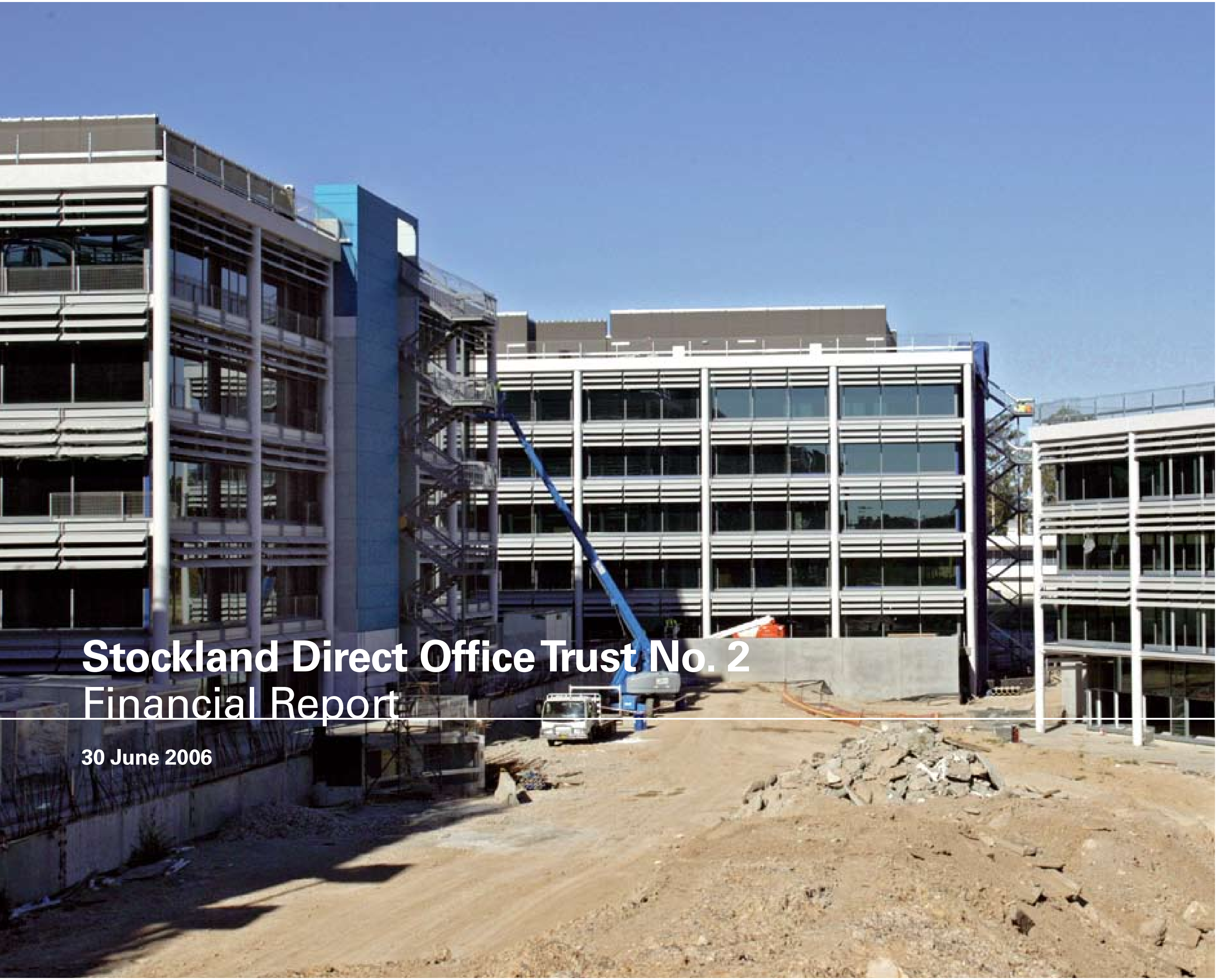

Stockland Direct Office Trust No. 2
Financial Report

30 June 2006

2006

Stockland
DIRECT

Stockland Direct Office Trust No.2

Contents

Optus at Macquarie Park, NSW

Directors' Report

For the period ended 30 June 2006

The Directors of Stockland Funds Management Limited ("SFML"), the Responsible Entity of Stockland Direct Office Trust No. 2 (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 for the period 13 May 2005 to 30 June 2006 (the "period") and the state of the Trust's affairs as at 30 June 2006.

SFML was appointed as Manager at the date the Trust commenced on 13 May 2005. On 12 July 2005, the Trust was registered as a managed investment scheme with ASIC and SFML was appointed as the Responsible Entity.

Directors

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

Peter Scott
Chairman (Non-Executive)

Appointed 22 November 2005

Mr Scott is a director of Stockland Corporation Limited ("Stockland"), Sinclair Knight Merz and Perpetual Limited. Mr Scott was the Chief Executive Officer of MLC and Executive General Manager, Wealth Management of National Australia Bank until January 2005. Prior to this, he held a number of senior positions with Lend Lease, following a successful career as a consulting engineer in Australia and overseas. Mr Scott was appointed as a Director and was elected Chairman of Stockland Funds Management Limited on 22 November 2005.

Lyn Gearing
(Non-Executive)

Appointed 22 November 2005

Ms Gearing is currently a director of Stockland, Hancock Natural Resource Group Australia Pty Limited, IMB Limited and the Garvan Research Foundation. Ms Gearing was Chief Executive of NSW State Super from 1997 to 2002, and has over thirty years business experience in superannuation, funds management, corporate finance and management consulting. Ms Gearing was appointed Chair of the Stockland Trust Management Limited and Stockland Funds Management Limited Compliance Committees from 1 July 2006.

David Kent
(Non-Executive) – Independent

Appointed 9 August 2004

Mr Kent is Executive Chairman of Everest Babcock & Brown Limited and a director of Everest Babcock and Brown Alternative Investments. He was previously Executive General Manager of Axiss Australia and Invest Australia's International Operations and served as a member of the Financial Sector Advisory Council. Mr Kent is a past Senior Trade and Investment Commissioner in Paris and Washington DC for the Australian Trade Commission. From 1987 to 1999, Mr Kent worked for Morgan Stanley in Sydney, Melbourne and New York where he became Managing Director and Head of Investment Banking. Prior to Morgan Stanley, Mr Kent worked for Banque Paribas. Mr Kent has previously served as Deputy Chairman of the Art Gallery of NSW Foundation and Chairman of the Brett Whiteley Foundation.

Tony Sherlock
(Non-Executive) – Independent

Appointed 9 August 2004

Mr Sherlock is a former Senior Partner of Coopers & Lybrand having national responsibility for credit risk management. In that capacity, he has obtained experience in the banking and finance, mining, agriculture, building, construction and development sectors. Mr Sherlock is a non-executive director of Sydney Aquarium Limited and IBA Health Limited and is Chairman of Equatorial Mining Limited. He is Chairman of the Audit Committee of Commander Communications Limited. Mr Sherlock is the former Chairman of the Woolmark Company and has acted on a number of committees for both Federal and State governments.

Terry Williamson
(Non-Executive)

Appointed 2 July 2004

Mr Williamson is a director of Stockland, Excel Coal Limited and United Medical Protection Group and a member of the University of Sydney Faculty of Economics and Business Studies Advisory Board. Mr Williamson was previously Chief Financial Officer of Bankers Trust Australia Limited / BT Financial Group Pty Limited from 1997 to 2002 and prior to that, he was a partner of Price Waterhouse for 17 years. He is a member of the Stockland Funds Management Limited Compliance Committee.

Matthew Quinn
Managing Director – Stockland (Executive)

Appointed 19 October 2000

Mr Quinn has an extensive background in commercial, retail, industrial and residential property investment and development. He began his career in the United Kingdom as a chartered accountant and moved to Australia in 1987 with Price Waterhouse. In 1988, he joined the Rockingham Park Group, a substantial Western Australian private property group. Mr Quinn joined Stockland in 1999 and was appointed to his current role of Managing Director in October 2000. Mr Quinn held the position of National President of the Property Council of Australia from March 2003 until March 2005. He is a Fellow of the Australian Property Institute.

Graham Bradley
Former Chairman (Non-Executive)

Appointed 2 July 2004
Resigned 22 November 2005

Mr Bradley is Chairman of Stockland, HSBC Bank Australia Limited, Film Finance Corporation of Australia, Proteome Systems Limited, and Po Valley Energy Limited. He is a director of Singapore Telecommunications Limited and MBF Australia Limited. Mr Bradley was the Managing Director of Perpetual Trustees Australia Limited for eight years until September 2003 and was the national Managing Partner of Blake Dawson Waldron and a Principal of McKinsey & Company prior to that.

Directors' Report (continued)

For the period ended 30 June 2006

Principal activities

The Trust has been established solely for the purpose of providing a loan to Macquarie Park Trust ("MPT") on which the Trust will receive interest until commencement of the Optus lease, and from commencement of the Optus lease, investing in 49% of the ordinary units issued by MPT, conferring an indirect interest in the Optus commercial office campus at 1 – 5 Lyon Park Road, Macquarie Park, New South Wales.

Review of operations

During the period, SFML, as Responsible Entity, issued a Product Disclosure Statement ("PDS") dated 27 July 2005 offering 85,867,000 units in the Trust at an application price of $1.00 per unit. The investment is evidenced by instalment receipts which required an applicant to pay $0.40 per unit on application and the remaining $0.60 per unit on the final instalment payment date which is scheduled to be 30 June 2013. The offer closed on 16 September 2005 fully subscribed and the units and instalment receipts were allocated on 28 September 2005.

The Trust achieved a profit from operating activities of $1,150,000 for the period 13 May 2005 to 30 June 2006.

In order to comply with Australian Accounting Standard AASB 132 "Financial Instruments: Disclosure and Presentation", unitholders' funds are treated as a liability to unitholders and trust distributions are treated as an expense in the Income Statement.

Distributions paid or declared by the Trust to unitholders during the period are set out in Note 16 of the Financial Statements.

Significant changes in the state of affairs

Apart from the matters discussed in the Review of operations, there have been no significant changes in the state of the affairs of the Trust during the period.

Events subsequent to the end of the period

There have been no events subsequent to balance date which would have a material effect on the Trust's Financial Statements at 30 June 2006.

Likely developments

The Trust will acquire 49% of the ordinary units in MPT upon commencement of the Optus lease. The Trust will also continue to review investment management strategies with a view to optimising both the income and capital return during the next financial period.

Environmental regulation

The Trust's operations are not subject to any significant environmental regulation under either Commonwealth or State legislation. The Responsible Entity believes that the Trust 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 Trust.

Related parties

Stockland Trust Management Limited (as Responsible Entity of Stockland Trust), a related party of the Responsible Entity, holds 5,247,050 instalment receipts as at 30 June 2006.

Interests of the Responsible Entity

Prior to the allocation of units on 28 September 2005, the Responsible Entity (in its personal capacity) was the beneficial owner of all the units in the Trust with the legal title held by Permanent Trustee Company Limited as Security Trustee. The units were issued for $1.00 each and paid up to a nominal amount.

Other than as disclosed above, the Responsible Entity has not held any units or instalment receipts in the Trust either directly or indirectly during the financial period.

Responsible Entity's remuneration

The Responsible Entity charged a responsible entity fee of 0.45% p.a. of the gross assets of the Trust. The Responsible Entity may defer a portion of the annual fees each year and is entitled under the Constitution to charge up to 1.0% p.a. The Responsible Entity is entitled to recover all fees deferred either from Trust earnings or on wind up of the Trust. The Responsible Entity charges are set out in Note 20 of the Financial Report.

Directors' Report

For the period ended 30 June 2006

Directors' interests

The relevant interest of each director of the Responsible Entity holding instalment receipts in the Trust at the date of this report is as follows:

Director	Number of instalment receipts held
Mr David Kent	325,000
Mr Matthew Quinn	25,000
Mr Peter Scott	25,000
Mr Terry Williamson	100,000

Indemnities and insurance of officers and auditors

Indemnification

Under the Trust Constitution, the Responsible Entity, including its officers and employees, is indemnified out of the Trust'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 Trust.

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

Insurance premiums

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

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

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

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

The external auditor's independence declaration is set out on page 4 and forms part of the Directors' Report for the period 13 May 2005 to 30 June 2006.

Comparatives

Comparatives have not been provided in the Income Statement, Balance Sheet, Statement of Changes in Equity or the Cash Flow Statement, as this is the first reporting period for the Trust.

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 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, 17 August 2006

Lead Auditor's Independence Declaration

Under Section 307C of the Corporations Act 2001

04

To: The directors of the Responsible Entity of Stockland Direct Office Trust No. 2, Stockland Funds Management Limited.

I declare that, to the best of my knowledge and belief, in relation to the audit for the period from 13 May 2005 to 30 June 2006, there have been:

(a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

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

KPMG

KPMG

Stuart J Marshall
Partner
Sydney, 17th August 2006

Income Statement

For the period 13 May 2005 to 30 June 2006

	Notes	2006 $'000
Revenue and other income		
Interest income	4	**1,924**
Total revenue and other income		**1,924**
Finance costs to external parties[1]		**(545)**
Responsible Entity fees	20	**(121)**
Auditors' remuneration	5	**(42)**
Other expenses		**(66)**
Total expenses before finance costs to unitholders		**(774)**
Profit from operating activities		**1,150**
Distribution (finance) expense to unitholders[1]	16	**(2,164)**
Change in net assets attributable to unitholders	15	**(1,014)**

[1] Total finance costs for the Trust are $2,709,000, 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.

Balance Sheet

As at 30 June 2006

	Notes	2006 $'000
Current assets		
Cash and cash equivalents	6	**8,154**
Other assets	7	**5**
Total current assets		**8,159**
Non-current assets		
Other receivables	8	**25,893**
Other assets	9	**2,687**
Total non-current assets		**28,580**
Total assets		**36,739**
Current liabilities		
Trade and other payables	10	**115**
Provisions	11	**542**
Total current liabilities		**657**
Non-current liabilities		
Other payables	12	**192**
Interest-bearing loans and borrowings	13	**5,384**
Total non-current liabilities		**5,576**
Total liabilities (excluding net assets attributable to unitholders)		**6,233**
Net assets attributable to unitholders	15	**30,506**

Statement of Changes in Equity

For the period 13 May 2005 to 30 June 2006

	Unitholders funds[1] 2006 $'000	Total Equity 2006 $'000
Opening balance	–	–
Net profit for the period	–	–
Transactions with unitholders	–	–
Closing balance	–	–

[1] From 1 July 2005, in order to comply with AASB 132 "Financial Instruments: Disclosure and Presentation", 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 Balance Sheet and Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Cash Flow Statement

For the period 13 May 2005 to 30 June 2006

	Notes	2006 $'000
Cash flows from operating activities		
Cash receipts in the course of operations		**592**
Cash payments in the course of operations		**(719)**
Interest received		**1,924**
Interest paid		**(329)**
Net cash from operating activities	18	**1,468**
Cash flows from investing activities		
Payment for Macquarie Park Trust Series B Notes		**(25,188)**
Net cash from investing activities		**(25,188)**
Cash flows from financing activities		
Proceeds from issue of units		**34,347**
Payment of establishment fee		**(7,982)**
Proceeds from borrowings		**7,425**
Borrowing costs paid		**(294)**
Distributions paid		**(1,622)**
Net cash from financing activities		**31,874**
Cash and cash equivalents at the end of the financial period	6	**8,154**

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

Notes to the Financial Statements

For the period 13 May 2005 to 30 June 2006

1 Summary of significant accounting policies

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

The Financial Report was authorised for issue by the Directors of the Responsible Entity on 17 August 2006.

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

(a) Statement of compliance

The Financial Report is a general purpose Financial Report which has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. International Financial Reporting Standards ("IFRS") form the basis of AASBs adopted by the AASB and for the purpose of this report are called Australian equivalents to IFRS ("AIFRS") to distinguish it from previous Australian GAAP.

This Financial Report is the Trust's first Financial Report to be prepared and has been prepared in accordance with AIFRS.

(b) Basis of preparation

The Financial Report is presented in Australian dollars.

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

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

The preparation of a Financial Report in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are based on various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The accounting policies set out below have been applied consistently to the period presented in this Financial Report.

(c) Revenue recognition

Revenues arising in the ordinary course of activities are recognised at the fair value of the consideration received or receivable net of the amount of goods and services tax ("GST") levied.

Interest income

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

(d) Segment reporting

A segment is a distinguishable component of the Trust that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(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 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 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 is 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 and plant and equipment depreciation are distributed to unitholders in the form of tax deferred components of distributions.

(g) Derivative financial instruments

The Trust uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with the Responsible Entity's policy, the Trust does not hold or issue derivative financial instruments for trading purposes.

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

The fair value of interest rate swaps is the estimated amount that the Trust would receive or pay to terminate the swap at the balance date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

1 Summary of significant accounting policies (continued)

(h) Hedging

The Responsible Entity documents at the inception of the transaction the relationship between hedging instruments and hedged items, 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.

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is attributable to a particular risk and could affect the Income Statement.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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 Income Statement.

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

Amounts accumulated in net assets attributable to unitholders are recognised in the Income Statement in the periods when the hedged item is recognised in the Income Statement. 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 net assets attributable to unitholders are transferred into the initial measurement of the cost of the asset or liability.

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

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

(i) Finance costs

Finance costs to external parties

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

Distributions to unitholders

Distributions to unitholders represent trust distributions made to unitholders and are expensed when approved by the Directors of the Responsible Entity.

(j) Cash and cash equivalents

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

(k) Investments and other financial assets

Investments are classified as held-to-maturity investments when they have fixed and determinable payments with a specified maturity date and the Trust has the positive intention and ability to hold the investments to maturity.

Held-to-maturity investments are initially recognised at fair value plus directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity investments are stated at amortised cost using the effective interest method, less impairment losses.

(l) Impairment of assets

The carrying amounts of the Trust'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 Income Statement, 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 Income Statement.

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.

Reversals of impairment

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised.

An impairment loss in respect of a held to maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Notes to the Financial Statements

For the period 13 May 2005 to 30 June 2006

1 Summary of significant accounting policies (continued)

(m) Other payables

Other payables are stated at cost.

(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 Income Statement over the period of the borrowings on an effective interest basis unless there is an effective fair value hedge of the borrowings, then the borrowings are carried at fair value.

(o) Provisions

A provision is recognised when a present legal, equitable 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.

Distributions to unitholders

A provision for distributions payable to unitholders is recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the Directors on or before the end of the financial period, but not distributed at balance date.

(p) Change in net assets attributable to unitholders

Non-distributable income, which may comprise unrealised changes in the net market value of investments or financial instruments, net capital losses, tax-deferred income, accrued income not yet assessable and non-deductible expenses is recorded as a liability to unitholders.

The Directors take into account the effect of unrealised changes in the net market value of investments or financial instruments, net capital losses, tax-deferred income, accrued income not yet assessable, non-deductible expenses when assessing the appropriate distribution payout ratio, to ensure that unitholders are not disadvantaged. These items are distributed to unitholders once the amounts have become assessable for taxation purposes.

2 Accounting estimates and assumptions

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

(a) Key sources of estimation uncertainty

Estimates of fair value of investment properties

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

i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices;

iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the term of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows; and

iv) capitalised income projections based upon a property's estimated net market income, which is assumed to be a level annuity in perpetuity, and a capitalisation rate derived from analysis of market evidence. Reversions associated with short term leasing risks/costs, incentives and capital expenditure may be deducted from the capitalised net income figure.

Assumptions underlying management's estimates of fair value

The discounted cash flow approach applied for investment properties 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 Trust 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.

3 Segment reporting

The Trust is an unlisted property trust. It's primary purpose is to provide a loan to Macquarie Park Trust ("MPT"), and from commencement of the Optus lease, investing in 49% of the ordinary units issued by Macquarie Park Trust, conferring an indirect interest in the Optus commercial office campus.

Notes to the Financial Statements

For the period 13 May 2005 to 30 June 2006

	2006 $'000
4 Interest income	
Macquarie Park Trust Series B Notes	**1,568**
Other	**356**
	1,924

	2006 $
5 Auditors' remuneration	
Audit services	
Audit and review of the Financial Reports (KPMG Australia)	**15,000**
Compliance audit services (KPMG Australia)	**16,500**
Total remuneration for audit services	**31,500**
Other services	
Tax compliance services (KPMG Australia)	**10,550**
Total remuneration	**42,050**

	2006 $'000
6 Current assets – Cash and cash equivalents	
Cash at bank and on hand	**8,154**

The weighted average interest rate for cash at bank and on hand at 30 June 2006 was 5.46%.

	2006 $'000
7 Current assets – Other	
Prepayment of line fees	**5**
8 Non-current assets – Other receivables	
Macquarie Park Trust Series B notes	**25,188**
Capitalised acquisition costs	**705**
	25,893
9 Non-current assets – Other	
Financial instruments asset	**2,687**
10 Current liabilities – Trade and other payables	
Trade payables and accruals	**115**

Notes to the Financial Statements

For the period 13 May 2005 to 30 June 2006

	2006 $'000
11 Current liabilities – Provisions	
Distributions	**542**
Movement in provisions (Distributions to unitholders)	
Carrying amount at the beginning of the financial period	**–**
Additional provisions recognised	**2,164**
Payments	**(1,622)**
Carrying amount at the end of the financial period	**542**
12 Non-current liabilities – Other payables	
Deferred line fees payable	**192**
13 Non-current liabilities – Interest-bearing loans and borrowings	
Facility agreement	**7,425**
Capitalised borrowing costs	**(2,041)**
	5,384

Financing facilities

The financing facilities of the Trust are with Westpac Banking Corporation. Such facilities have been in place since 26 September 2005 from which date line fees are charged on the facility limits at the agreed rates. Both the Acquisition Tranche 1 and the Overdraft facilities were available from 26 September 2005; whereas the Acquisition Tranche 2 and the Capital Expenditure facilities are available from the commencement of the Optus lease on the expected date of 1 July 2007.

Acquisition Tranche 1

The Acquisition Tranche 1 facility of $7,425,475 was drawn on 29 September 2005 and is secured by the assets and undertakings of the Trust including the Macquarie Park Trust Series B Notes issued to the Trust. Interest is charged on he utilised portion of the facility at 90 day BBSY plus a margin of 0.325% p.a. Line fees of 0.325% p.a. are charged from 29 September 2005.

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

Acquisition Tranche 2

The Acquisition Tranche 2 facility of $95,800,218 is available from the commencement of the Optus lease and is secured by the assets and undertakings of the Trust. Interest will be charged on the utilised portion of the facility at the 90 day BBSY plus a margin of 0.39% p.a.. No draw down of this facility has been made as at 30 June 2006. Line fees of 0.250% p.a. are charged from 26 September 2005 on the facility limit.

Capital Expenditure

The capital expenditure facility of $3,000,000 is available from the commencement of the Optus lease and is secured by the assets and undertakings of the Trust. Interest will be charged on the utilised portion of the facility at 90 day BBSY plus a margin of 0.325% p.a. No draw down of this facility has been made as at 30 June 2006. Line fees of 0.325% p.a. are charged from 26 September 2005 on the facility limit.

Overdraft

The overdraft facility of $1,000,000 was available from 26 September 2005 and is secured by the assets and undertakings of the Trust. Interest will be charged on the utilised portion of the facility at the 30 day Bank Bill rate plus a margin of 0.325% p.a. No draw down of this facility has been made as at 30 June 2006. Line fees of 0.325% p.a. are charged from 26 September 2005 on the facility limit.

Details of the facilities are set out below:

Facility	Maturity date	Facility limits **2006** **$'000**	Utilised **2006** **$'000**
Acquisition Tranche 1	28 June 2013	7,425	7,425
Acquisition Tranche 2	28 June 2013	95,800	–
Capital Expenditure	28 June 2013	3,000	–
Overdraft	28 June 2013	1,000	–
		107,225	7,425

The variable interest rates on the Acquisition facilities have been swapped to fixed rates. Refer Note 19 (b).

14 Units on issue classified as debt

During the period, SFML, as Responsible Entity, issued a Product Disclosure Statement ("PDS") dated 27 July 2005 offering 85,867,000 units in the Trust at an application price of $1.00 per unit. The investment is evidenced by instalment receipts which required applicants to pay $0.40 per unit on application and the remaining $0.60 per unit on the final instalment payment date which is scheduled to be 30 June 2013. The offer closed on 16 September 2005 fully subscribed and the units and instalment receipts were allocated on 28 September 2005.

Date	Details	Number of units	Price per unit	$'000
13 May 2005	Opening balance	10	$1.00	–
27 June 2005	Units issued	85,867,000	$0.000001	–
28 September 2005	Units paid	85,867,000	$0.40	34,347
28 September 2005	Transaction costs	–		(5,514)
30 June 2006	Balance	85,867,010		28,833

Rights and restrictions over units:

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

b) All units are held by Permanent Trustee Company Limited, who acts as custodian for instalment receipt holders by being the registered owner of units on behalf of instalment receipt holders until the final instalment is paid.

Notes to the Financial Statements

For the period 13 May 2005 to 30 June 2006

		2006 $'000
15 Net assets attributable to unitholders classified as a liability		
13 May 2005	Net assets attributable to unitholders at the beginning of the period	–
27 June 2005	Units issued	**28,833**
30 June 2006	Movement in fair value of interest rate swaps	**2,687**
30 June 2006	Change in net assets for the period attributable to unitholders	**(1,014)**
30 June 2006	Net assets attributable to unitholders at the end of the period	**30,506**

16 Distributions to unitholders

Distributions to unitholders recognised in the period by the Trust are:

	Units Issued	Cents per Unit	Total Amount $'000	Date of Payment	Tax Deferred
31 December 2005	85,867,000	1.254¢	1,077	17 February 2006	100%
31 March 2006	85,867,000	0.635¢	545	3 May 2006	100%
30 June 2006	85,867,000	0.631¢	542	28 August 2006*	100%
			2,164		

* Proposed payment date

17 Capital commitment

A capital commitment exists in relation to the Trust's commitment to purchase 49% of the ordinary units in MPT upon commencement of the Optus lease, as disclosed in Section 2.1 of the PDS. The capital commitment of $172,507,951 will be funded by the following sources of capital.

	2006 $'000
Acquisition Tranche 2 financing facility	**95,800**
Promissory note for Macquarie Park Trust Series B Notes	**25,188**
Final call of $0.60 per unit to be paid by Westpac Banking Corporation	**51,520**
	172,508

18 Notes to the Cash Flow Statement

Reconciliation of profit from operating activities to net cash from operating activities	2006 $'000
Profit from operating activities	**1,150**
Amortisation of borrowing costs	**16**
Change in assets and liabilities:	
(Increase) in prepayments	**(5)**
Increase in trade and other payables	**307**
Net cash from operating activities	**1,468**

19 Financial instruments

(a) Financial risk management

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

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

Credit risk

Credit risk represents the loss that would be recognised if counterparties fail to perform as contracted. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Trust has policies that limit the amount of credit risk exposure to any one financial institution.

Liquidity risk

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 Trust aims at maintaining flexibility in funding by keeping committed credit lines available.

Cash flow and fair value interest rate risk

The Trust's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Trust to cash flow interest rate risk. Borrowings issued at fixed rates expose the Trust to fair value interest rate risk.

The Responsible Entity, on behalf of the Trust, manages the Trust's cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Responsible Entity agrees with other parties to exchange, at specified intervals, generally quarterly, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

(b) Derivative financial instrument used by the Trust

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

Interest rate swap contracts

The Responsible Entity, on behalf of the Trust, has entered into interest rate swap contracts to manage cash flow risks associated with the interest rates on borrowings that are floating. The interest rate swaps allow the Trust to swap the floating rate borrowings into fixed rates. The Trust does not hold derivative financial instruments for speculative purposes.

On 3 June 2005, the Trust entered into two forward swap contracts to hedge the anticipated variable interest rate exposure of the Trust on the debt facilities provided by Westpac Banking Corporation. The first swap provides a fixed rate of 5.72% p.a. on the funds drawn against the Acquisition Tranche 1 facility from 29 September 2005 to 1 July 2008; the second swap provides a fixed rate of 5.81% p.a. on the funds drawn against both the Acquisition Tranche 1 and 2 facilities from 1 July 2008 to 28 June 2013.

Notes to the Financial Statements

For the period 13 May 2005 to 30 June 2006

19 Financial instruments (continued)

(b) Derivative financial instrument used by the Trust (continued)

Cash flows swap contracts

On 28 June 2005, the Trust entered into a forward swap contract to pay 5.75% p.a. and receive the 90 day Bank Bill floating rate of interest on issue of units in the Trust to the public pursuant to the Product Disclosure Statement.

At 30 June 2006, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	Swaps on acquisition facilities $'000	Swaps on unitholder funds $'000	Total swaps $'000
Less than 1 year	–	–	–
1 – 2 years	7,425	34,347	41,772
2 – 3 years	–	–	–
3 – 4 years	–	–	–
4 – 5 years	–	–	–
Over 5 years	103,225	–	103,225

The contracts require settlement of net interest receivable or payable quarterly. The settlement dates coincide with the dates on which interest is payable on the underlying debt. In addition to these swaps, additional interest rate caps totalling $130,147,000 have been entered into to further manage the risk profile of the financing facilities.

The swaps meet the hedge accounting criteria per AASB 139 "Financial Instruments: Recognition and Measurement" and have been tested for effectiveness. At 30 June 2006, the swaps are considered to be entirely effective, accordingly the full change in the fair value is recognised in net assets attributable to unitholders. Refer accounting policy at Note 1(h).

At balance date, the swap contracts had a fair value of $2,686,843 included in other assets on the Balance Sheet.

(c) Interest rate risk exposures

	Effective interest rate	Floating interest rate $'000s	MATURITY PROFILE 1 year or less $'000s	1 – 2 years $'000s	2 – 3 years $'000s	3 – 4 years $'000s	More than 5 years $'000s	Total $'000s
Financial assets								
Cash and cash equivalents	5.46%	8,154	–	–	–	–	–	8,154
Other receivables	8.23%	–	25,188	–	–	–	–	25,188
		8,154	25,188	–	–	–	–	33,342
Financial liabilities								
Facility agreement	6.68%	(7,425)	–	–	–	–	–	(7,425)
Effect of interest rate swaps	(0.31%)	41,772	–	(41,772)	–	–	–	–
Future dated interest rate swap	–	–	(103,225)*	–	–	–	103,225	–
		34,347	(103,225)	(41,772)	–	–	103,225	(7,425)

* The future dated interest rate swap is to match the debt draw down profile required to meet the Optus lease commencement.

19 Financial instruments (continued)

(d) Fair values of financial assets and financial liabilities

The carrying amounts of cash and cash equivalents, other receivables, the facility agreement and interest rate swaps as disclosed in the Balance Sheet reflect the fair value of these financial assets and liabilities as at 30 June 2006.

The fair values of interest rate swaps have been calculated by discounting the expected future cash flows at prevailing interest rates.

	Carrying Amount **2006** **$'000**	Fair Value **2006** **$'000**
Interest rate swaps	**2,687**	**2,687**

The interest rate swaps have been accounted for on the Balance Sheet at their fair value. The interest rate swaps have been deemed to be effective hedges. Accordingly, the unrealised gain has been recognised directly in net assets attributable to unitholders.

20 Related parties

Stockland Funds Management Limited ("SFML") was appointed as manager of the Trust on 13 May 2005. On 12 July 2005, the Trust was registered as a managed investment scheme with the Australian Securities and Investments Commission ("ASIC") and SFML was appointed as the Responsible Entity. The Key Management Personnel of the Trust has been defined as the Responsible Entity. It held units in the Trust as disclosed in the Directors' Report.

The directors of the Responsible Entity and their instalment receipts held in the Trust at 30 June 2006 are as follows:

Directors	Number of instalment receipts held
Mr David Kent	325,000
Mr Matthew Quinn	25,000
Mr Peter Scott	25,000
Mr Terry Williamson	100,000

Responsible Entity fees and other transactions	**2006** **$'000**
Fund establishment & procurement fees The Responsible Entity received a gross establishment and procurement fee for facilitating the issue of units under the offer including undertaking the property due diligence and for establishing the Trust calculated as 4.0% of the value of the Trust's property interest. Of this fee, the Responsible Entity paid Westpac $4,087,269 plus GST for underwriting and distribution services.	**6,882**
Services arranging fee The Responsible Entity received a fee for arranging the provision of professional services in relation to the establishment of the Trust and the offer.	**894**
The Responsible Entity paid $872,992 for trust legal costs, PDS production costs and advisory costs.	
Responsible Entity fees The Responsible Entity charged responsible entity fees calculated at 0.45% p.a. of the gross value of the assets.	**121**
Total Responsible Entity fees and other transactions	**7,897**

Notes to the Financial Statements

For the period 13 May 2005 to 30 June 2006

20 Related parties (continued)

Other related party transactions

Product disclosure statement issue

During the period, SFML, as Responsible Entity, issued a PDS dated 27 July 2005 offering 85,867,000 units in the Trust at an application price of $1.00 per unit. The investment is evidenced by instalment receipts which required an applicant to pay $0.40 per unit on application and the remaining $0.60 per unit on the final instalment payment date which is scheduled to be 30 June 2013. The offer closed on 16 September 2005 fully subscribed and the units and instalment receipts were allocated on 28 September 2005.

Underwriting

SFML entered into an Underwriting Agreement with Westpac Banking Corporation ("Westpac") and Stockland Trust under which Westpac underwrote the subscriptions for 85% of the instalment receipts and Stockland Trust underwrote the subscriptions for the remaining 15% of the instalment receipts.

No underwriting fee was charged by Stockland Trust. Westpac received $4,087,269 plus GST for underwriting and distribution.

Property Manager

Stockland Property Management Pty Limited has been appointed as the property manager to undertake the ongoing management of the property once the Optus lease commences. No fees were paid to the property manager during the period.

Stockland Corporation Limited Indemnity

A related party, Stockland Corporation Limited ("SCL"), has provided an indemnity which can be called on if the Trust is wound up as a result of the Optus lease not having commenced by 1 July 2008 or such longer period as approved by investors by special resolution. SCL will indemnify the Trust to prevent any shortfall in the return of the application monies to investors from terminating the Trust. This indemnity will include any costs associated with the early termination of interest rate swaps entered on behalf of the Trust.

Units held by Stockland Trust

As at 30 June 2006, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 5,247,050 (6.11%) of the instalment receipts in the Trust.

As at 30 June 2006, Stockland Trust Management Limited as Responsible Entity for Stockland Trust held 100% of the units in Macquarie Park Trust.

21 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.

22 Contingent liabilities and contingent assets

As at 30 June 2006, the Trust has no contingent liabilities or contingent assets (2005: $nil).

23 Events subsequent to balance date

There have been no events subsequent to balance date which would have a material effect on the Trust's Financial Statements at 30 June 2006.

Directors' Declaration

In the opinion of the directors of Stockland Funds Management Limited, the Responsible Entity of Stockland Direct Office Trust No.2:

1. The Financial Statements and Notes set out on pages 5 to 18, 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 30 June 2006 and of its performance, as represented by the results of its operations and cash flows for the financial year ended on that date; and
   (b) complying with Australian Accounting Standards 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.
3. The Trust has operated during the period 13 May 2005 to 30 June 2006 in accordance with the provisions of the Trust Constitution as amended dated 27 June 2005.
4. The Register of Unitholders has, during the period 13 May 2005 to 30 June 2006, been properly drawn up 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 s.295(5) of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors:

Matthew Quinn
Director
Dated at Sydney, 17 August 2006

Independent Audit Report

to the Unitholders of Stockland Direct Office Trust No.2

Scope

We have audited the financial report of Stockland Direct Office Trust No.2 ("the Trust") for the financial year ended 30 June 2006, consisting of the income statement, statement of changes in equity, balance sheet, statement of cash flows, accompanying notes 1 to 23, and the directors' declaration. The directors of the responsible entity, Stockland Funds Management Limited (the "Responsible Entity"), are responsible for the preparation of the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the unitholders.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the Trust's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of Stockland Direct Office Trust No.2 for the year ended 30 June 2006 is in accordance with:

a) the Corporations Act 2001, including:

i. giving a true and fair view of the Trust's financial position as at 30 June 2006 and of its performance for the financial year ended on that date; and

ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

Stuart J Marshall
Partner
Sydney, 17th August 2006

Optus at Macquarie Park, NSW

Stockland DIRECT

Responsible Entity
Stockland Funds Management Limited
ABN 86 078 081 722
AFS Licence: 241188

Directors of the Responsible Entity
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Lyn Gearing
David Kent
Tony Sherlock
Terry Williamson
Matthew Quinn

Company Secretaries of the Responsible Entity
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