Stockland Direct Retail Trust No. 1
and its controlled entities

ARSN: 121 832 086

Interim Financial Report
31 December 2019

Registered office:

133 Castlereagh Street

Sydney NSW 2000

Contents

Directors' report

The Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity ("RE") of Stockland Direct Retail Trust No. 1 ("the Trust"), present their report together with the consolidated interim 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 half year ended 31 December 2019, the state of the Consolidated Entity's affairs as at 31 December 2019 and the Independent Auditor's Review Report thereon.

SCPL was appointed as the RE when the Trust commenced on 26 April 2006. On 4 October 2006, the Trust was registered as a Managed Investment Scheme with the Australian Securities and Investment Commission ("ASIC").

DIRECTORS

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

Name	Date of appointment/resignation
Non-Executive Directors	
Mr Barry Neil, Chairman[1]	Appointed 19 October 2010
Mr Stephen Newton[1]	Appointed 18 December 2017
Non-Executive Independent Director	
Mr Terry Williamson	Appointed 9 April 2018
Executive Directors	
Mr Mark Steinert[1]	Appointed 29 January 2013

[1] Mr Barry Neil, Mr Stephen Newton and Mr Mark Steinert are also Directors of Stockland Corporation Limited and Stockland Trust Management Limited, the RE of Stockland Trust.

COMPANY SECRETARY

The Company Secretary of SCPL at any time during or since the period ended 31 December 2019 is Ms Katherine Grace. Ms Grace was appointed on 16 September 2014.

PRINCIPAL ACTIVITY

As at 31 December 2019, the principal activity of the Consolidated Entity is the investment in one neighbourhood shopping centre located in Queensland.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

At a meeting of unitholders held on 8 March 2019, a special resolution was passed to terminate and wind-up the Trust and sell all of the properties or interests in the properties of the Trust.

As a result it has been determined that, in accordance with the Australian Accounting Standards, the going concern basis of preparation of the financial statements is no longer appropriate and the financial statements for the half year ended 31 December 2019 have therefore been prepared on a liquidation basis. The annual report for the year ended 30 June 2019 was also prepared on a liquidation basis.

REVIEW AND RESULTS OF OPERATIONS

The Consolidated Entity recorded a statutory profit of $2,318,000 for the half year ended 31 December 2019 (31 December 2018: loss of $240,000).

The Consolidated Entity declared distributions totalling $8,027,000 (31 December 2018: $1,338,000) to the Unitholders during the half year. As at 31 December 2019, a distribution of $451,000 is payable to the Unitholders (30 June 2019: $669,000) as set out in Note 11 of the financial statements.

The sale of Pacific Pines and Tamworth Homespace were settled on 19 August 2019 and 31 October 2019 respectively. The adopted book value for Benowa Gardens Shopping Centre of $40,100,000 is based on the gross sale price of $40,100,000 as per the sales contract exchanged on 7 February 2020. Settlement of the sale of Benowa Gardens Shopping Centre is conditional on council approval of an application to change the car parking requirements for the centre. The adopted book value resulted in a net revaluation increment of $1,058,000 being recognised in profit or loss. Refer to Note 4 of the financial statements.

The Net Tangible Assets per Unit (NTA) at 31 December 2019 was $0.84 (30 June 2019:$0.98).

The NTA as at 31 December 2019 includes an estimate of transaction costs and Trust wind-up costs in order to estimate the net realisation available to unitholders. The total net realisation estimated to be available to unitholders, taking into account the distribution of $0.178 per unit paid on 26 August 2019, is $1.02 per unit. The final net realisation that unitholders receive will however depend on any payments made in connection with warranties provided pursuant to the sale of the Trust's properties and the actual associated disposal and winding up costs, including where applicable, any performance fee.

LOAN FACILITY

The Trust has a loan facility agreement with Commonwealth Bank of Australia providing maximum available funds of $6,410,000 (30 June 2019: $43,000,000). This loan facility is due to mature on 30 September 2020. During the period the Trust repaid $37,080,000 in drawn debt following the settlement of Pacific Pines and Tamworth Homespace. At 31 December 2019, $5,520,000 (30 June 2019: $42,600,000) was drawn down. Refer to Note 7 of the financial statements.

The Trust had one interest rate swap contract with a nominal amount of $30,000,000, which had the effect of converting the loan facility variable rate into a 2.805% p.a. fixed rate. This swap contract matured on 19 December 2019 and was not renewed or otherwise extended.

LIKELY DEVELOPMENTS

An orderly sale and liquidation process has commenced following the 8 March 2019 unitholders meeting. The Consolidated Entity will continue to implement this orderly sale and liquidation process with the view of optimising returns to unitholders during the current and next financial year.

EVENTS SUBSEQUENT TO THE END OF THE HALF YEAR

Subsequent to the execution of the non-binding Head of Agreement on 16 December 2019 for the conditional sale of Benowa Gardens, the contract of sale was exchanged on 7 February 2020 between the Trust and JSY Funds Management Pty Ltd or nominee. Settlement is anticipated to occur on 20 March 2020 conditional on council approval of an application to change the car parking requirements for the centre. The retention period under the sale contract ends on 20 December 2020. 2% of the purchase price or $802,000 will be retained to support any potential claims in connection with a breach of the seller's warranty.

Other than disclosed elsewhere in this report, there has not arisen, in the interval between the end of the current half year and the date of this report any other item, transaction or event of a material or unusual nature, likely, in the opinion of the Directors, to affect significantly the operations, the results of operations, or the state of the affairs in future financial years of the Consolidated Entity.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3 and forms part of the Directors' report for the half year ended 31 December 2019.

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 Instrument, amounts in the Directors' report have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:

Barry Neil
Director

Dated at Sydney, 27 February 2020

Auditor's Independence Declaration

As lead auditor for the review of Stockland Direct Retail Trust No. 1 for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

JDP Wills
Partner
PricewaterhouseCoopers

Sydney
27 February 2020

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Consolidated statement of comprehensive income

Half year ended 31 December $'000	Notes	2019	2018
Rent from investment properties	3	2,973	4,686
Interest income		5	-
Revenue and other income		2,978	4,686
Investment property expenses		(917)	(1,528)
Finance costs		(549)	(921)
Responsible Entity fees	13	(124)	(217)
Auditor's remuneration		(33)	(36)
Other expenses		(95)	(109)
Expenses		(1,718)	(2,811)
Net change in fair value of investment properties	4	1,058	(2,115)
Profit/(Loss) for the period		2,318	(240)
Items that are or may be reclassified to profit or loss, net of tax			
Effective portion of changes in fair value of cash flow hedges	12	241	82
Other comprehensive income for the period		241	82
Total comprehensive income for the period		2,559	(158)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

As at $'000	Notes	31 December 2019	30 June 2019
Cash and cash equivalents		871	1,340
Receivables		697	1,082
Other assets	5	660	1,728
Investment properties	4	39,218	81,607
Assets		41,446	85,757
Payables	6	1,381	2,251
Provisions	9	872	1,317
Other liabilities	8	451	910
Borrowings	7	5,471	42,540
Liabilities		8,175	47,018
Net assets		33,271	38,739
Units on issue	10	26,114	26,114
Reserves	12	-	(241)
Undistributed profit		7,157	12,866
Unitholders' funds		33,271	38,739

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

		Attributable to Unitholders of the Trust			
$'000	Notes	Units on issue	Reserves	Undistributed profit	Total
Balance at 1 July 2018		26,114	(334)	18,602	44,382
Loss for the period		-	-	(240)	(240)
Other comprehensive income		-	82	-	82
Total comprehensive income for the period		-	82	(240)	(158)
Transactions with owners in their capacity as owners					
Distributions paid/payable	11	-	-	(1,338)	(1,338)
Balance at 31 December 2018		26,114	(252)	17,024	42,886
Balance at 1 July 2019		26,114	(241)	12,866	38,739
Profit for the period		-	-	2,318	2,318
Other comprehensive income	12	-	241	-	241
Total comprehensive income for the period		-	241	2,318	2,559
Transactions with owners in their capacity as owners					
Distributions paid/payable	11	-	-	(8,027)	(8,027)
Balance at 31 December 2019		26,114	-	7,157	33,271

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

Half year ended 31 December $'000	Notes	2019	2018
Cash receipts in the course of operations (including GST)		3,362	5,112
Cash payments in the course of operations (including GST)		(2,538)	(2,543)
Interest received		5	-
Interest and borrowing costs paid		(573)	(882)
Net cash flows from operating activities		256	1,687
Disposal of investment properties		44,678	-
Payments for investment properties		(78)	(630)
Net cash flows from investing activities		44,600	(630)
Repayment of borrowings	7	(37,080)	-
Distribution paid to Unitholders	11	(8,245)	(1,403)
Net cash flows from financing activities		(45,325)	(1,403)
Net movement in cash and cash equivalents		(469)	(346)
Cash and cash equivalents at the beginning of the period		1,340	1,483
Cash and cash equivalents at the end of the period		871	1,137

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

These financial statements are consolidated financial statements for the Consolidated Entity consisting of the Trust and its controlled entities ("the Consolidated Entity").

These financial statements were authorised for issue by the Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity ("RE") for the Trust, on 27 February 2020.

A. Statement of compliance

These financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. They do not include all of the notes normally included in annual financial statements and should be read in conjunction with the annual financial statements of the Consolidated Entity as at and for the year ended 30 June 2019.

All specific accounting policies applied by the Consolidated Entity in the interim financial statements are the same as those applied in the annual financial statements as at and for the year ended 30 June 2019 with exception of new and amended standards and interpretations commencing 1 July 2019 which have been adopted where applicable. The Trust adopted AASB16 Leases during the period. Due to the nature of the assets and leases in the Trust, no changes to lease accounting were required on transition to AASB 16. Hence, refer to the lease accounting policy from the 30 June 2019 audited financial statements.

B. Going concern and liquidation basis

At a meeting of unitholders held on 8 March 2019, a special resolution was passed to terminate and wind-up the Trust and sell all of the properties or interests in the properties of the Trust. As a result, in accordance with the Australian Accounting Standards, the going concern basis of preparation of the financial statements is no longer appropriate and the financial statements for the half-year ended 31 December 2019 have been prepared on a liquidation basis.

Under the liquidation basis of accounting all assets and liabilities are measured at liquidation value, which represent their net realisable value. With reference to the assets of the Trust, net realisable value approximates the current carrying amount of the assets measured under the relevant Accounting Standards adjusted for estimated disposal and wind-up costs. The liquidation value of the liabilities recognised represents their estimated settlement amount. Any gains or losses resulting from measuring assets and liabilities to the liquidation value are recognised in profit or loss.

Under the liquidation basis of accounting, all the assets and liabilities are arranged in the order of liquidity and expected costs arising from the liquidation process have been recorded in the results of the Trust

In adopting the liquidation basis, the Directors have continued to apply the disclosure requirements of Australian Accounting Standards to the extent they are relevant to the liquidation basis, and modified them where considered appropriate. Based on the profits and net cash inflows from operating activities in the period as well as a review of the cash flow forecast until the targeted wind-up of the Trust, the Directors are satisfied that the Trust will be able to pay its debts as and when they become due and payable. Accordingly the Directors have reasonable grounds to believe that they will be able to proceed to an orderly wind-up of the Trust.

C. Rounding off

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 Instrument, amounts in the Directors' report and financial report have been rounded to the nearest million dollars, unless otherwise stated.

2. OPERATING SEGMENTS

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

3. RENT FROM INVESTMENT PROPERTIES

$'000	31 December 2019	31 December 2018
Lease revenue	2,614	3,968
Outgoings recoveries[1]	359	718
Rent from investment properties	2,973	4,686

[1] Revenue related to outgoing recoveries is recognised under AASB 15 over time in which the performance obligations are met.

4. INVESTMENT PROPERTIES

2019		Original acquisition		Independent Valuation		Capitalisation rate		Weighted average lease term[2]		Book value[3]	
						31 December	30 June	31 December	30 June	31 December	30 June
Description	Title	Date	$'000[1]	date	$'000	%	%	Years	Years	$'000	$'000
Benowa Gardens Shopping Centre, Benowa, Qld[4]	Freehold	December 2006	25,198	December 2019	38,000	7.00	7.00	5.9	3.0	40,100	38,750
Pacific Pines Shopping Centre, Pacific Pines, Qld[5]	Freehold	December 2006	16,347	June 2019	-	-	6.00	N/A	6.1	-	30,810
Tamworth Homespace Tamworth, NSW[6]	Freehold	December 2006	21,150	June 2019	-	-	8.50	N/A	1.6	-	14,100
Book value										40,100	83,660
Less amounts classified as:											
- Trade and other receivables (straight lining of rental income)										(316)	(717)
- Other assets (fitout and lease incentives)										(566)	(1,336)
Investment properties										39,218	81,607

[1] Excluding acquisition costs.

[2] Weighted average lease term by area (number of years).

[3] Before deduction of agent commissions and selling costs.

[4] Book value adopted for Benowa Gardens Shopping Centre is based on the gross sale price of $ 40.1m as per the conditional sales contract exchanged on 7 February 2020. Settlement of the sale of the property is conditional on council approval of an application to change the car parking requirements for the centre.

[5] Pacific Pines sales settled on 19 August 2019.

[6] Tamworth Homespace sales settled on 31 October 2019.

A. Net carrying value movements

$'000	31 December 2019	30 June 2019
Carrying amount at the beginning of the period*	81,607	85,827
Net gain/(loss) on fair value adjustments of investment properties	1,058	(5,090)
Disposal of investment properties	(43,649)	-
Expenditure capitalised	202	870
Carrying amount at the end of the period*	39,218	81,607

* Current period represents movements during the six months to 31 December 2019. Prior period movements during the twelve months to 30 June 2019.

5. OTHER ASSETS

$'000	31 December 2019	30 June 2019
Fit-out contributions	525	1,252
Prepayments	94	97
Lease incentives (deferred cost)	41	84
Other	-	295
Other assets	660	1,728

6. PAYABLES

$'000	31 December 2019	30 June 2019
Trade payables and accruals	1,288	1,974
Amounts due to the RE	87	180
GST payable	6	97
Payables	1,381	2,251

7. BORROWINGS

$'000	31 December 2019	30 June 2019
Loan facility drawn	5,520	42,600
Less: attributable transaction costs	(49)	(60)
Borrowings	5,471	42,540

A. Loan facility

The loan facility provides maximum available funds of $6,410,000 and is due to mature on 30 September 2020.

The fees associated with this agreement are:

- Establishment fee: 0.50% of the facility limit payable on execution.
- Base rate: Average Bank Bill Swap Bid Rate ("BBSY")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%.

During the period the Trust repaid $37,080,000 in drawn debt following the settlement of Pacific Pines and Tamworth Homespace.

The weighted average interest rate (including the margin and line fee) for the half year ended 31 December 2019 was approximately 4.78% p.a. (31 December 2018: 4.20% p.a.).

The loan facility requires compliance with covenants related to LVR, Interest Cover Ratio and Weighted Average Lease Expiry ("WALE"). Following the sale of Pacific Pines during the period, the Trust no longer complied with the WALE covenant, however, the lender has waived this requirement for the remaining term of the facility.The Trust had one interest rate swap contract with a nominal amount of $30,000,000, which had the effect of converting the loan facility base rate into a 2.805% p.a fix rate. This swap contract matured on 19 December 2019 and was not renewed or otherwise extended.

8. OTHER LIABILITIES

$'000	31 December 2019	30 June 2019
Distribution payable	451	669
Cash flow hedge – interest rate swap liability	-	241
Other liabilities	451	910

9. PROVISIONS

$'000	31 December 2019	30 June 2019
Provision for transaction and Trust's wind-up costs[1]	872	1,317
Provisions	872	1,317

[1] Estimated transaction costs and Trust wind-up costs include the estimate of advisory, tax and accounting professional fees and regulatory costs associated with the unitholders' resolution to terminate and wind-up the Trust and sell all of the properties or interests in the properties of the Trust.

10. UNITS ON ISSUE

	31 December 2019		30 June 2019	
	No. of units	$'000	No. of units	$'000
Units on issue	39,600,000	26,114	39,600,000	26,114

Date	Details	No. of units	$'000
Movement in units			
1 July 2019	Opening Balance	39,600,000	26,114
31 December 2019	Closing Balance	39,600,000	26,114

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

11. DISTRIBUTIONS TO UNITHOLDERS

	Cents per unit (¢)	Amount ($'000)	Date of payment
26 August 2019	17.8207	7,057	26 August 2019
30 September 2019	1.3100	519	31 October 2019
31 December 2019	1.1447	451	28 February 2020[1]
Half year ended 31 December 2019		8,027	
30 September 2018	1.6900	669	31 October 2018
31 December 2018	1.6900	669	28 February 2019
Half year ended 31 December 2018		1,338	

[1] Proposed payment date.

12. RESERVES

$'000	31 December 2019	30 June 2019
Cash flow hedge reserve		
Balance at the beginning of the period*	241	(334)
Effective portion of changes in the fair value of cash flow hedge[1]	(241)	93
Balance at the end of the period*	-	(241)

* Current period represents movements during the six months to 31 December 2019. Prior period movements during the twelve months to 30 June 2019.

[1] This swap contract matured on 19 December 2019 and was not renewed or otherwise extended.

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.

13. RELATED PARTIES

SCPL is the RE of the Trust and Trustee for the Controlled Entity. The Key Management Personnel of the Consolidated Entity have been defined as the RE. The RE does not hold any units in the Consolidated Entity. All fees and charges from the RE and its related parties are in accordance with the Product Disclosure Statements ("PDS") and the Trust's Constitution.

Half year ended 31 December $	2019	2018
Responsible Entity fees	123,843	216,846
The RE charged fees calculated at 0.45% p.a. of the gross asset value of the Consolidated Entity and Trust. Total fees included in trade and other payables as at 31 December 2019 is $46,365 (30 June 2019: $98,127).		
Performance fee	-	-
The RE may be entitled to a performance fee in accordance with the PDS section 3 and Trust's constitution, subject to the Unitholders receiving at least the return of their subscribed equity. In the event a performance fee is applicable, the RE is entitled to a performance fee calculated for each property (including GST less any reduced input tax credits) as the sum of: • a base performance fee equal to 2.56% of the sale price; plus • a tier 1 fee equal to 10.25% of the net sale proceeds (the sale price of the property less agent commissions and selling costs) if the net sale proceeds exceed the property acquisition price after subtracting the base performance and tier 1 fees; plus • a tier 2 fee equal to 10.25% of the net sale proceeds if the net sale proceeds exceed the property acquisition price by more than 20% after subtracting the base performance and tier 1 fees. As described in section 1.4 of the notice of meeting at 8 March 2019, whilst the Trust's PDS entitles the RE to the payment of a performance fee if only some of the Trust's properties are sold, the RE has agreed to defer payment until all properties have sold. Further, the RE has agreed that the performance fee, if any, shall be calculated taking into account the aggregate performance of the remaining properties. In other words, the calculation will take into account the net effect of both underperformance and outperformance of the properties. In addition, as outlined at the meeting of members held on 8 March 2019, SCPL has also agreed to reduce the total amount of any performance fee by 25 per cent. At 31 December 2019 no performance fee is recognised (30 June 2019: $nil) as the RE has not achieved the performance targets required to earn this fee based on the values at 31 December 2019.		
Manager Expenses	40,862	40,849
Other recoverable expenses including accounting, taxation and compliance service fees charged by the RE. Total manager expenses included in trade and other payables at 31 December 2019 are $40,862 (30 June 2019: $81,725).		
RE fees and other related party transactions recognised in profit or loss	164,705	257,695

A. Other related party transactions

PROPERTY MANAGEMENT FEE

Stockland Property Management Pty Limited, a related party of the Trust, has been appointed as the property manager to undertake the ongoing property management and leasing of the properties.

A fee of $143,437 (31 December 2018: $237,744) was charged by the property manager during the period. The Trust also reimbursed $141,478 (31 December 2018: $144,649) for staff costs incurred by the property manager in accordance with the property management agreement.

Outstanding property management fees and cost reimbursement included in trade and other payables as at 31 December 2019 are $436,813 (30 June 2019: $283,246).

INSURANCE PREMIUMS

During the half year, the Trust incurred $16,435 (31 December 2018: $53,331) in insurance premiums with Stockland Singapore Pte Ltd, an insurance company, which is a related party of the Trust.

There are no outstanding insurance premiums included in trade and other payables at 31 December 2019 (30 June 2019: Nil).

TENANCY DESIGN AND DELIVERY FEES

During the half year, the Trust incurred $40,161 (31 December 2018: $115,520) in Tenancy Design Fees to Stockland Development Pty Limited, a related party of the Trust.

Total tenancy design fees included in trade and other payables as at 31 December 2019 is $40,161 (30 June 2019: $20,687)

UNITS HELD BY STOCKLAND TRUST

As at 31 December 2019, Stockland Trust Management Limited, as RE for Stockland Trust, a related party of the Trust, holds 7,877,500 units (30 June 2019: 7,877,500) in the Consolidated Entity.

FINANCE NEGOTIATION FEE

SCPL as the RE of the Trust negotiated a loan facility with CBA. For this service, $102,500 (equivalent to 0.25% of the facility limit) was charged to the Trust in 2014 and was paid out of the Trust assets in accordance with the PDS and Trust's Constitution.

This has been recognised as part of borrowings transaction costs and is being amortised over the life of the facility through finance costs in profit or loss. During the half year, the Trust amortised $4,956 (31 December 2018: $10,334) of this fee.

The un-amortised amount of this fee is included in borrowing as at 31 December 2019 is $7,355 (30 June 2019:$12,311).

PROVISION FOR TRANSACTION AND TRUST'S WIND UP COSTS

The RE and its related parties has performed services on behalf of the Trust to facilitate the disposal of the Trust's properties and the termination and winding-up of the Trust. Services provided include the convening and holding of a meeting of unitholders, the engagement of agents and advisers, due diligence management, the provision of legal and research services, contract negotiation expertise and loan arrangement and administration.

Total transaction costs and the Trust's wind up costs for services performed by the RE included in provision as at 31 December 2019 is $345,240 (30 June 2019: $345,240).

14. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 31 December 2019, the Consolidated Entity has provided vendor warranties to support any potential claims in connection with any breach in favour of the purchasers of Pacific Pines with a maximum aggregate of claims 2.5% of purchase price or $770,250 which expires on 19 August 2020 and Tamworth Homespace with a maximum aggregate of claims 1.7% of purchase price or $250,000 which expires on 29 February 2020 (30 June 2019: $nil).

15. EVENTS SUBSEQUENT TO THE END OF THE HALF YEAR

Subsequent to the execution of the non-binding Head of Agreement on 16 December 2019 for the conditional sale of Benowa Gardens, the contract of sale was exchanged on 7 February 2020 between the Trust and JSY Funds Management Pty Ltd or nominee. Settlement is anticipated to occur on 20 March 2020 conditional on council approval of an application to change the car parking requirements for the centre. The retention period under the sale contract ends on 20 December 2020. 2% of the purchase price or $802,000 will be retained to support any potential claims in connection with a breach of the seller's warranty.

Other than disclosed elsewhere in this report, there has not arisen, in the interval between the end of the current half year and the date of this report any other item, transaction or event of a material or unusual nature, likely, in the opinion of the Directors, to affect significantly the operations, the results of operations, or the state of the affairs in future financial years of the Consolidated Entity.

Directors' declaration

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 4 to 14, 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 31 December 2019 and of their performance for the period ended on that date; and
   b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
2. 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;
3. the Trust has operated during the half year ended 31 December 2019 in accordance with the provisions of the Trust Constitution as amended dated 26 August 2006; and
4. the Register of Unitholders has, during the half year ended 31 December 2019, been properly drawn and maintained so as to give a true account of the Unitholders of the Trust.

Without qualifying the above conclusion, the Directors draw attention to the basis of preparation of the financial statements set out in Note 1.B.

Signed in accordance with a resolution of the Directors of the Responsible Entity.

Barry Neil
Director

Dated at Sydney, 27 February 2020

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

Report on the interim financial report

We have reviewed the accompanying interim financial report of Stockland Direct Retail Trust No. 1 (the Registered Scheme) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors of the Responsible Entity's declaration.

Directors of the Responsible Entity's responsibility for the interim financial report

The directors of the Responsible Entity of the Registered Scheme are responsible for the preparation of the interim 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 of the Responsible Entity determine is necessary to enable the preparation of the interim financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* and Emphasis of matter - going concern no longer appropriate We draw attention to Note 1 in the interim financial report, which describes the Group's intention to sell all its properties or interests in properties and terminate and wind up the Registered Scheme. As a result, the interim financial report has been prepared on a liquidation basis and not on a going concern basis. Our review opinion is not modified in respect of this matter. including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Stockland Direct Retail Trust No. 1, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Stockland Direct Retail Trust No. 1 is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001*.

Emphasis of matter - going concern no longer appropriate

We draw attention to Note 1 in the interim financial report, which describes the Registered Scheme's intention to sell all its properties or interests in properties and terminate and wind up the Registered Scheme. As a result, the interim financial report has been prepared on a liquidation basis and not on a going concern basis. Our review opinion is not modified in respect of this matter.

PricewaterhouseCoopers

PricewaterhouseCoopers

JDP Wills
Partner

Sydney
27 February 2020