and on hand as at 30 June 2014 was 2.23% p.a. (2013: 2.67% p.a.).			
6 Current assets – Trade and other receivables			
Trade debtors		62	111
Other receivables		305	190
		367	301
7 Current assets – Other assets			
Prepayments		112	2
Lease incentives (deferred cost)		26	40
Fit-out contributions		204	183
		342	225

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

8 Non-current assets – Investment properties

Description	Title	Acquisition date	Original purchase price \$'000	Independent Valuation date	Independent Valuation \$'000	Capitalisation rate		Weighted average lease term ¹		Consolidated	
						30 June 2014 %	30 June 2013 %	30 June 2014	30 June 2013	Book value 2014 \$'000	Book value 2013 \$'000
Benowa Gardens Shopping Centre, Benowa, Qld	Freehold	Dec 2006	26,024	May 2014	33,250	8.25	8.50	4.90	4.50	33,250	31,500
Pacific Pines Shopping Centre, Pacific Pines, Qld	Freehold	Dec 2006	17,041	May 2014	22,800	7.5	7.75	7.20	6.40	22,800	22,000
Tamworth Homespace, Tamworth, NSW	Freehold	Dec 2006	19,225	May 2014	14,900	10.5	11.0	3.50	4.10	14,900	13,900
Total Investment properties (including amounts classified in Trade and other receivables and Other assets)											
Less amounts classified as:											
- Trade and other receivables (straight lining of rental income)											
- Other assets (fitout and lease incentives)											
- current											
- non-current											
Total Investment properties											
										70,950	67,400
										(568)	(422)
										(230)	(223)
										(600)	(679)
										69,552	66,076

¹Weighted average lease term is stated as years by income.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

		Consolidated	
		2014	2013
		\$'000	\$'000
8	Non-current assets – Investment properties (continued)		
	Reconciliation – investment properties		
	Direct investments and controlled entities		
	Carrying amount at the beginning of the financial year	66,076	64,454
	Net gain on fair value adjustments of investment properties	2,598	923
	Expenditure capitalised	878	699
	Carrying amount at the end of the financial year	69,552	66,076
9	Non-current assets – Trade and other receivables		
	Trade debtors – straight-lining of rental income	568	422
10	Non-current assets – Other assets		
	Fit-out contributions	579	644
	Lease incentives (deferred cost)	21	35
		600	679
11	Current liabilities – Trade and other payables		
	Trade payables and accruals	1,442	985
	Amounts due to related entity	316	72
	Responsible Entity fees accrued and deferred	964	868
	Goods and services tax ("GST") payable	44	18
		2,766	1,943
12	Current liabilities – Interest-bearing loans and borrowings		
	Loan facility	39,349	39,349
	Less: attributable transaction costs	(71)	(93)
	Total Balance Sheet carrying amount at amortised cost	39,278	39,256

Loan facility

As at 30 June 2014, the Trust had a \$40,000,000 (2013: \$40,000,000) loan facility agreement with National Australia Bank ("NAB") of which \$39,349,000 had been drawn (2013: \$39,349,000).

To extend the Trusts' banking facilities, the Responsible Entity renegotiated with NAB to extend the prior loan facility for a further 12 months to 31 December 2014. The Responsible Entity charged a finance renegotiation fee of \$100,000 (equivalent to 0.25% of the facility limit) for negotiating the terms of the new banking facility (refer to Note 19 for detail).

The new banking facility incurs interest based on the bank bill bid rate and a margin of 90bps p.a. As at 30 June 2014, the total interest rate including the margin of 90bps and line fees of 90bps was approximately 3.66% p.a. and the effect of including the attributable transaction costs increases this to 4.70% p.a. compared with the prior period weighted average interest rate of 5.55% p.a.

In addition, Stockland Trust Management Limited has provided a loan facility offer to the Trust on market terms and conditions which may be accepted at any time up to 28 February 2015. A line fee of 0.30% p.a. is charged on the loan balance.

The weighted average interest rate on the loan facility for the period to 30 June 2014 was 4.70% p.a. (30 June 2013: 5.55% p.a.). This loan facility was hedged through an interest rate swap contract up to 31 December 2012.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

		Consolidated	
		2014	2013
		\$'000	\$'000
13	Current liabilities – Other Liabilities		
	Distribution payable	713	475
		713	475

14 Units on issue

	Consolidated		Consolidated	
	2014	2013	2014	2013
	No. of units	No. of units	\$'000	\$'000
Units on issue	39,600,000	39,600,000	26,114	26,114

Date	Details	No. of units	\$'000
Movement in units			
1 July 2013	Opening Balance	39,600,000	26,114
30 June 2014	Closing Balance	39,600,000	26,114

Rights and restrictions over units

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

		Consolidated	
		2014	2013
		\$'000	\$'000
15	Reserves		
	Balance at the beginning of the financial year	-	(183)
	Amortisation of cash flow hedge reserve transferred to profit and loss	-	183
	Balance at the end of the financial year	-	-

16 Distributions to Unitholders

Distributions to Unitholders recognised in the financial year by the consolidated entity are:

	Distribution per unit	Total amount \$'000	Date of payment	Tax deferred
2014				
30 September 2013	1.2000¢	475	31 October 2013	14.07%
31 December 2013	1.2000¢	475	28 February 2014	14.07%
31 March 2014	1.8000¢	713	30 April 2014	14.07%
30 June 2014	1.8000¢	713	30 August 2014 ¹	14.07%
Total distributions		2,376		

¹ Proposed payment date

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

16 Distributions to Unitholders (continued)

Distributions to Unitholders recognised in the comparative financial year by the consolidated entity are:

	Distribution per unit	Total amount \$'000	Date of payment	Tax deferred
2013				
30 September 2012	1.2000¢	475	31 October 2012	27.12%
31 December 2012	1.2000¢	475	28 February 2013	27.12%
31 March 2013	1.2000¢	475	30 April 2013	27.12%
30 June 2013	1.2000¢	475	31 August 2013	27.12%
Total distributions		<u>1,900</u>		

17 Notes to the Cash Flow Statement

Reconciliation of profit for the financial year to net cash inflow from operating activities:

	Consolidated	
	2014	2013
	\$'000	\$'000
Profit for the financial year	5,520	3,469
Amortisation of borrowing costs	163	88
Net (gain) from fair value adjustment of investment properties	(2,598)	(923)
Net loss from fair value movement of derivative financial instruments	-	21
Straight line rent	146	52
Net cash inflow from operating activities before change in assets and liabilities	3,231	2,707
(Increase) in trade and other receivables and other assets	(374)	(126)
Increase in trade and other payables and other liabilities	649	41
Net cash inflow from operating activities	<u>3,506</u>	<u>2,622</u>

18 Financial instruments

(a) Financial risk and capital management

The consolidated entity's activities expose it to a variety of financial risks: credit risk, liquidity risk, and interest rate risk. The consolidated entity's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the consolidated entity's financial performance. The consolidated entity uses derivative financial instruments to hedge exposure to fluctuations in interest rates.

Financial risk and capital management is carried out by a central treasury department under policies approved by the Directors of the Responsible Entity. The Board provides written principles of overall risk management, as well as written policies covering specific areas such as managing capital, mitigating interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

Capital management

The Responsible Entity's objective when managing capital is to safeguard the ability to continue as a going concern, whilst providing returns for Unitholders and benefits for other stakeholders and to maintain a capital structure to minimise the cost of capital. Refer to Note 19 for management of the Limited Liability Fund.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

18 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Capital management (continued)

The Responsible Entity can alter the capital structure of the consolidated entity by adjusting the amount of distributions paid to Unitholders and adjusting the timing of development and capital expenditure.

In this context, the consolidated entity considers capital to include interest-bearing loans and borrowings and Unitholders' funds.

Management monitor the capital structure of the consolidated entity through the loan-to-value ratio. The ratio is calculated as the amount of the loan facility drawn divided by the latest valuation of the consolidated entity's properties. The loan-to-value ratio as at 30 June 2014 is 55.5% (2013: 58.4%) which is in compliance with the LVR covenant requirement of 65% (2013: 65%).

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will default on their contractual obligations resulting in a financial loss to the consolidated entity.

The consolidated entity has no significant concentrations of credit risk and has policies to review the aggregate exposure of tenancies across its portfolio. The consolidated entity also has policies to ensure that leases are made to customers with an appropriate credit history.

Derivative counterparties are limited to entities with high credit ratings set down by Standard and Poors.

As at 30 June 2014, for the consolidated entity, the ageing analysis of total trade receivables is as follows:

	Trade receivables \$'000	2014 Impairment \$'000	Net receivables \$'000
Not past due	-	-	-
0-30 days past due	17	-	17
31-60 days past due	4	-	4
61-90 days past due	3	-	3
+91 days past due	38	-	38
	62	-	62

The ageing analysis of trade receivables for the comparative year is:

	Trade receivables \$'000	2013 Impairment \$'000	Net receivables \$'000
Not past due	8	-	8
0-30 days past due	14	-	14
31-60 days past due	10	-	10
61-90 days past due	-	-	-
+91 days past due	29	-	29
	61	-	61

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

18 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Credit risk (continued)

As at 30 June 2014 and 30 June 2013, there were no significant financial assets that were past due and impaired or that would otherwise be past due whose terms have been renegotiated.

The movement in the allowance for impairment loss is as follows:

	Consolidated	
	2014	2013
	\$'000	\$'000
Opening balance as at 1 July	-	48
Reversal of provision	-	(48)
Closing balance at 30 June	-	-

The carrying amount of financial assets included in the Balance Sheet represents the consolidated entity's maximum exposure to credit risk in relation to these assets. Refer to Notes 5, 6 and 7 for a breakdown of these financial assets.

Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The consolidated entity aims at maintaining flexibility in funding by keeping sufficient committed credit lines available. Management prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flow.

The consolidated entity manages liquidity risk through monitoring the maturity of its debt portfolio. As at 30 June 2014, the current weighted average debt maturity is 0.5 years (2013: 0.5 years). Refer to Note 12 for further detail of the loan facility.

The table on the next page reflects all estimated maturities of financial liabilities including principal and estimated interest cash flows calculated based on conditions existing at balance date. The amounts presented represent the future undiscounted cash flows and may not equate to carrying amounts of financial liabilities in the Balance Sheet.

Contractual maturity of financial assets and liabilities including derivatives and estimated interest

	2014				
	Contractual cash flows	1 year or less	1-3 years	3-5 years	5+ years
	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated					
Trade payables and accruals	2,838	2,838	-	-	-
Distribution payable	713	713	-	-	-
Loan facility ¹	40,550	40,550	-	-	-
Interest rate swap	-	-	-	-	-
	44,101	44,101	-	-	-

¹ The loan facility is due to mature on 31 December 2014. Refer to Note 12 for more details.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

18 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Liquidity risk (continued)

		2013			
	Contractual cash flows \$'000	1 year or less \$'000	1-3 years \$'000	3-5 years \$'000	5+ years \$'000
Consolidated					
Trade payables and accruals	1,777	1,777	-	-	-
Distribution payable	475	475	-	-	-
Loan facility ¹	41,533	41,533	-	-	-
Interest rate swap	-	-	-	-	-
	43,785	43,785	-	-	-

Interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows associated with instruments will fluctuate due to changes in market interest rates.

The income and the associated operating cash flows of the consolidated entity's financial assets are substantially independent of changes in market interest rates.

Sensitivity analysis

The following sensitivity analysis shows the effect on the consolidated entity's Profit and Loss and Unitholders' funds if market interest rates at balance date had been 100 basis points higher/lower (2013: 100 basis points) with all other variables held constant.

	2014		2013	
	Interest rates higher \$000	Interest rates lower \$000	Interest rates higher \$000	Interest rates lower \$000
Market interest rate movement of 100 basis points (2013: 100 basis points)				
Statement of Comprehensive Income	(380)	380	(405)	405
Equity	-	-	-	-

(b) Fair value of financial assets and financial liabilities

The carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables as disclosed in the Balance Sheet reflect the fair value of these financial assets and liabilities as at 30 June 2014.

(c) Fair value hierarchy

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

The following hierarchy is used for determining and disclosing the fair value of SDRT 1's financial instruments, by valuation method:

- Level 1: quoted prices (unadjusted) in active markets for identical financial assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly or indirectly; and
- Level 3: inputs for the financial asset or liability that are not based on observable market data.

The determination of what constitutes "observable" requires significant judgement by the responsible entity. The responsible entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

19 Related parties

Stockland Capital Partners Limited ("SCPL") is the Responsible Entity of the consolidated entity. The Key Management Personnel of the consolidated entity has been defined as the Responsible Entity. The Responsible Entity does not hold any units in the consolidated entity. All fees and charges from the Responsible Entity and its related parties are in accordance with the PDS and the Trust's constitution.

	Consolidated	
	2014	2013
Responsible Entity fees and other transactions	\$'000	\$'000
<i>Responsible Entity fee</i>		
The Responsible Entity charged Responsible Entity fees calculated at 0.45% p.a. of the gross value of the consolidated entity and Trust.	313	307
For the year ended 30 June 2014, the Responsible Entity has not deferred any of the current year Responsible Entity fees (2013: \$92,051 of the total \$306,836 was deferred).		
Total deferred and accrued Responsible Entity fees included in Current liabilities – Trade and other payables as at 30 June 2014 is \$964,333 (2013: \$867,700).		
<i>Performance fee</i>		
The Responsible Entity may be entitled to a performance fee if certain out-performance is achieved by the consolidated entity. The performance fee is calculated at 2.5% of the gross value of the property or properties as disclosed in the Balance Sheet at each reporting date or realised on a sale of the property or properties during the period.	-	-
No performance fee was charged in the current year (2013: \$nil) as the Responsible Entity has not achieved the performance targets required to earn this fee.		
<i>Manager Expenses</i>		
Other recoverable expenses including accounting, taxation and compliance service fees totalling \$73,600 have been charged by the Responsible Entity (2013: \$nil).	74	-
Total manager expenses included the Current liabilities – Trade and other payables at 30 June 2014 are \$73,600 (2013: \$nil).		
<i>Standby loan facility line fees</i>		
Stockland Trust Management Limited, as Responsible Entity for Stockland Trust has provided a standby loan facility offer to the Fund on market terms. The facility charges line fees of 0.30% p.a. on the facility limit which the consolidated entity recognises in the Statement of Consolidated Profit or Loss.	93	93
Total standby loan facility line fees included the Current liabilities – Trade and other payables at 30 June 2014 are \$60,000 (2013: \$nil).		
Total Responsible Entity fees and other transactions recognised in the Statement of Comprehensive Income	480	400

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

19 Related Parties (continued)

Other related party transactions

Limited Liquidity Facility ("LLF")

NAB has agreed to acquire up to 1,000,000 units per quarter in the Trust from investors seeking to transfer their units. The price for each unit will be the most recent NTA per unit less a 2.5% discount, any transfer costs and a \$110 processing fee per application. Stockland Trust Management Limited ("STML"), as Responsible Entity for Stockland Trust, has placed a standing order with NAB to acquire the first 19.9% of the Units NAB acquires under the LLF. The facility commenced operation in the quarter beginning 1 January 2008. NAB may unconditionally suspend or terminate the LLF at any time in its sole discretion. Stockland Trust's standing order will terminate when its related entities hold 19.9% of the Units.

During the financial year, STML, as Responsible Entity of Stockland Trust, acquired 470,000 units (2013: 1,547,500 units) in the consolidated entity via the LLF.

Property Management fee

Stockland Property Management Pty Limited has been appointed as the property manager to undertake the ongoing property management and leasing of the properties. A fee of \$645,121 (2013: \$615,166) was paid/payable to the property manager during the financial year. Total accrued property management fees by the consolidated entity included in Current liabilities – Trade and other payables as at 30 June 2014 is \$111,088 (2013: \$49,174).

Units held by Stockland Trust

As at 30 June 2014, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 7,867,500 units (2013: 7,397,500) in the consolidated entity.

Interest rate swap agreement with Stockland Trust Management Limited

STML provided an interest rate swap on the property loan facility to the Trust which matured on 31 December 2012. The interest rate swap incurred a fixed cost equal to 6.45% p.a. payable quarterly in arrears.

Loan facility offer

Stockland Trust Management Limited, as Responsible Entity for Stockland Trust has provided a loan facility offer up to \$40,000,000 to the Trust on market terms and conditions available at the date of acceptance of the loan facility offer. The loan facility offer has not yet been accepted by the Trust. This offer may be accepted at any time up to its expiry date of 28 February 2015.

Finance Renegotiation Fee

The Responsible Entity has charged a finance renegotiation fee of \$100,000 (equivalent to 0.25% of the facility limit) for services performed to negotiate the terms and maturity of the external debt facility with NAB for a further 12 months to 31 December 2014 (30 June 2013: \$nil). This included tendering and meeting with all major Australian Banks to provide the external funding required.

This has been recognised as part of borrowing transaction costs (see Note 12) and is being amortised over the life of the facility through finance costs in the Profit or Loss. This fee has been benchmarked against comparable external industry fees as required by the PDS. As a result of the refinancing, the consolidated entity weighted average interest rate has decreased from 5.55% p.a. to 4.70% p.a. including the refinancing fee.

Intercompany loans between the Trust and sub-trusts

	Consolidated	
	2014	2013
	\$'000	\$'000
Aggregate amount receivable by the Trust from its sub-trusts	48,298	44,099

The loans are interest free and repayable at call. Controlled entities paid distributions of \$ 4,825,614 (2013: \$4,287,661) to the parent entity. This is eliminated on consolidation.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

20 Controlled entities

The following entities were 100% controlled by the parent entity during the current and previous financial years:

Controlled entities of Stockland Direct Retail Trust No. 1

SDRT 1 Property # 1 Trust

SDRT 1 Property # 2 Trust

SDRT 1 Property # 4 Trust

Stockland Holding Trust No. 1

21 Commitments

As at 30 June 2014, the consolidated entity has no commitments (2013: \$nil).

	Consolidated	
	2014	2013
	\$'000	\$'000
Non-cancellable operating lease receivable from investment property tenants		
Non-cancellable operating lease commitments receivable:		
Within one year	6,518	6,003
Later than one year but not later than five years	17,427	15,313
Later than five years	5,559	5,837
	29,504	27,153

22 Contingent liabilities and contingent assets

As at 30 June 2014, the consolidated entity has no contingent assets or liabilities (2013: \$nil).

23 Parent Entity Disclosures

As at, and throughout, the financial year ended 30 June 2014 the parent entity of the consolidated entity was Stockland Direct Retail Trust No.1.

	Trust	
	2014	2013
	\$'000	\$'000
Results of the parent entity		
Profit /(Loss) for the financial year	7,514	(2,858)
Other comprehensive income	-	183
Total comprehensive income /(expense) for the year	7,514	(2,675)
Financial position of the parent entity at year end		
Current assets	1,311	1,194
Total assets	57,032	54,923
Current liabilities	41,429	40,674
Total liabilities	41,429	40,674
Net assets	15,603	14,249
Total Unitholders funds of the parent entity comprising of:		
Units on issue	26,114	26,114
Reserves	-	-
Undistributed loss	(10,511)	(11,865)
Total Unitholder's funds	15,603	14,249

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2014

23 Parent Entity Disclosures (continued)

Parent entity contingencies

There are no contingencies with the parent entity as at 30 June 2014 (2013: \$nil).

Parent entity capital commitments

The parent entity has not entered into any capital commitments as at 30 June 2014 (2013: \$nil).

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has not entered into any guarantees in respect of debts of its subsidiaries.

24 Events subsequent to the end of the year

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

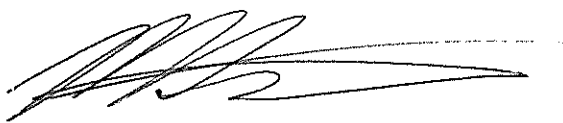
Stockland Direct Retail Trust No. 1 and its controlled entities
Directors' Declaration
For the year ended 30 June 2014

In the opinion of the Directors of Stockland Capital Partners Limited, the Responsible Entity of Stockland Direct Retail Trust No. 1 and its controlled entities:

1. the Financial Statements and Notes, set out on pages 6 to 30, are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the Trust's and consolidated entity's financial position as at 30 June 2014 and of their performance for the financial year ended on that date; and
 - (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. the Financial Report also complies with International Financial Reporting Standards as disclosed in Note 1(a);
3. at the date of this declaration, there are reasonable grounds to believe that the Trust and the consolidated entity will be able to pay their debts as and when they become due and payable;
4. the Trust has operated during the financial year ended 30 June 2014 in accordance with the provisions of the Trust Constitution as amended dated 26 August 2006; and
5. the Register of Unitholders has, during the financial year ended 30 June 2014, been properly drawn and maintained so as to give a true account of the Unitholders of the Trust.

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

Signed in accordance with a resolution of the Directors:



Mark Steinert
Director

Dated at Sydney, 28 August 2014



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

Report on the financial report

We have audited the accompanying financial report of Stockland Direct Retail Trust No. 1 (the Trust), which comprises the consolidated balance sheet as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Stockland Direct Retail Trust No. 1 Group (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of Stockland Capital Partners Limited (the responsible entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Auditor's opinion

In our opinion:

- (a) the financial report of Stockland Direct Retail Trust No. 1 and its controlled entities is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.


PricewaterhouseCoopers


N R McConnell
Partner

Sydney
28 August 2014




Auditor's Independence Declaration

As lead auditor for the audit of Stockland Direct Retail Trust No. 1 for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Stockland Direct Retail Trust No. 1 and the entities it controlled during the period.


N R McConnell
Partner
PricewaterhouseCoopers

Sydney
28 August 2014