

Stockland Direct Office Trust No. 2

ARSN: 115 017 466

Interim Financial Report for the half year ended 31 December 2007

Registered office:

133 Castlereagh Street
Sydney NSW 2000

Stockland Direct Office Trust No. 2

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Stockland Direct Office Trust No. 2

Directors' Report

For the half year ended 31 December 2007

The Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity of Stockland Direct Office Trust No. 2 (the "Trust"), present their report together with the interim Financial Report made in accordance with a resolution of the Directors with respect to the results of the Trust for the half year ended 31 December 2007, the state of the Trust's affairs as at 31 December 2007 and the Independent Auditor's Review Report thereon.

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

Directors

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

Name	Date of appointment/retirement
Non - executive Directors	
Peter Scott, <i>Chairman</i>	Appointed 22 November 2005
Lyn Gearing	Appointed 22 November 2005
David Kent	Appointed 9 August 2004
Tony Sherlock	Appointed 9 August 2004
Terry Williamson	Appointed 2 July 2004; Retired 23 October 2007 ¹
Barry Neil	Appointed 23 October 2007
Executive Director	
Matthew Quinn	Appointed 19 October 2000
Hugh Thorburn (alternate to Mr. Quinn)	Appointed 25 October 2007

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

Principal activities

The principal activity of the Trust is the ownership of property situated at 1-5 Lyon Park Road, Macquarie Park, New South Wales, via its 49% investment in Macquarie Park Trust ("MPT").

Review of operations

The Trust achieved a profit from operating activities of \$2,867,000 for the half year ended 31 December 2007 (31 December 2006: \$838,000).

Distributions paid or declared by the Trust to unitholders during the half year are set out in Note 9 of the Financial Statements.

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

The external auditor's independence declaration is set out on page 3 and forms part of the Directors' Report for the half year ended 31 December 2007.

Rounding

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

Signed in accordance with a resolution of the Directors:



Matthew Quinn
Director

Dated at Sydney, 21 February 2008



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

To: the directors of the Responsible Entity of Stockland Direct Office Trust No. 2, Stockland Capital Partners Limited.

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

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

A handwritten signature in black ink, appearing to read 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to read 'S. Fleming'.

Scott Fleming
Partner

Sydney

21 February 2008

Stockland Direct Office Trust No. 2

Interim Income Statement

For the half year ended 31 December 2007

	Notes	Half year ended	
		2007	2006
		\$'000	\$'000
Revenue and other income			
Interest income		78	1,369
Share of profit of investments accounted for using the equity method	4	6,772	-
Total revenue and other income		6,850	1,369
Finance costs to external parties¹			
Responsible Entity fees	10	(483)	(79)
Performance fee	10	(3)	-
Other expenses		(39)	(76)
Total expenses before finance costs to unitholders		(3,983)	(531)
Profit from operating activities		2,867	838
Distribution (finance) expense to unitholders ¹	9	(2,908)	(1,164)
Change in net assets attributable to unitholders	8	(41)	(326)

¹ Total finance costs for the Trust are \$6,366,000 (31 December 2006: \$1,540,000) being the sum of finance costs to external parties and distributions to unitholders. In order to comply with AASB 132, the unitholders' funds are required to be treated as a liability to unitholders and trust distributions to be treated as an expense in the Income Statement.

The above Income Statement should be read in conjunction with the accompanying notes.

Stockland Direct Office Trust No. 2

Interim Balance Sheet

As at 31 December 2007

	Notes	31 Dec 2007 \$'000	30 June 2007 \$'000
Current assets			
Cash and cash equivalents		2,574	2,815
Trade and other receivables		-	48
Other assets		285	234
Total current assets		2,859	3,097
Non-current assets			
Investments accounted for using the equity method	4	203,692	202,373
Other assets		8,651	6,793
Total non-current assets		212,343	209,166
Total assets		215,202	212,263
Current liabilities			
Trade and other payables		2,056	1,371
Total current liabilities		2,056	1,371
Non-current liabilities			
Interest-bearing loans and borrowings	5	99,687	99,369
Provisions	6	1,592	1,589
Total non-current liabilities		101,279	100,958
Total liabilities (excluding net assets attributable to unitholders)		103,335	102,329
Net assets attributable to unitholders	8	111,867	109,934

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

Stockland Direct Office Trust No. 2
Interim Statement of Changes in Equity
For the half year ended 31 December 2007

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

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

Stockland Direct Office Trust No. 2
Interim Cash Flow Statement
For the half year ended 31 December 2007

	Half year ended	
	2007	2006
	\$'000	\$'000
Cash flows from operating activities		
Cash receipts in the course of operations	64	7
Cash payments in the course of operations	(342)	(159)
Distributions received from joint venture entity	5,453	-
Interest received	78	1,382
Interest paid	(3,024)	(253)
Net cash flows from operating activities	2,229	977
Cash flows from investing activities		
Net cash flows from investing activities	-	-
Cash flows from financing activities		
Distributions paid	(2,470)	(1,116)
Net cash flows from financing activities	(2,470)	(1,116)
Net (decrease) in cash and cash equivalents	(241)	(139)
Cash and cash equivalents at the beginning of the half year	2,815	8,154
Cash and cash equivalents at the end of the half year	2,574	8,015

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

Stockland Direct Office Trust No. 2

Notes to the Interim Financial Statements

For the half year ended 31 December 2007

1 Summary of significant accounting policies

Stockland Direct Office Trust No. 2 ("the Trust") is a Managed Investment Scheme domiciled in Australia.

The interim Financial Report as at and for the half year ended 31 December 2007 was authorised for issue by the Directors of the Responsible Entity on 21 February 2008.

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

(a) Statement of compliance

The interim Financial Report is a general purpose Financial Report which has been prepared in accordance with AASB 134 "Interim Financial Reporting" and the Corporations Act 2001.

The interim Financial Report does not include all of the information required for a full annual Financial Report, and should be read in conjunction with the Financial Report of the Trust for the year ended 30 June 2007.

(b) Significant accounting policies

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

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

2 Accounting estimates and assumptions

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

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

3 Segment reporting

The Trust operates solely in the business of investment management in Australia.

Stockland Direct Office Trust No. 2

Notes to the Interim Financial Statements

For the half year ended 31 December 2007

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

	Location	Principal activity	Holding		Carrying amount	
			31 Dec 2007	30 June 2007	31 Dec 2007 \$'000	30 June 2007 \$'000
Macquarie Park Trust	NSW	Property investment	49%	49%	203,692	202,373

The joint venture was formed in Australia.
The principal activity is investment in real property.

	31 Dec 2007 \$'000	30 June 2007 \$'000
Movements in carrying amount of investments accounted for using the equity method		
Carrying amount at the beginning of the financial period	201,668	-
Interest in joint venture entity acquired	-	172,507
Share of change in net assets/profit	6,772	29,161
Distributions received	(5,453)	-
Carrying amount at the end of the financial period	202,987	201,668
Capitalised acquisition costs	705	705
	203,692	202,373

Share of joint venture entity's assets and liabilities

Current assets	4,645	940
Non-current assets	201,762	200,893
Total assets	206,407	201,833
Current-liabilities	(3,420)	(165)
Non-current liabilities	-	-
Total liabilities	(3,420)	(165)
Share of net assets after equity accounting adjustments	202,987	201,668

	6 months to 31 Dec 2007 \$'000	6 months to 31 Dec 2006 \$'000
Share of joint venture entity's revenue, expenses and results		
Revenues	6,953	-
Expenses	(181)	-
Net profit accounted for using the equity method	6,772	-

Stockland Direct Office Trust No. 2

Notes to the Interim Financial Statements

For the half year ended 31 December 2007

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

	31 Dec 2007 \$'000	30 June 2007 \$'000
Facility agreement	103,225	103,225
Less: attributable transaction costs	(3,538)	(3,856)
Total Balance Sheet carrying amount at fair value	<u>99,687</u>	<u>99,369</u>

The Trust has a \$107,225,000 (30 June 2007: \$107,225,000) loan facility agreement with Westpac Banking Corporation. As at 31 December 2007, \$103,225,000 has been drawn down (30 June 2007: \$103,225,000). The weighted average interest rate on the loan facility for the period to 31 December 2007 was 7.27% p.a. (30 June 2007: 7.11% p.a.). The facility matures on 30 June 2013.

6 Non-current liabilities - Provisions

Performance Fee	<u>1,592</u>	<u>1,589</u>
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The Responsible Entity is entitled to a performance fee if certain out-performance is achieved by the Trust. The fee is calculated on a sliding scale and is payable by the Trust provided the final distribution per unit exceeds the application price by 6%. The fee is calculated based on the property net sales proceeds.

Based upon the value of the property interest at 31 December 2007, the final distribution per unit is forecast to exceed the application price by greater than 18%. Using the sliding scale, a performance fee of 1.2% of the net sales proceeds will be payable in the future. Applying appropriate discount rates to reflect the projected life of the Trust and the inherent risks associated with market value movements in the property, a provision of \$1,592,000 has been recognised.

7 Units on issue classified as debt

	31 Dec 2007 Number of units	30 June 2007 Number of units	31 Dec 2007 \$'000	30 June 2007 \$'000
Units on issue	<u>85,867,010</u>	<u>85,867,010</u>	<u>80,353</u>	<u>80,353</u>

Date	Details	Number of units	Price per unit	\$'000
Movements in units				
1 July 2006	Opening balance	85,867,010		28,833
15 June 2007	Units paid	85,867,010	\$0.60	51,520
30 June 2007	Balance	<u>85,867,010</u>		<u>80,353</u>
31 December 2007	Closing balance	<u>85,867,010</u>		<u>80,353</u>

Rights and restrictions over units:

- Each unit ranks equally with all other units for the purpose of distributions and on termination of the Trust.
- All units are held by Permanent Trustee Company Limited, who acts as custodian for instalment receipt holders until the final instalment is paid by investors.

Stockland Direct Office Trust No. 2
Notes to the Interim Financial Statements
For the half year ended 31 December 2007

8 Net assets attributable to unitholders classified as a liability

		\$'000
1 July 2006	Opening balance	30,506
30 June 2007	Movement in fair value of interest rate swaps	2,945
30 June 2007	Units paid	51,520
30 June 2007	Change in net assets for the year attributable to unitholders	24,963
30 June 2007	Balance	109,934
31 December 2007	Movement in fair value of interest rate swaps	1,974
31 December 2007	Change in net assets for the half year attributable to unitholders	(41)
31 December 2007	Closing balance	<u>111,867</u>

9 Distributions to unitholders

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

	Distribution per unit	Total amount \$'000	Date of payment	Tax deferred %
2007				
30 September 2007	1.6935¢	1,454	31 October 2007	100
31 December 2007	1.6935¢	1,454	29 February 2008*	100
Total distributions		<u>2,908</u>		

* Proposed payment date

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

	Distribution per unit	Total amount \$'000	Date of payment	Tax deferred %
2006				
30 September 2006	0.6680¢	574	3 November 2006	100
31 December 2006	0.6873¢	590	28 February 2007	100
Total distributions		<u>1,164</u>		

Stockland Direct Office Trust No. 2

Notes to the Interim Financial Statements

For the half year ended 31 December 2007

10 Related parties

Stockland Capital Partners Limited ("SCPL"), formerly known as SFML, is the Responsible Entity of the Trust. The Key Management Personnel of the Trust has been defined as the Responsible Entity.

	Half year ended	
	2007	2006
	\$'000	\$'000
Responsible Entity fees and other transactions		
<i>Responsible Entity fees</i>		
The Responsible Entity charged responsible entity fees calculated at 0.45% p.a. of the gross value of the assets of the Trust.	483	79
As at 31 December 2007, the Responsible Entity has agreed for the Trust to defer payment of part of the Responsible Entity fees amounting to \$168,893 (31 December 2006: \$Nil).		
<i>Performance fees</i>		
The Responsible Entity is entitled to a performance fee (between 1.025% and 2.05% of net sales proceeds) which is calculated on a sliding scale and is payable by the Trust provided the final distribution per unit exceeds the application price by at least 6%. Refer Note 6.	3	-
Total Responsible Entity fees and other transactions	<u>486</u>	<u>79</u>

Other related party transactions

Limited Liquidity Facility ("LLF")

Westpac has agreed to acquire up to 1,000,000 instalment receipts in the Trust per quarter at a 2.5% discount to NTA per instalment receipt less transaction costs, from unitholders seeking to realise their units. Stockland Trust Management Limited ("STML"), as Responsible Entity for Stockland Trust, has placed a standing order with Westpac to acquire a maximum of 1,000,000 instalment receipts per quarter from lease commencement. This standing order from STML can be terminated at any time. During the half year, STML, as Responsible Entity of Stockland Trust, acquired 1,000,000 instalment receipts (30 June 2007: Nil) in the Trust via the LLF.

Units held by Stockland Trust

As at 31 December 2007, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 6,247,050 (30 June 2007: 5,247,050) instalment receipts in the Trust.

As at 31 December 2007, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, held 31.0% (30 June 2007: 31.0%) of the units in Macquarie Park Trust ("MPT").

Property Management and Leasing Fee

Stockland Property Management Limited, a related party of the Responsible Entity charged \$180,252 (31 December 2006: \$Nil) to MPT for property management services including onsite property management staff and leasing fees. Of this amount \$68,945 (31 December 2006: \$Nil) forms part of the outgoings recoverable from tenants pursuant to leases.

Stockland Development Pty Limited

In the previous financial year, Stockland Development Pty Limited paid rental income of \$1,092,000 to MPT for the sixteen days to 30 June 2007 following early Optus lease commencement on 15 June 2007.

Stockland Development Pty Limited paid \$42,000 to the Trust to compensate for costs incurred as a consequence of early settlement of the MPT acquisition on 15 June 2007.

Stockland Direct Office Trust No. 2

Notes to the Interim Financial Statements

For the half year ended 31 December 2007

11 Capital commitment

As at 31 December 2007, the Trust has no capital commitments. In the previous financial year, a \$172,507,951 capital commitment existed in relation to the Trust's commitment to purchase 49% of the ordinary units in MPT upon commencement of the Optus lease.

12 Other Information

Life of the Trust

The Trust terminates on the earliest of:

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

13 Contingent liabilities and contingent assets

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

14 Events subsequent to balance date

There have been no events subsequent to balance date which would have a material effect on the Trust's Interim Financial Statements at 31 December 2007.

Stockland Direct Office Trust No. 2

Directors' Declaration

In the opinion of the Directors of Stockland Capital Partners Limited, the Responsible Entity of Stockland Direct Office Trust No.2:

1. the Financial Statements and Notes set out on pages 4 to 13, are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the financial position of the Trust as at 31 December 2007 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and
 - (b) complying with Australian Accounting Standards AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
2. at the date of this declaration there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

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

Signed in accordance with a resolution of the Directors:



Matthew Quinn

Director

Dated at Sydney, 21 February 2008



Independent auditor's review report to the unitholders of Stockland Direct Office Trust No.2

Report on the financial report

We have reviewed the accompanying half-year financial report of Stockland Direct Office Trust No.2 ("the Trust"), which comprises the balance sheet as at 31 December 2007, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies and other explanatory notes 1 to 14 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Responsible Entity, Stockland Capital Partners Limited, are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Trust's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Stockland Direct Office Trust No.2, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Stockland Direct Office Trust No.2 is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Trust's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

KPMG

Scott Fleming
Partner

Sydney

21 February 2008