Stockland Direct Retail Trust No. 1
and its controlled entities

ARSN: 121 832 086

Annual Financial Report
30 June 2016

Registered office:

133 Castlereagh Street
Sydney NSW 2000

Stockland Direct Retail Trust No. 1 and its controlled entities
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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 2016

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 2016, the state of the consolidated entity's affairs as at 30 June 2016 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 a member of the Stockland Audit and Sustainability Committees.

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 , the Stockland and Stockland Capital Partners Financial Services Compliance Committees and the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

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

Mr Steinert was appointed Managing Director & CEO of Stockland on 29 January 2013. He has 26 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 President of the Property Council of Australia, a Director of The Green Building Council of Australia and the Shopping Centre Council of Australia. He is a member of the Sustainability Committee.

During the year 4 board meetings (2015: 5 meetings) were held.

Stockland Capital Partners Limited Financial Services Compliance Committee

This was merged with the Audit Committee. The last meeting was held on 18 November 2015.

During the year 2 meetings (2015: 4 meetings) were held.

Stockland Capital Partners Limited Audit Committee

The Audit 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 six monthly 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 (resigned 27 October 2015)
Mr T Pockett (Chair) – Non-Executive Director of Stockland (appointed 27 October 2015)
Mr A Sherlock – Non-Executive Director

During the year 3 meetings (2015: 3 meetings) were held.

Principal activity

The principal activity of the consolidated entity is the investment in two 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 $7,255,000 for the financial year ended 30 June 2016 (2015: $10,435,000).

Distributions paid or declared by the consolidated entity to Unitholders during the financial year are set out in Note 17 of the Financial Statements.

Independent valuations were undertaken on all of the consolidated entity's investment properties as at 30 June 2016 resulting in an upwards revaluation totalling $3,626,000 (30 June 2015: $6,705,000) being recognised in the consolidated statement of comprehensive income. As a result, the total portfolio was revalued upwards to $83,900,000. This represents an increase of 6.74% on the 30 June 2015 total carrying value of $78,600,000. Refer to Note 8 for individual property values.

Loan facility

On 23 February 2016, the Trust negotiated an increased loan facility agreement with Commonwealth Bank of Australia ("CBA") providing maximum available funds of $43,000,000. As at 30 June 2016, $41,400,000 was drawn down.

The fund has one interest rate swap contract which has the effect of converting variable rates to fixed rates. The swap contract has a notional amount of $30,000,000 with a termination date of 19 December 2019. The fixed interest rate applicable to the swap is 2.805% p.a. and the variable rate is the three month Bank Bill Rate (BBSY), consistent with the base rate of the loan facility.

Significant changes in the state of affairs

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.

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

Interests of the Responsible Entity

Stockland Trust Management Limited, as Responsible Entity of Stockland Trust, a related party of the Responsible Entity, holds 7,877,500 units in the consolidated entity as at 30 June 2016 (2015: 7,877,500).

Stockland Capital Partners Limited as the Responsible Entity has not held any units in the consolidated entity either directly or indirectly during the financial year (2015: nil).

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 20 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 premium paid has been included in Note 20.

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 2016.

Rounding

The consolidated entity is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Corporations Instrument, 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, 26 August 2016

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Stockland Direct Retail Trust No. 1 for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. 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
26 August 2016

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 2016

	Notes	Consolidated 2016 $'000	2015 $'000
Revenue and other income			
Rent from investment properties		**8,870**	8,784
Interest income		**3**	6
Net gain from fair value adjustment of investment properties	**8**	**3,626**	6,705
Total revenue and other income		**12,499**	15,495
Investment property expenses		**(2,796)**	(2,502)
Finance expense relating to interest-bearing liabilities at amortised cost		**(1,788)**	(1,926)
Auditor's remuneration	**4**	**(93)**	(88)
Responsible Entity fees	**20**	**(372)**	(338)
Other expenses		**(195)**	(206)
Total expenses		**(5,244)**	(5,060)
Profit for the financial year		**7,255**	10,435
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges	**16**	**(751)**	(187)
Other comprehensive income for the year		**(751)**	(187)
Total comprehensive income for the year		**6,504**	10,248

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
As at 30 June 2016

	Notes	Consolidated 2016 $'000	Consolidated 2015 $'000
Current assets			
Cash and cash equivalents	5	**1,011**	512
Trade and other receivables	6	**253**	354
Other assets	7	**632**	569
Total current assets		**1,896**	1,435
Non-current assets			
Investment properties	8	**82,200**	77,027
Trade and other receivables	9	**699**	705
Other assets	10	**681**	595
Total non-current assets		**83,580**	78,327
Total assets		**85,476**	79,762
Current liabilities			
Trade and other payables	11	**1,762**	1,362
Other liabilities	13	**734**	713
Total current liabilities		**2,496**	2,075
Non-current liabilities			
Interest-bearing loans and borrowings	12	**41,081**	40,107
Other liabilities	14	**938**	187
Total non-current liabilities		**42,019**	40,294
Total liabilities		**44,515**	42,369
Net assets		**40,961**	37,393
Unitholders' funds			
Units on issue	15	**26,114**	26,114
Reserves	16	**(938)**	(187)
Undistributed profit		**15,785**	11,466
Total Unitholders' funds		**40,961**	37,393

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 2016

		Unitholders' funds							
		Units on issue		Undistributed profit		Reserves		Total	
Consolidated	Note	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000
Opening balance		**26,114**	26,114	**11,466**	3,883	**(187)**	-	**37,393**	29,997
Profit for the financial year		**-**	-	**7,255**	10,435	**-**	-	**7,255**	10,435
Effective portion of changes in fair value of cash flow hedges	**16**	**-**	-		-	**(751)**	(187)	**(751)**	(187)
Total comprehensive income for the financial year		**-**	-	**7,255**	10,435	**(751)**	(187)	**6,504**	10,248
Transactions with Unitholders in their capacity as owners:									
Distributions paid/payable to Unitholders	**17**	**-**	-	**(2,936)**	(2,852)	**-**	-	**(2,936)**	(2,852)
Closing balance		**26,114**	26,114	**15,785**	11,466	**(938)**	(187)	**40,961**	37,393

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 2016

	Notes	Consolidated 2016 $'000	Consolidated 2015 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		**9,776**	9,334
Cash payments in the course of operations		**(3,999)**	(5,397)
Interest received		**3**	6
Interest and borrowing costs paid		**(1,719)**	(2,268)
Net cash inflow from operating activities	**18**	**4,061**	1,675
Cash flows from investing activities			
Payments for investment properties	**8**	**(1,547)**	(783)
Net cash utilised in investing activities		**(1,547)**	(783)
Cash flows from financing activities			
Increase in borrowings	**12**	**900**	40,500
Repayment of external borrowings		**-**	(39,349)
Distribution paid to Unitholders	**17**	**(2,915)**	(2,856)
Net cash utilised in financing activities		**(2,015)**	(1,705)
Net increase/(decrease) in cash and cash equivalents		**499**	(813)
Cash and cash equivalents at the beginning of the financial year		**512**	1,325
Cash and cash equivalents at the end of the financial year	**5**	**1,011**	512

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

1 Summary of significant accounting policies

Stockland Direct Retail Trust No. 1 ("SDRT1") is a Managed Investment Scheme domiciled in Australia. The consolidated Financial Report as at and for the financial year ended 30 June 2016 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 2016 was authorised for issue by the Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity for the Trust, on 26 August 2016.

(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 in future years

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2016 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. The consolidated entity is still assessing the potential impact on its consolidated financial statements resulting from the application of this amendment and is not currently intending to early adopt this standard.

- *AASB 15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2018)*

  AASB 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The consolidated entity is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15.

- *AASB 16 Leases (effective for annual reporting periods beginning on or after 1 January 2019)*

  AASB 16 Leases requires recognition of a right-of-use asset along with the associated lease liability in the balance sheet when acting as a lessee. Interest expense, using the effective interest rate method, and depreciation expense on the right-to-use asset will now be recognised on operating leases by lessees instead of a rental expense. Lessor accounting remains largely unchanged. AASB 16 replaces existing guidance, including AASB 117 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. As lessor accounting is largely unchanged, there is no material impact expected on the consolidated financial statements.

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 its controlled entities are entities of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Corporations Instrument, 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.

The consolidated entity is in a net current deficiency position of $600,000 as at 30 June 2016 due primarily to the distribution provision of $734,000 relating to the final quarter of 2016. As at 30 June 2016, there remains $1,600,000 of undrawn debt available and the Trust's cash flow forecasts indicate sufficient resources will be available to meet its obligations as and when they fall due.

The Directors have formed the view that the consolidated Financial Report for the year ended 30 June 2016, can be prepared on a going concern basis.

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. The key estimates and judgements are set out in Note 2.

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.

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.

1 Summary of significant accounting policies (continued)

(e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred is not recoverable from the 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.

(f) 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 preferred components of distributions.

(g) 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(i).

(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 also 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.

1 Summary of significant accounting policies (continued)

(i) 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.

(j) 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.

(k) 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.

(l) 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.

1 Summary of significant accounting policies (continued)

(m) 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.

(n) 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.

(o) 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.

(p) 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 all entities over which the Fund has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Fund controls another entity.

Intercompany transactions, balances and unrealised gains on transactions between controlled entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

(q) Investments

Controlled entities

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

(r) 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.

1 Summary of significant accounting policies (continued)

(r) 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 rental income, 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.

(s) 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.

(t) 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.

(u) 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.

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 2016 $'000	Valuation Technique	Inputs used to Measure Fair Value	Range of Unobservable Inputs 30 June 2016	Range of Unobservable Inputs 30 June 2015
Retail	Level 3	83,900	DCF, income capitalisation method and comparable transactions	Net passing rent (per sqm p.a.)	$127 - 516	$119 - 502
					$125 – 556	$123 – 480
				Net market rent (per sqm p.a.)	2.68% - 3.79%	3.01% - 3.52%
				10 year average market rental growth	6.50% - 9.00%	7.00% - 9.50%
				Adopted capitalisation rate	6.50% - 9.25%	7.25% - 9.75%
				Adopted terminal yield	8.25% - 9.25%	8.50% - 9.50%
				Adopted discount rate		
Total		**83,900**				

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 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).

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 SCPL 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 at least 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

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.

2 Critical accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

Fair value measurement, valuation techniques and inputs (continued)

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 2016. Refer to Note 20 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.

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.

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.

2 Critical accounting estimates and judgements (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 19.

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.

4 Auditor's remuneration

	Consolidated 2016 $	Consolidated 2015 $
Audit services		
Audit and review of the Financial Report		
PwC Australia	**52,146**	50,627
Compliance audit services		
PwC Australia	**14,123**	11,128
	66,269	61,755
Other services		
Other non-audit related services		
Taxation compliance services		
PwC Australia	**27,159**	26,367
Total remuneration	**93,428**	88,122

5 Current assets – Cash and cash equivalents

	Consolidated 2016 $'000	Consolidated 2015 $'000
Cash at bank and on hand	**1,011**	512

The weighted average interest rate for cash at bank and on hand as at 30 June 2016 was 1.64% p.a. (2015: 2.15% p.a.).

6 Current assets – Trade and other receivables

Trade debtors	**143**	217
Other receivables	**110**	137
	253	354

7 Current assets – Other assets

Prepayments	**97**	90
Lease incentives (deferred cost)	**77**	58
Fit-out contributions	**243**	216
Other assets	**215**	205
	632	569

8 Non-current assets – Investment properties

Description	Title	Acquisition date	Original purchase price $'000	Independent Valuation date	Independent Valuation $'000	Capitalisation rate 30 June 2016 %	Capitalisation rate 30 June 2015 %	Weighted average lease term[1] 30 June 2016	Weighted average lease term[1] 30 June 2015	Consolidated Book value 2016 $'000	Consolidated Book value 2015 $'000
Benowa Gardens Shopping Centre, Benowa, Qld	Freehold	Dec 2006	26,024	**June 2016**	40,000	**7.0**	7.25	3.68	4.44	**40,000**	39,000
Pacific Pines Shopping Centre, Pacific Pines, Qld	Freehold	Dec 2006	17,041	**June 2016**	27,000	**6.5**	7.0	6.31	6.71	**27,000**	24,000
Tamworth Homespace, Tamworth, NSW	Freehold	Dec 2006	19,225	**June 2016**	16,900	**9.0**	9.5	2.81	2.50	**16,900**	15,600
Total Investment properties (including amounts classified in Trade and other receivables and Other assets)										**83,900**	78,600
Less amounts classified as:											
- Trade and other receivables (straight lining of rental income)										**(699)**	(705)
- Other assets (fitout and lease incentives)	- current									**(320)**	(273)
	- non-current									**(681)**	(595)
Total Investment properties										**82,200**	77,027

[1]Weighted average lease term is stated as years by area.

		Consolidated 2016 $'000	Consolidated 2015 $'000
8	**Non-current assets – Investment properties (continued)**		
	Reconciliation – investment properties		
	Carrying amount at the beginning of the financial year	**77,027**	69,552
	Net gain on fair value adjustments of investment properties	**3,626**	6,705
	Expenditure capitalised	**1,547**	770
	Carrying amount at the end of the financial year	**82,200**	77,027
9	**Non-current assets – Trade and other receivables**		
	Trade debtors – straight-lining of rental income	**699**	705
10	**Non-current assets – Other assets**		
	Fit-out contributions	**594**	515
	Lease incentives (deferred cost)	**87**	80
		681	595
11	**Current liabilities – Trade and other payables**		
	Trade payables and accruals	**1,542**	1,248
	Amounts due to Responsible Entity	**169**	86
	Goods and services tax ("GST") payable	**51**	28
		1,762	1,362
12	**Non-current liabilities – Interest-bearing loans and borrowings**		
	Non-current liabilities		
	Loan facility drawn	**41,400**	40,500
	Less: attributable transaction costs	**(319)**	(393)
	Total Balance Sheet carrying amount at amortised cost	**41,081**	40,107

Loan facility

On 23 February 2016, the Trust negotiated an increased loan facility agreement with Commonwealth Bank of Australia ("CBA") providing maximum available funds of $43,000,000. As at 30 June 2016, $41,400,000 was drawn down.

The banking facility matures on 19 December 2019 (5 year term) and the fees associated with the agreements are:

- Establishment fee: 0.50% of the facility limit payable on execution.
- Base rate: Average BBSY bid rate p.a.
- Line fee: 0.75% p.a. of the facility limit if the Trust's Loan to Value Ratio ("LVR") is less than or equal to 55% and 0.80% p.a. of the facility limit if the Trust's LVR is greater than 55%.
- Margin: 0.75% p.a. if the Trust's LVR is less than or equal to 55% and 0.80% p.a. if the Trust's LVR is greater than 55%.

The weighted average interest rate on the Trust's loan facility for the year to 30 June 2016 was 4.20% p.a. (30 June 2015: 4.38% p.a.).

		Consolidated	
		2016	2015
		$'000	$'000
13	**Current liabilities – Other Liabilities**		
	Distribution payable	**734**	713
		734	713
14	**Non-current other liabilities**		
	Cash flow hedge – interest rate swap liability	**938**	187
		938	187

15 Units on issue

	Consolidated		Consolidated	
	2016	2015	**2016**	2015
	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 2015	Opening Balance	**39,600,000**	**26,114**
30 June 2016	**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	
		2016	2015
		$'000	$'000
16	**Reserves**		
	Cash flow hedge reserve		
	Balance at the beginning of the financial year	**(187)**	-
	Effective portion of changes in the fair value of cash flow hedges during the Financial year	**(751)**	(187)
	Balance at the end of the financial year	**938**	187

The cash flow hedge reserve is used to record the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges.

17 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
2016				
30 September 2015	1.8540¢	**734**	29 October 2015	14.10%
31 December 2015	1.8540¢	**734**	29 February 2016	14.10%
31 March 2016	1.8540¢	**734**	29 April 2016	14.10%
30 June 2016	1.8540¢	**734**	31 August 2016[1]	14.10%
Total distributions		**2,936**		

[1] 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
2015				
30 September 2014	1.8000¢	713	31 October 2014	11.36%
31 December 2014	1.8000¢	713	28 February 2015	11.36%
31 March 2015	1.8000¢	713	30 April 2015	11.36%
30 June 2015	1.8000¢	713	30 August 2015	11.36%
Total distributions		2,852		

18 Notes to the Cash Flow Statement

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

	Consolidated	
	2016	2015
	$'000	$'000
Profit for the financial year	**7,255**	10,435
Amortisation of borrowing costs	**70**	107
Net (gain) from fair value adjustment of investment properties	**(3,626)**	(6,705)
Straight line rent	**(6)**	137
Net cash inflow from operating activities before change in assets and liabilities	**3,693**	3,974
(Increase) in trade and other receivables and other assets	**(36)**	(285)
Increase/(Decrease) in trade and other payables and other liabilities	**404**	(2,014)
Net cash inflow from operating activities	**4,061**	1,675

19 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.

19 Financial instruments (continued)

(a) Financial risk and capital management (continued)

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 20 for management of the Limited Liability Fund.

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 2016 is 49.3% (2015: 51.5%) which is in compliance with the LVR covenant requirement of 65% (2015: 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 2016, for the consolidated entity, the ageing analysis of total trade receivables is as follows:

	Trade receivables $'000	**2016 Impairment $'000**	**Net receivables $'000**
Not past due	**-**	**-**	**-**
0-30 days past due	**92**	**-**	**92**
31-60 days past due	**12**	**-**	**12**
61-90 days past due	**10**	**-**	**10**
+91 days past due	**29**	**-**	**29**
	143	**-**	**143**

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

	Trade receivables $'000	2015 Impairment $'000	Net receivables $'000
Not past due	-	-	-
0-30 days past due	60	-	60
31-60 days past due	16	-	16
61-90 days past due	16	-	16
+91 days past due	123	-	123
	215	-	215

19 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Credit risk (continued)

As at 30 June 2016 and 30 June 2015, 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 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 2016, the current weighted average debt maturity is 3.5 years (2015: 4.5 years). Refer to Note 12 for further detail of the loan facility.

The table below 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

	2016				
	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	**1,762**	**1,762**	**-**	**-**	**-**
Distribution payable	**734**	**734**	**-**	**-**	**-**
Loan facility	**44,868**	**1,349**	**1,282**	**42,237**	**-**
Interest rate swap	**1,035**	**288**	**341**	**406**	**-**
	48,399	**4,133**	**1,623**	**42,643**	**-**

	2015				
	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	1,362	1,362	-	-	-
Distribution payable	713	713	-	-	-
Loan facility	48,142	1,476	1,518	45,148	-
Interest rate swap	168	207	167	(206)	-
	50,385	3,758	1,685	44,942	-

19 Financial instruments (continued)

(a) Financial risk and capital management (continued)

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 (2015: 100 basis points) with all other variables held constant.

	2016		2015	
	Interest rates higher $000	**Interest rates lower $000**	Interest rates higher $000	Interest rates lower $000
Market interest rate movement of 100 basis points (2015: 100 basis points)				
Statement of Comprehensive Income	**(404)**	**404**	(399)	399
Equity	**931**	**(965)**	1,174	(1,222)

(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 2016.

(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.

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 2016 and 30 June 2015.

Financial liabilities	**2016 $'000**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Interest rate swap	**938**	**-**	**938**	**-**

Financial liabilities	2015 $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Interest rate swap	187	-	187	-

20 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	
	2016	2015
Responsible Entity fees and other transactions	**$**	$
Responsible Entity fee		
The Responsible Entity charged Responsible Entity fees calculated at 0.45% p.a. of the gross assets of the consolidated entity and Trust.	**372,030**	337,812
For the year ended 30 June 2016, the Responsible Entity has not deferred any of the Responsible Entity fees (2015: $nil was deferred).		
Total Responsible Entity fees included in Current liabilities – Trade and other payables as at 30 June 2016 is $95,024 (2015: $86,455).		
Performance fee		
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 (2015: $nil) as the Responsible Entity has not achieved the performance targets required to earn this fee.		
Manager Expenses		
Other recoverable expenses including accounting, taxation and compliance service fees totalling $73,600 have been charged by the Responsible Entity (2015: $73,600).	**73,600**	73,600
Total manager expenses included in Current liabilities – Trade and other payables as at 30 June 2016 is $73,600 (2015: $nil).		
Refinancing Service fee		
In the prior year, for services performed in refinancing of SDRT No. 1's external debt, SCPL charged a fee of $102,500 (equivalent to 0.25% of the facility limit).The fee was based on a market based rate relative to the value of the facility refinanced and was benchmarked to arm's length fees for similar services.	-	102,500
Total refinancing service fees included the Current liabilities – Trade and other payables at 30 June 2016 is $nil (30 June 2015: $nil).		
Total Responsible Entity fees and other transactions recognised in the Statement of Comprehensive Income	**445,630**	513,912

20 Related Parties (continued)

Other related party transactions

Standby loan facility line fees

Stockland Trust Management Limited, as Responsible Entity for Stockland Trust provided a standby loan facility offer to the Fund on market terms. The facility was terminated on 19 December 2014. The facility charged line fees of 0.30% p.a. on the facility limit which the Trust recognised in the Consolidated Statement of Comprehensive Income. Facility line fees of $nil (2015:$56,548) were paid by the Fund during the financial year.

Total standby loan facility line fees included the Current liabilities – Trade and other payables at 30 June 2016 is $nil (30 June 2015: $56,548).

Insurance Premiums

Insurance premium amounts are paid by the Trust to Stockland Singapore Pte Ltd, an insurance company, which is a related party of the Trust. Insurance premiums of $145,119 (2015:$151,471) were paid by the Fund during the financial year.

Total insurance premiums included in Current liabilities – Trade and other payables at 30 June 2016 are $63,250 (2015: $nil).

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 $622,177 (2015: $526,496) 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 2016 is $300,316 (2015: $113,714).

During the year, SDRT1 received $140,331 from the Property Manager as a reimbursement of uncollectable debts. This follows an assessment which was undertaken into the value of certain trade receivables that were not fully recovered in the course of ordinary business.

Units held by Stockland Trust

As at 30 June 2016, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 7,877,500 units (2015: 7,877,500) in the consolidated entity.

21 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

22 Commitments

As at 30 June 2016, the consolidated entity has no commitments (2015: $nil).

	Consolidated	
	2016	2015
	$'000	$'000
Non-cancellable operating lease receivable from investment property tenants		
Non-cancellable operating lease commitments receivable:		
Within one year	**7,601**	6,956
Later than one year but not later than five years	**19,323**	18,924
Later than five years	**5,333**	5,814
	32,257	31,694

23 Contingent liabilities and contingent assets

As at 30 June 2016, the consolidated entity has no contingent assets or liabilities (2015: $nil).

24 Parent Entity Disclosures

As at, and throughout, the financial year ended 30 June 2016 the parent entity of the consolidated entity was Stockland Direct Retail Trust No.1.

	Trust	
	2016	2015
	$'000	$'000
Results of the parent entity		
Profit for the financial year	**3,466**	2,524
Other comprehensive income	**(751)**	(187)
Total comprehensive income for the year	**2,715**	2,337
Financial position of the parent entity at year end		
Current assets	**920**	640
Total assets	**60,153**	58,651
Current liabilities	**1,716**	966
Total liabilities	**42,798**	41,074
Net assets	**17,355**	17,577
Total Unitholders funds of the parent entity comprising of:		
Units on issue	**26,114**	26,114
Reserves	**(938)**	(187)
Undistributed loss	**(7,821)**	(8,350)
Total Unitholder's funds	**17,355**	17,577

Parent entity contingencies
There are no contingencies with the parent entity as at 30 June 2016 (2015: $nil).

Parent entity capital commitments
The parent entity has not entered into any capital commitments as at 30 June 2016 (2015: $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.

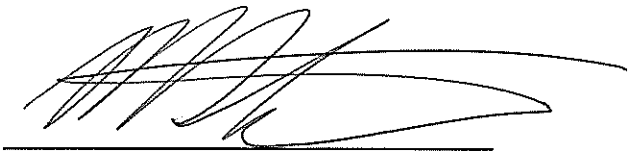
Stockland Direct Retail Trust No. 1 and its controlled entities
Directors' Declaration
For the year ended 30 June 2016

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 29, 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 2016 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 2016 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 2016, 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, 26 August 2016

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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 2016, 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 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 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*.

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Auditor's opinion

In our opinion:

(a) the financial report of Stockland Direct Retail Trust No. 1 is in accordance with the *Corporations Act 2001*, including:

1. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

2. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

PricewaterhouseCoopers

N R McConnell
Partner

Sydney
26 August 2016