

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

ARSN: 121 832 086

**Annual Financial Report
30 June 2011**

Registered office:

133 Castlereagh Street
Sydney NSW 2000

Stockland Direct Retail Trust No. 1 and its controlled entities

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Stockland Direct Retail Trust No. 1 and its controlled entities

Directors' Report

For the year ended 30 June 2011

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 2011, the state of the consolidated entity's affairs as at 30 June 2011 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 as Director on 19 October 2010 and has over thirty seven years experience in property, both in Australia and overseas. He is a Director of Dymocks Holdings Pty Limited and Terrace Tower Group Pty Ltd and was previously Director of Property for Woolworths Limited. He also served as Chief Executive Officer, Investment Division (1999 to 2004), and Executive Director (1987 to 2004) of Mirvac Limited. Mr Neil is Chairman of Stockland Capital Partners Limited, the Responsibility Entity for Stockland's unlisted funds and a member of the Stockland Audit and Corporate Responsibility and Sustainability Committees.

Peter Scott

Chairman (Non-Executive)

Retired 19 October 2010

Mr Scott was appointed to the Board on 9 August 2005 and he retired on 19 October 2010. He is Chairman of Sinclair Knight Merz Holdings Limited and Perpetual Limited, where he was appointed a Director on 31 July 2005. Mr Scott is a Director of Pilotlight Australia, a not-for-profit making organisation and O'Connell Street Associates Pty Limited. He was appointed to the Advisory Board of Laing O'Rourke Australia from August 2008 to August 2011. Mr Scott was the Chief Executive Officer of MLC and Executive General Manager, Wealth Management of National Australia Bank until January 2005. Prior to this, he held a number of senior positions with Lend Lease, following a successful career as a consulting engineer in Australia and overseas. Mr Scott is Chairman of the Stockland Human Resources Committee and a member of the Stockland Risk Committee.

David Kent

(Non-Executive)

Mr Kent was appointed a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds, in August 2004. He is Chairman of the S H Ervin Gallery Committee, a Director of the Royal Sydney Golf Club Foundation, Alliance Francaise de Sydney and The Australian Club Inc. Mr Kent spent the majority of his executive career at Morgan Stanley where he became Managing Director and Head of Investment Banking. He held positions in Sydney, Melbourne and New York for Morgan Stanley. Other positions held have included Executive General Manager of Axiss Australia and Senior Trade & Investment Commissioner in Paris and Washington DC for the Australian Trade Commission. Mr Kent has been a Member of the Financial Sector Advisory Council and the Australian Chapter of the Alternative Investment Management Association. He has previously served as Deputy Chairman of the AGNSW Foundation and Chairman of the Brett Whiteley Foundation. He is a member of the Remuneration and Equity and Finance Committees of Sinclair Knight Merz and of the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

Stockland Direct Retail Trust No. 1 and its controlled entities

Directors' Report

For the year ended 30 June 2011

Directors (continued)

Anthony Sherlock

(Non-Executive)

Mr Sherlock was appointed as a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds, in August 2004. He is a former Senior Partner of Coopers & Lybrand having national responsibility for credit risk management. In that capacity, he obtained experience in the banking and finance, mining, agriculture, building, construction and development sectors. Mr Sherlock is a non-executive Director of IBA Health Limited, Export Finance Insurance Corporation and Equatorial Mining Limited. He is the former Chairman of Australian Wool Corporation Limited and The Woolmark Company Pty Ltd, a former non-executive Director of Austral Coal Limited and Sydney Attractions Group Limited, and has acted on a number of committees for both Federal and State governments. He is a member of the Stockland Capital Partners Audit and Risk Committee, the Stockland and Stockland Capital Partners Financial Services Compliance Committees, and the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

Matthew Quinn

Managing Director – Stockland – (Executive)

Mr Quinn has an extensive background in commercial, retail, industrial, and residential property investment and development. He began his career in the United Kingdom as a Chartered Accountant and moved to Australia in 1987 with Price Waterhouse. In 1988 he joined the Rockingham Park Group, a substantial Western Australian private property group. Mr Quinn joined Stockland in 1999 and was appointed to his current role of Managing Director in October 2000. Mr Quinn held the position of National President of the Property Council of Australia from March 2003 until March 2005. He is a Fellow of the Australian Property Institute and the Royal Institute of Chartered Surveyors. He is a Director of Australian Business and Community Network Limited, having served as Chairman from November 2007 to November 2010, and Carbonxt Group Limited. Mr Quinn is a member of the Stockland Corporate Responsibility and Sustainability Committee, a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds and a member of the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

Tim Foster

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

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

Stockland Direct Retail Trust No. 1 and its controlled entities Directors' Report For the year ended 30 June 2011

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

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 incorporate best practice. Its members must be independent of management and at least one member of the Committee must have relevant accounting qualifications and experience and all members should have a good understanding of financial reporting.

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

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

Mr A Sherlock – Non-Executive Director

Principal activity

The principal activity of the 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.

Review and results of operations

The consolidated entity recorded a profit of \$1,163,000 for the financial year ended 30 June 2011 (2010: \$3,169,000).

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

Stockland Direct Retail Trust No. 1 and its controlled entities

Directors' Report

For the year ended 30 June 2011

Review and results of operations (continued)

An upwards revaluation totalling \$117,000 (2010: upwards revaluation of \$574,000) was recognised in the consolidated entity's Statement of Comprehensive Income. During the financial year, the portfolio was revalued to \$63,800,000. Refer to Note 8 for individual property values.

Loan facility offer

As at 30 June 2011, the Trust has a \$40,000,000 (2010: \$40,000,000) loan facility agreement with National Australia Bank ("NAB") of which \$39,349,000 has been drawn down (2010: \$39,349,000). This loan facility has a maturity date of 31 December 2011. Discussions are currently being held with NAB to extend the maturity date of the loan facility. The Directors have no reason to believe the loan will not be refinanced.

In the event that the loan will not be refinanced, Stockland Trust Management Limited has provided a loan facility offer to the Trust on market terms available at the date of acceptance of the loan facility offer. This offer may be accepted at any time up to its expiry date of 31 August 2012.

Significant changes in the state of affairs

There have been no other 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.

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 5,400,000 units in the consolidated entity as at 30 June 2011 (2010: 4,635,000).

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.

Stockland Direct Retail Trust No. 1 and its controlled entities
Directors' Report
For the year ended 30 June 2011

Directors' interests

The relevant interest of each Director of the Responsible Entity holding units in the consolidated entity at the date of this report is as follows:

Directors	Number of units held
Mr David Kent	110,000
Mr Matthew Quinn	10,000
Mr Peter Scott	20,000

Indemnities and insurance of officers and auditors

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.

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

The external auditor's independence declaration is set out on page 6 and forms part of the Directors' Report for the year ended 30 June 2011.

Rounding

The 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:



Matthew Quinn
Director

Dated at Sydney, 18 August 2011



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

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

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011, there has been:

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

A handwritten signature in blue ink, appearing to be 'KPMG'.

KPMG

A handwritten signature in blue ink, appearing to be 'S. C. Fleming'.

Scott Fleming

Partner

Sydney

18 August 2011

Stockland Direct Retail Trust No. 1 and its controlled entities
Consolidated Statement of Comprehensive Income
For the year ended 30 June 2011

		Consolidated	
		2011	2010
	Notes	\$'000	\$'000
Revenue and other income			
Rent from investment properties		7,563	8,249
Interest income		83	89
Total revenue and other income		7,646	8,338
 Net (loss)/gain from fair value movement of derivative financial instruments		 (800)	1,486
Net gain from fair value adjustment of investment properties	8	117	574
Investment property expenses		(2,547)	(2,709)
Finance cost relating to interest-bearing liabilities at amortised cost		(2,761)	(3,235)
Loss on sale of investment property		-	(717)
Auditor's remuneration	4	(114)	(131)
Responsible Entity fees	19	(298)	(329)
Other expenses		(80)	(108)
Total expenses		(6,483)	(5,169)
 Profit for the financial year		 1,163	3,169
 Other comprehensive income			
Amortisation of cash flow hedge reserve transferred to profit or loss	15	121	353
Other comprehensive income for the year		121	353
Total comprehensive income for the year		1,284	3,522

The above Consolidated Statement of 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 2011

		Consolidated	
	Notes	2011	2010
		\$'000	\$'000
Current assets			
Cash and cash equivalents	5	1,329	2,117
Trade and other receivables	6	471	229
Other assets	7	692	289
Total current assets		2,492	2,635
Non-current assets			
Investment properties	8	62,959	61,595
Trade and other receivables	9	206	389
Other assets	10	511	1,161
Total non-current assets		63,676	63,145
Total assets		66,168	65,780
Current liabilities			
Trade and other payables	11	2,360	2,030
Other liabilities	12	400	248
Interest-bearing loans and borrowings	13	39,175	-
Total current liabilities		41,935	2,278
Non-current liabilities			
Interest-bearing loans and borrowings	13	-	38,953
Total non-current liabilities		-	38,953
Total liabilities		41,935	41,231
Net assets		24,233	24,549
Unitholders' funds			
Units on issue	14	27,714	29,314
Reserves	15	(304)	(425)
Undistributed loss		(3,177)	(4,340)
Total Unitholders' funds		24,233	24,549

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 2011

	Note	Unitholders' funds							
		Units on issue		Undistributed		Reserves		Total	
		2011	2010	(loss)/profit		2011	2010	2011	2010
Consolidated		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance		29,314	30,304	(4,340)	(7,509)	(425)	(778)	24,549	22,017
Amortisation of cash flow hedge reserve transferred to profit and loss	15	-	-	-	-	121	353	121	353
Profit for the financial year		-	-	1,163	3,169	-	-	1,163	3,169
Total comprehensive income for the financial year		-	-	1,163	3,169	121	353	1,284	3,522
Transactions with Unitholders in their capacity as owners:									
Distributions paid/payable to Unitholders	16	(1,600)	(990)	-	-	-	-	(1,600)	(990)
Closing balance		27,714	29,314	(3,177)	(4,340)	(304)	(425)	24,233	24,549

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 2011

		Consolidated	
		2011	2010
	Notes	\$'000	\$'000
Cash flows from operating activities			
Cash receipts in the course of operations		7,589	8,376
Cash payments in the course of operations		(3,328)	(3,361)
Interest received		39	84
Interest paid		(2,538)	(2,854)
Net cash inflow from operating activities	17	1,762	2,245
Cash flows from investing activities			
Payments for investment properties		(1,102)	(1,175)
Proceeds from sale of investments		-	16,840
Net cash (utilised in)/from investing activities		(1,102)	15,665
Cash flows from financing activities			
Repayment of external party financing		-	(16,800)
Borrowing costs paid		-	(390)
Distribution paid to Unitholders	16	(1,448)	(1,364)
Net cash utilised in financing activities		(1,448)	(18,554)
Net decrease in cash and cash equivalents		(788)	(644)
Cash and cash equivalents at the beginning of the financial year		2,117	2,761
Cash and cash equivalents at the end of the financial year	5	1,329	2,117

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 2011

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 2011 comprises of 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 2011 was authorised for issue by the Directors of Stockland Capital Partners Limited (“SCPL”), the Responsible Entity for the Trust, on 18 August 2011.

(a) Statement of compliance

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

(b) New accounting standards

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

(c) Changes in accounting standards

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

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

(d) Basis of preparation

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

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.

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 its loan facility. Discussions are currently being held with National Australia Bank to extend the loan facility offer. The Directors have no reason to believe the loans will not be refinanced.

In the event that the loan will not be refinanced, Stockland Trust Management Limited has provided a loan facility offer to the Trust on market terms and conditions available at the date of acceptance of loan facility offer. The facility offer can be accepted by SDRT1 at any time up until its expiry on 31 August 2012. As a result, the Directors formed the view that the consolidated Financial Report for the year ended 30 June 2011, 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.

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2011

1 Summary of significant accounting policies (continued)

(d) Basis of preparation (continued)

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:

(e) Revenue recognition

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

Revenue is recognised for the major business activities as follows:

Rent from investment properties

Rent from investment properties is recognised in the Statement of Comprehensive Income 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 Statement of Comprehensive Income as it accrues using the effective interest method and if not received at balance date, is reflected in the Balance Sheet as a receivable.

Distributions

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

(f) 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.

(g) Goods and services tax

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

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

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

(h) Income tax

Under current Australian income tax legislation, the Trust 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.

(i) 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.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

1 Summary of significant accounting policies (continued)

(i) Derivative financial instruments (continued)

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

(j) Hedging

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

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or highly probable forecast transaction that could affect the Statement of Comprehensive Income.

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

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.

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.

(k) Finance costs

Finance costs to external parties

Finance costs to external parties include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with 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 Statement of Comprehensive Income on an accruals basis, and if not paid at balance date are reflected in the Balance Sheet as a liability.

(l) Cash and cash equivalents

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

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

1 Summary of significant accounting policies (continued)

(m) 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 Statement of Comprehensive Income, 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 Statement of Comprehensive Income.

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.

(n) Trade and other payables

Trade and other payables are stated at cost.

Distributions to Unitholders

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

(o) Interest-bearing loans and borrowings

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

(p) Provisions

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

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

Stockland Direct Retail Trust No. 1 and its controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2011

1 Summary of significant accounting policies (continued)

(p) Provisions (continued)

Performance fee

The performance fee is recognised in the Statement of Comprehensive Income 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 Statement of Comprehensive Income in the current financial year.

(q) 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.

(r) Investments

Controlled entities

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

(s) 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 Statement of Comprehensive Income in the period.

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.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

1 Summary of significant accounting policies (continued)

(s) Investment properties (continued)

Fair value (continued)

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 Statement of Comprehensive Income 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 Statement of Comprehensive Income in the financial year of disposal.

(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.

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.

(a) Key sources of estimation uncertainty

Estimates of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar investment properties. Where such information is not available, the Responsible Entity determines the property's value within a range of reasonable fair value estimates. In making its judgement, the Responsible Entity considers information from a variety of sources including:

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

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

2 Critical accounting estimates and judgements (continued)

(a) Key sources of estimation uncertainty (continued)

Assumptions underlying the Responsible Entity's estimates of fair value of investment properties

In determining the fair value, the capitalisation of net market income method and discounting future cash flows to their present value have been used. These approaches require assumptions and judgement in relation to the future receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements, property capitalisation rate or estimated yield and make reference to market evidence of transaction prices for similar properties. 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.

These valuations are regularly compared to 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.

Estimates of performance fee expense

A performance fee is payable to the Responsible Entity if certain out performance is achieved by the consolidated entity. The fee is calculated on 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 2011. 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(a)(i)–(iv) on the previous page.

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

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.

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.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

2 Critical accounting estimates and judgements (continued)

(a) Key sources of estimation uncertainty (continued)

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 it's one operating segment.

	Consolidated	
	2011	2010
	\$	\$
4 Auditor's remuneration		
<i>Audit services to KPMG Australia</i>		
Audit and review of the Financial Report	70,000	79,629
Compliance audit services	13,700	13,000
	83,700	92,629
<i>Other services to KPMG Australia</i>		
Taxation compliance services	30,220	38,200
	30,220	38,200
Total remuneration	113,920	130,829

	Consolidated	
	2011	2010
	\$'000	\$'000

5 Current assets – Cash and cash equivalents

Cash at bank and on hand	1,329	2,117
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The weighted average interest rate for cash at bank and on hand as at 30 June 2011 was 4.34% p.a. (2010: 3.31% p.a.).

6 Current assets – Trade and other receivables

Trade receivables	377	224
Trade debtors – straight-lining of rental income	54	-
Other receivables	40	5
	471	229

7 Current assets – Other assets

Fair value of financial instrument	382	-
Fit-out contributions	27	27
Prepayments	219	221
Interest receivable under interest rate swap	21	20
Lease incentives (deferred cost)	43	7
Other assets	-	14
	692	289

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

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 2011 %	30 June 2010 %	30 June 2011	30 June 2010	Book value 2011 \$'000	Book value 2010 \$'000
Pacific Pines Shopping Centre, Pacific Pines, Qld	Freehold	Dec 2006	17,041	June 2011	19,500	7.50	7.50	9.40	7.45	19,500	18,511
Benowa Gardens Shopping Centre, Benowa, Qld	Freehold	Dec 2006	26,024	June 2011	30,700	8.00	8.00	5.10	3.89	30,700	29,607
Tamworth Homespace, Tamworth, NSW	Freehold	Dec 2006	19,225	June 2011	13,600	10.50	10.50	2.90	2.98	13,600	14,000
Total Investment properties (including amounts classified in Trade and other receivables and Other assets)										63,800	62,118
Less amounts classified as:											
- Trade and other receivables (straight lining of rental income)										(260)	(389)
- Other assets (fit-out contributions and lease incentives)										(581)	(134)
Total Investment properties										62,959	61,595

¹ Weighted 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 2011

		Consolidated	
		2011	2010
		\$'000	\$'000
8	Non-current assets – Investment properties (continued)		
	Reconciliation – investment properties		
	<i>Direct investments and controlled entities</i>		
	Carrying amount at the beginning of the financial year	61,595	77,242
	Disposals	-	(17,396)
	Net gain on fair value adjustments of investment properties	117	574
	Expenditure capitalised	1,247	1,175
	Carrying amount at the end of the financial year	62,959	61,595
9	Non-current assets – Trade and other receivables		
	Trade debtors – straight-lining of rental income	206	389
10	Non-current assets – Other assets		
	Fair value of financial instrument	-	1,061
	Fit-out contributions	407	90
	Lease incentives (deferred cost)	104	10
		511	1,161
11	Current liabilities – Trade and other payables		
	Trade payables and accruals	1,882	1,550
	Interest payable on loan facility	455	454
	Goods and services tax (“GST”) payable	23	26
		2,360	2,030
12	Current liabilities – Other Liabilities		
	Distribution payable	400	248
13	Current and Non-current liabilities – Interest-bearing loans and borrowings		
	Current liabilities – Interest-bearing loans and borrowings		
	Loan facility	39,349	-
	Less: attributable transaction costs	(174)	-
	Total Balance Sheet carrying amount at amortised cost	39,175	-
	Non-current liabilities – Interest-bearing loans and borrowings		
	Loan facility	-	39,349
	Less: attributable transaction costs	-	(396)
	Total Balance Sheet carrying amount at amortised cost	-	38,953

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

13 Current and Non-current liabilities – Interest-bearing loans and borrowings (continued)

Loan facility

As at 30 June 2011, the Trust has a \$40,000,000 (2010: \$40,000,000) loan facility agreement with National Australia Bank (“NAB”) of which \$39,349,000 had been drawn (2010: \$39,349,000). This loan facility has a maturity date of 31 December 2011. Discussions are currently being held with NAB to extend the maturity date of the loan facility. The Directors have no reason to believe the loan will not be refinanced.

The weighted average interest rate on the loan facility for the year ended 30 June 2011 was 8.49% p.a. (2010: 7.44% p.a.). The loan facility has been effectively hedged through an interest rate swap contract (refer to paragraphs below).

The loan facility to the Trust is secured by a limited registered first mortgage over the properties to \$1,000,000, a fixed and floating charge over all assets of the consolidated entity and a first-ranking mortgage over the units in the consolidated entities.

Interest rate swap contract

The Responsible Entity, on behalf of the consolidated entity, has entered into an interest rate swap contract with Stockland Trust Management Limited (“STML”), as Responsible Entity for Stockland Trust, to manage cash flow risks associated with the floating interest rates on the loan facility provided by NAB. The interest rate swap allows the consolidated entity to swap the floating rate borrowing into a fixed rate borrowing.

The interest rate swap on the loan facility will incur a fixed cost equal to 6.45% p.a. (2010: 6.45% p.a.) payable quarterly in arrears and will terminate on 31 December 2011. Management is currently renegotiating an extension of the underlying loan facility with NAB. Once the extension has been finalised, the interest rate swap agreement will be amended to ensure the loan facility will continue to incur a fixed cost of 6.45% p.a. This is consistent with the reference in the SDRT 1 Product Disclosure Statement that STML will provide a guarantee to fix the interest rate on the loan facility for 7 years to the end of the Fund being 30 June 2014. The swap in place covers 100% of the loan facility outstanding.

During the financial year ended 30 June 2010, the Trust and STML agreed for the original interest rate swap agreement to be restructured to reduce the face value of the interest rate swap to \$39,349,470 with a floating rate under the interest rate swap to match the floating rate under the refinanced loan. All other terms of the restructured interest rate swap remained unchanged from the terms of the original interest rate swap agreement (i.e. the restructured interest rate swap will still incur a fixed cost equal to 6.45% p.a. payable quarterly in arrears and will terminate on 31 December 2011).

Although the interest rate swap is transacted for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting to the restructured interest rate swap and accordingly, changes in the fair value of the interest rate swap are recorded in the profit or loss in the Statement of Comprehensive Income as “net gain/(loss) from fair value movement of derivative financial instruments”. Notwithstanding the accounting outcome, the Responsible Entity considers that the restructured interest rate swap agreement is appropriate and effective in offsetting the economic interest rate exposures of the Trust.

As a result of not applying hedge accounting, the remaining balance in the cash flow hedge reserve is amortised over the life of the original swap. Refer to Note 15.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

14 Units on issue

	Consolidated		Consolidated	
	2011	2010	2011	2010
	No. of units	No. of units	\$'000	\$'000
Units on issue	39,600,000	39,600,000	27,714	29,314

Date	Details	No. of units	Price per unit	\$'000
Movement in units				
1 July 2009	Balance	39,600,000		30,304
30 September 2009	Distribution paid from contributed equity	-	-	(247)
31 December 2009	Distribution paid from contributed equity	-	-	(247)
31 March 2010	Distribution paid from contributed equity	-	-	(248)
30 June 2010	Distribution paid from contributed equity	-	-	(248)
	Balance	39,600,000		29,314
30 September 2010	Distribution paid from contributed equity	-	-	(400)
31 December 2010	Distribution paid from contributed equity	-	-	(400)
31 March 2011	Distribution paid from contributed equity	-	-	(400)
30 June 2011	Distribution paid from contributed equity	-	-	(400)
30 June 2011	Closing Balance	39,600,000		27,714

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	
	2011	2010
	\$'000	\$'000

15 Reserves

Balance at the beginning of the financial year	(425)	(778)
Amortisation of cash flow hedge reserve transferred to profit and loss	121	353
Balance at the end of the financial year	(304)	(425)

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

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
2011				
30 September 2010	1.0101¢	400 ¹	30 October 2010	100%
31 December 2010	1.0101¢	400 ¹	28 February 2011	100%
31 March 2011	1.0101¢	400 ¹	29 April 2011	100%
30 June 2011	1.0101¢	400 ¹	31 August 2011 ²	100%
Total distributions		<u>1,600</u>		

¹ This was/is a distribution from contributed equity.

² Proposed payment date

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
2010				
30 September 2009	0.625¢	247 ³	30 October 2009	100%
31 December 2009	0.625¢	247 ³	26 February 2010	100%
31 March 2010	0.625¢	248 ³	30 April 2010	100%
30 June 2010	0.625¢	248 ³	31 August 2010	100%
Total distributions		<u>990</u>		

³ This was a distribution from contributed equity.

	Consolidated	
	2011	2010
	\$'000	\$'000

17 Notes to the Cash Flow Statement

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

Profit for the financial year	1,163	3,169
Amortisation of borrowing costs	222	204
Net gain from fair value adjustment of investment properties	(117)	(574)
Loss on sale of investment property	-	717
Net loss/(gain) from fair value movement of derivative financial instruments	800	(1,486)
Straightline rent	129	(235)
Net cash inflow from operating activities before change in assets and liabilities	2,197	1,795
(Increase)/decrease in trade and other receivables and other assets	(621)	166
Increase in trade and other payables and other liabilities	186	284
Net cash inflow from operating activities	1,762	2,245

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

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.

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 2011 is 61.7% (2010: 63.5%) which is in compliance with the LVR covenant requirement of 65% (2010: 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 2011, for the consolidated entity, the aging analysis of total trade receivables is as follows:

	2011	
	Trade receivables	Net receivables
	\$'000	\$'000
Not past due	335	335
0-30 days past due	26	26
31-60 days past due	8	8
61-90 days past due	6	6
+91 days past due	2	2
	377	377

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

18 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Credit Risk (continued)

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

		2010	
	Trade receivables	Impairment	Net receivables
	\$'000	\$'000	\$'000
Not past due	163	-	163
0-30 days past due	18	-	18
31-60 days past due	25	-	25
61-90 days past due	9	-	9
+91 days past due	9	-	9
	224	-	224

As at 30 June 2011 and 30 June 2010, 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	
	2011	2010
	\$'000	\$'000
Opening balance as at 1 July	-	14
Charge for the year	-	-
Amounts written off	-	(14)
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 2011, the current weighted average debt maturity is 0.5 years (2010: 1.5 years). Refer to Note 13 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.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

18 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Liquidity risk (continued)

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

	2011				
	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	(1,882)	(1,882)	-	-	-
Distribution payable	(400)	(400)	-	-	-
Loan facility ¹	(41,065)	(41,065)	-	-	-
Interest rate swap	410	410	-	-	-
	(42,937)	(42,937)	-	-	-

¹ The loan facility is due to mature on 31 December 2011. Refer to Note 13 for more details.

	2010				
	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	(1,550)	(1,550)	-	-	-
Distribution payable	(248)	(248)	-	-	-
Loan facility	(44,336)	(3,333)	(41,003)	-	-
Interest rate swap	1,140	743	397	-	-
	(44,994)	(4,388)	(40,606)	-	-

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.

The Responsible Entity, on behalf of the consolidated entity, manages interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The debt fixed/hedged as a percentage of total debt as at 30 June 2011 was 100% (2010: 100%). Under the interest rate swaps, the Responsible Entity agrees with other parties to exchange, at specified intervals, generally quarterly, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Refer to Note 18(b) for further details about the interest rate swap contracts.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

18 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Sensitivity analysis

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

	2011		2010	
	Interest rates higher \$000	Interest rates lower \$000	Interest rates higher \$000	Interest rates lower \$000
Market interest rate movement of 100 basis points (2010: 100 basis points)				
Statement of Comprehensive Income	(278)	277	98	(97)
Equity	-	-	-	-

(b) Derivative financial instruments used by the consolidated entity

The consolidated entity is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the consolidated entity's financial risk management policies as mentioned above.

Interest rate swap contract

The Responsible Entity, on behalf of the consolidated entity, has entered into an interest rate swap contract with Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, to manage cash flow risks associated with the interest rate on the property facility provided by NAB, which is floating. The interest rate swap allows the consolidated entity to swap the floating rate borrowing into a fixed rate borrowing.

The interest rate swap on the loan facility will incur a fixed cost equal to 6.45% p.a. (2010: 6.45% p.a.) on the funds drawn against the loan facility for the duration of the facility and the variable rate is the 90 day bank bill rate.

The swap covers 100% of the loan principal outstanding and is due to expire 31 December 2011.

The contract requires settlement of net interest receivable or payable quarterly. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

Although the interest rate swap is transacted for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting to the interest rate swap and accordingly, changes in the fair value of the interest rate swap are recorded in the profit or loss in the consolidated Statement of Comprehensive Income as "Net gain/(loss) from fair value adjustment on derivative financial instruments". Notwithstanding the accounting outcome, the Responsible Entity considers that the interest rate swap agreement is effective in offsetting the economic interest rate exposures of the Trust.

(c) Fair value of financial assets and financial liabilities

At balance date, the interest rate swap contract had a fair value of \$382,000 included in current assets – Other assets (2010: \$1,061,000 included in Non-current assets – Other assets) as the interest rate swap contract is due to expire on 31 December 2011.

The consolidated entity does not hold derivative financial instruments for speculative purposes.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

18 Financial instruments (continued)

(c) Fair value of financial assets and financial liabilities (continued)

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, and interest rate swap as disclosed in the Balance Sheet reflect the fair value of these financial assets and liabilities as at 30 June 2011.

The fair value of the interest rate swap has been determined in accordance with generally accepted pricing models by discounting the expected future cash flows at prevailing market interest rates.

The interest rate swap has been accounted for on the Balance Sheet at fair value. The interest rate swap has been deemed to be an ineffective hedge. Accordingly, the ineffective portion of the change in the fair value of the interest rate swap contract is recognised in the Statement of Comprehensive Income.

(d) 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.

The table below sets out the consolidated entity's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2011. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

	2011	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Interest rate swap	382	-	382	-
	2010	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Interest rate swap	1,061	-	1,061	-

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

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.

The relevant interest of each Director of the Responsible Entity holding units in the consolidated entity at the date of this report is as follows:

Directors	Number of units
Mr David Kent	110,000
Mr Matthew Quinn	20,000
Mr Peter Scott	10,000

	Consolidated	
	2011	2010
Responsible Entity fees and other transactions	\$'000	\$'000
<i>Responsible Entity fee</i>		
The Responsible Entity is entitled to a deferred Responsible Entity fee of 0.45% p.a. of the gross value of the assets on a quarterly basis.	298	329
For the year ended 30 June 2011, the Responsible Entity has agreed for the consolidated entity and Trust to defer payment of part of the Responsible Entity fees amounting to \$89,501 (2010: \$159,461).		
Total deferred and accrued Responsible Entity fees included in Current liabilities – Trade and other payables as at 30 June 2011 is \$685,952 (2010: \$596,784).		
<i>Performance fee</i>		
The Responsible Entity is entitled to a performance fee if Unitholders receive at least the return of their application monies or the relevant proportion of their application monies if all properties are not sold. The Responsible Entity is entitled to a performance fee on 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.		
The consolidated entity and the Trust have not provided for a performance fee as at 30 June 2011 (2010: \$Nil).	-	-
Total Responsible Entity fees and other transactions recognised in the Statement of Comprehensive Incomes	298	329

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 765,000 units (2010: 2,122,000 units) in the consolidated entity via the LLF.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

19 Related parties (continued)

Other related party transactions (continued)

Units held by Stockland Trust

As at 30 June 2011, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 5,400,000 units (2010: 4,635,000) in the consolidated entity.

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 \$561,108 (2010: \$531,209) 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 2011 is \$52,068 (2010: \$27,852).

Pacific Pines Shopping Centre and associated lease agreements

In a previous financial year, the consolidated entity entered into two lease agreements with Stockland Corporation Limited (“Stockland Corporation”) as part of the Pacific Pines Shopping Centre sales agreement. The leases are based on standard commercial terms and are entered into on an arm’s length basis. No rent was received during the financial year (2010: \$147,031) as Stockland Corporation vacated the premises during the previous financial year. Total rent receivable by the consolidated entity as at 30 June 2011 is \$nil (2010: \$nil).

Interest rate swap agreement with Stockland Trust Management Limited

STML has provided an interest rate swap on the property loan facility to the Trust. The interest rate swap will incur a fixed cost equal to 6.45% p.a. payable quarterly in arrears and will terminate on 31 December 2011 (refer to Note 13).

Loan facility offer

Stockland Trust Management Limited has provided a loan facility offer 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 31 August 2012.

Intercompany loans between the Trust and sub-trusts

	Consolidated	
	2011	2010
	\$’000	\$’000
Aggregate amount receivable by the Trust from its sub-trusts	48,862	41,342

The loans are interest free and repayable at call.

Controlled entities paid distributions of \$6,036,246 (2010: \$1,894,000) 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 2011

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 # 3 Trust¹

SDRT 1 Property # 4 Trust

Stockland Holding Trust No. 1

¹ On 31 December 2009, the Trust completed the sale of the Fremantle property via the sale of its units in SDRT1 Property #3 Trust, a controlled entity of the Trust which holds the Fremantle Property.

21 Commitments

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

	Consolidated	
	2011	2010
	\$'000	\$'000
Non-cancellable operating lease receivable from investment property tenants		
Non-cancellable operating lease commitments receivable:		
Within one year	5,287	5,441
Later than one year but not later than five years	19,136	14,162
Later than five years	12,098	9,732
	36,521	29,335

22 Other Information

Life of the Trust

The Trust terminates on the earliest of:

- the date specified by the Responsible Entity as the date of termination of the Trust in a notice given to Unitholders;
- a date which has been proposed to Unitholders by the Responsible Entity, and which the Unitholders have approved by Special Resolution; or
- the date on which the Trust terminates in accordance with the provisions of the Trust Constitution or by law.

Under the PDS and Constitution a Unitholders meeting must be convened by 30 June 2014 to consider a resolution to continue or terminate the Trust.

23 Contingent liabilities and contingent assets

As at 30 June 2011, the consolidated entity has no contingent assets or liabilities (2010: \$nil).

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

24 Parent Entity Disclosures

As at, and throughout, the financial year ended 30 June 2011 the parent company of the consolidated entity was Stockland Direct Retail Trust No.1

	Trust	
	2011	2010
	\$'000	\$'000
Results of the parent entity		
Profit/(loss) for the financial year	7,070	(7,588)
Other comprehensive income	121	353
Total comprehensive income/(expense) for the year	7,191	(7,235)
Financial position of the parent entity at year end		
Current assets	1,936	43,697
Total assets	60,798	54,759
Current liabilities	40,739	1,338
Total liabilities	40,739	40,291
Net assets	20,059	14,468
Total Unitholders funds of the parent entity comprising of:		
Units on issue	27,714	29,314
Reserves	(304)	(425)
Undistributed loss	(7,351)	(14,421)
Total Unitholder's funds	20,059	14,468

Parent entity contingencies

There are no contingencies with the parent entity as at 30 June 2011 (2010: \$nil).

Parent entity capital commitments

The parent entity has not entered into any capital commitments as at 30 June 2011 (2010: \$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.

25 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 2011

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 7 to 32, 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 2011 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 2011 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 2011, 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:



Matthew Quinn
Director

Dated at Sydney, 18 August 2011



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

We have audited the accompanying consolidated financial report of Stockland Direct Retail Trust No. 1 (the Trust) and the entities it controlled at year's end or from time to time during the financial year (the Consolidated Entity), which comprises the balance sheet as at 30 June 2011, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 25 and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australia Accounting Interpretations), a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance.

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



Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Stockland Direct 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 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

KPMG

Scott Fleming
Partner

Sydney

18 August 2011