2007 Stockland Direct Office Trust No.2

Annual Report
30 June 2007

Stockland
DIRECT

Stockland Direct Office Trust No.2—

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Directors' report—
—for the year ended 30 June 2007

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 year ended 30 June 2007, the state of the Trust's affairs as at 30 June 2007 and the related Independent Auditor's Report.

Directors

The Directors of the Responsible Entity at any time during or since the end of the financial year ("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 Holdings Limited and Perpetual Limited. Mr Scott is also a Director of Pilotlight, a non-profit making organisation, is an employee of Korn Ferry International Pty Ltd and is on the Advisory Board of Jones Lang LaSalle Australia. 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 Australasia Pty Limited, IMB Limited and the Garvan Research Foundation. Ms Gearing was Chief Executive of NSW State Super from 1997 to 2002, and has extensive 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 on 1 July 2006. She is also a member of both the Stockland and Stockland Funds Management Limited Audit and Risk Committees.

David Kent
(Non-Executive) - Independent
Appointed 9 August 2004
Mr Kent is Executive Chairman of Everest Babcock and Brown Limited and a director of the Australian chapter of the Alternative Investment Management Association ("AIMA"). He was previously Executive General Manager of Axiss Australia 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. Mr Kent formerly worked for Morgan Stanley in Sydney, Melbourne and New York where he became Managing Director and Head of Investment Banking. Mr Kent has previously served as Deputy Chairman of the Art Gallery of NSW Foundation, Chairman of the Brett Whiteley Foundation and is currently on the S.H. Ervin Gallery Committee.

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 Attractions Group Limited, IBA Health Limited, Export Finance Insurance Corporation and Equatorial Mining Limited. He is a consultant to the 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. He is a member of the Stockland Funds Management Limited Compliance Committee. He is also a member of the Stockland Funds Management Limited Audit and Risk Committee.

Directors (continued)

Terry Williamson (Non-Executive)
Appointed 2 July 2004
Mr Williamson is a director of Stockland, Avant Insurance Limited and ING Australia Limited 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 both the Stockland Trust Management Limited and Stockland Funds Management Limited Compliance Committee. Mr Williamson is Chair of the Stockland and Stockland Funds Management Limited Audit and Risk Committees.

Matthew Quinn (Executive) – Managing Director - Stockland
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. He was appointed Director of Australian Business and Community Network Limited in October 2006.

SFML Compliance Committee
A Compliance Committee has been set up to oversee the Compliance Plan approved by the Responsible Entity for the Trust.

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

Ms. L. Gearing (Chair) –
Non-Executive Director

Mr. A. Sherlock –
Independent Non-Executive Director

Mr. T. Williamson –
Non-Executive Director

The role of the committee includes evaluation of the effectiveness of the Responsible Entity's compliance systems designed to protect the interests of unitholders. The Compliance Plan has been approved by ASIC. The committee meets regularly and must report breaches of the law and Constitution to the SFML Board which is required to report any material breach of the Compliance Plan to ASIC.

SFML Audit and Risk Committee
The Audit and Risk Committee has been set up to make appropriate recommendations to the Board and to determine any matters delegated to it by the Board, either specifically or under its charter.

The primary objective of the committee is to assist the Board of SFML in discharging its responsibilities for:

- financial reporting and audit practices;
- accounting policies;
- the management of risk; and
- the adequacy and effectiveness of internal controls.

Audit and Risk Committee meetings are to be held at least quarterly and guests are invited to attend such as executive management staff, external and internal auditors and advisors. The committee meets privately with the external auditor in the absence of management at least once a year. The committee has the power to conduct or authorise investigations into, or consult independent specialists on, any matters within the committee's scope of responsibility. The committee has a written charter which incorporates best practice.

Under its charter, the committee must be comprised of at least three or more directors, all of whom must be non-executive directors. The Chairman of the committee may not also be the Chairman of the SFML Board.

The members of the Audit and Risk Committee during or since the end of the financial period were:

Mr T Williamson (Chair) –
Non-Executive Director

Mr A Sherlock –
Independent Non-Executive Director

Ms L Gearing –
Non-Executive Director

The committee assists the Board to fulfil its corporate governance and disclosure responsibilities in relation to financial reporting, internal controls, risk management systems and both internal and external audits.

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 investment of 49% in Macquarie Park Trust ("MPT").

Review of operations
The Trust achieved a profit from operating activities of $29,025,000 for the financial year ended 30 June 2007 (30 June 2006: $1,150,000).

An upwards revaluation totalling $28,599,000 was recognised in the Trust's Income Statement through the recognition of the Trust's share of net profits of the joint venture. During the year an independent valuation was performed with the result of the Macquarie Park Property being revalued at $410,000,000 (100% basis).

Distributions paid or declared by the Trust to unitholders during the financial year are set out in Note 18 of the Financial Statements.

On 15 June 2007, the Trust acquired a 49% interest in MPT.

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 year.

Events subsequent to the end of the year
There have been no events subsequent to the balance date which would have a material effect on the Trust's Financial Statements at 30 June 2007.

Likely developments
The Trust will continue to review investment strategies with a view to optimising both the income and capital return over the investment term.

Environmental regulation
The Trust's operations are subject to various environmental regulation under both Commonwealth and 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 2007 (2006: 5,247,050 instalment receipts).

Interests of the Responsible Entity
The Responsible Entity has not held any units in the Trust either directly or indirectly during the financial year.

Responsible Entity's remuneration
The Responsible Entity charged a responsible entity fee of 0.45% p.a. of the gross assets of the Trust, calculated monthly. The Responsible Entity may defer a portion of the annual fees each year. 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 21 of the Financial Report.

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	425,000
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 year ended 30 June 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 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, 16 August 2007

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 Funds Management Limited.

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 there have been:

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

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

KPMG

Scott Fleming
Partner

Sydney
16 August 2007

Income statement

For the year ended 30 June 2007

	NOTES	2007 $'000	2006 $'000
Revenue and other income			
Interest income	4	**2,437**	1,924
Share of profit of investments accounted for using the equity method	9	**29,161**	-
Realised gain on financial instruments		**540**	-
Other revenue		**42**	-
Total revenue and other income		**32,180**	1,924
Finance costs to external parties[1]		**(1,212)**	(545)
Auditors' remuneration	5	**(52)**	(42)
Responsible Entity fees	21	**(221)**	(121)
Performance fee		**(1,589)**	-
Other expenses		**(81)**	(66)
Total expenses before finance costs to unitholders		**(3,155)**	(774)
Profit from operating activities		**29,025**	1,150
Distribution (finance) expense to unitholders[1]	18	**(4,062)**	(2,164)
Change in net assets attributable to unitholders	17	**24,963**	(1,014)

1 Total finance costs for the Trust are $5,274,000 (2006: $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 2007

	NOTES	2007 $'000	2006 $'000
Current assets			
Cash and cash equivalents	6	**2,815**	8,154
Trade and other receivables	7	**48**	-
Other assets	8	**234**	5
Total current assets		**3,097**	8,159
Non-current assets			
Investments accounted for using the equity method	9	**202,373**	-
Trade and other receivables	10	**-**	25,893
Other assets	11	**6,793**	2,687
Total non-current assets		**209,166**	28,580
Total assets		**212,263**	36,739
Current liabilities			
Trade and other payables	12	**1,371**	657
Total current liabilities		**1,371**	657
Non-current liabilities			
Interest-bearing loans and borrowings	13	**99,369**	5,384
Provisions	14	**1,589**	-
Other payables	15	**-**	192
Total non-current liabilities		**100,958**	5,576
Total liabilities (excluding net assets attributable to unitholders)		**102,329**	6,233
Net assets attributable to unitholders	17	**109,934**	30,506

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

Statement of changes in equity

For the year ended 30 June 2007

	UNITHOLDERS' FUNDS UNITS ON ISSUE		UNDISTRIBUTED INCOME		TOTAL	
	30 JUNE 2007 $'000	30 JUNE 2006 $'000	**30 JUNE 2007 $'000**	30 JUNE 2006 $'000	**30 JUNE 2007 $'000**	30 JUNE 2006 $'000
Opening balance[1]	**-**	-	**-**	-	**-**	-
Effective portion of changes in fair value of cash flow hedges	**-**	-	**-**	-	**-**	-
Total non-profit items recognised directly in equity	**-**	-	**-**	-	**-**	-
Profit for the year	**-**	-	**-**	-	**-**	-
Total recognised income and expenses for the year	**-**	-	**-**	-	**-**	-
Units issued for the year	**-**	-	**-**	-	**-**	-
Distributions paid	**-**	-	**-**	-	**-**	-
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 Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Cash flow statement

For the year ended 30 June 2007

	NOTES	2007 $'000	2006 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		**557**	592
Cash payments in the course of operations		**(306)**	(719)
Interest received		**2,481**	1,924
Interest paid		**(2,595)**	(329)
Net cash flows from operating activities	19	**137**	1,468
Cash flows from investing activities			
Payments for unlisted units in joint venture entity		**(147,320)**	-
Payment for Macquarie Park Trust Series B Notes		**-**	(25,188)
Net cash flows from investing activities		**(147,320)**	(25,188)
Cash flows from financing activities			
Proceeds from instalment receipts		**51,520**	34,347
Payment of establishment fee		**-**	(7,982)
Proceeds from borrowings		**95,800**	7,425
Borrowing costs paid		**(1,872)**	(294)
Distributions paid		**(3,604)**	(1,622)
Net cash flows from financing activities		**141,844**	31,874
Net (decrease)/increase in cash and cash equivalents		**(5,339)**	8,154
Cash and cash equivalents at the beginning of the financial year		**8,154**	-
Cash and cash equivalents at the end of the financial year	6	**2,815**	8,154

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

Notes to the financial statements

For the year ended 30 June 2007

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 as at and for the year ended 30 June 2007 was authorised for issue by the Directors of the Responsible Entity on 16 August 2007.

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. The Financial Report also complies with the International Financial Reporting Standards ("IFRSs").

(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 derivative 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 all periods presented in this Financial Report.

(c) Revenue recognition

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

Rent from investment properties

Rent from investment properties is recognised in the Income Statement on a straight-line basis over the lease term. Rent not received at balance date is reflected in the Balance Sheet as a receivable or if paid in advance, as rents in advance. Lease incentives granted are recognised over the lease term, on a straight-line basis, as a reduction of rent.

Interest income

Interest income is recognised in the 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, 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).

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.

(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.

Notes to the financial statements

For the year ended 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Hedging (continued)

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 equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated in equity are recognised in the Income Statement in the period 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 equity are transferred into the initial measurement of the cost of the asset or liability.

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

Derivatives that do not qualify for hedge accounting

Certain derivative instruments may 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.

(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) 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.

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

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

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.

(l) Trade and other payables

Other payables are stated at cost.

Distributions to unitholders

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

(m) 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.

(n) Provisions

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Provisions (continued)

Performance Fee

The performance fee will be recognised in the Income Statement on an accrual basis. The performance fee is calculated in accordance with the Constitution based on the value of the Trust's property interest at the current balance date, discounted to reflect the projected life of the Trust and inherent market risks. The performance fee recognised will continue to be remeasured at each reporting date to reflect movements in the Trust's performance during the period. Any revision to the performance fee will be adjusted through the Income Statement in the current financial period.

(o) 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 are 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 and 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.

(p) Investments

Joint venture entities

The Trust's 49% investment in Macquarie Park Trust ("MPT") is treated as an investment in a joint venture entity.

Investments in joint venture entities are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and the recoverable amount.

The Trust's share of the joint venture entities net profit or loss is recognised in the Trust's Income Statement from the date joint control commences until the date joint control ceases. Other movements in reserves are recognised directly in reserves, classified as a liability to unitholders.

(q) New accounting standards

Certain new accounting standards have been published that are not mandatory for this reporting period. The Trust's assessment of the impact of these new standards is set out below.

AASB 7 "Financial Instruments: Disclosures" replaces the presentation requirements of financial instruments in AASB 132 "Financial Instruments: Disclosure and Presentation". AASB 2005-10 "Amendments to Australian Accounting Standards" makes consequential amendments to AASB 132, AASB 101 "Presentation of Financial Statements", AASB 114 "Segment Reporting", AASB 117 "Leases", AASB 133 "Earnings Per Share", AASB 139 "Financial Instruments" Recognition and Measurement", AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", AASB 4 "Insurance Contracts", AASB 1023 "General Insurance Contracts" & AASB 1038 "Life Insurance Contracts".

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Trust has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the consolidated entity's financial instruments.

AASB 8 "Operating Segments" and AASB 2007-3 "Amendments to Australian Accounting Standards arising from AASB 8" makes amendments to AASB 5 "Non-current Assets Held for Sale and Discontinued Operations", AASB 6 "Exploration for and Evaluation of Mineral Resources", AASB 102 "Inventories", AASB 107 "Cash Flow Statements", AASB 119 "Employee Benefits", AASB 127 "Consolidated and Separate Financial Statements", AASB 134 "Interim Financial Reporting", AASB 136 "Impairment Assets", AASB 1023 and AASB 1038.

AASB 8 and AASB 2007-3 are applicable to annual reporting periods beginning on or after 1 January 2009. The Trust has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the consolidated entity's segment reporting.

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 twelve months 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.

Notes to the financial statements

For the year ended 30 June 2007

2 ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(a) Key sources of estimation uncertainty (continued)

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.

Estimates of performance fee expense

A performance fee is payable to the Responsible Entity 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 performance fee payable is based on the property net sales proceeds. The Trust has provided for a performance fee of $1,589,000 at 30 June 2007. Refer Note 21.

The Trust determines the value of the performance fee to be provided based on the current property valuation and estimates regarding the likely sales proceeds on disposal of the Trust's property.

The best evidence of the likely sales proceeds is the fair value of the property. Current prices in an active market for similar investment properties, leases and other contracts are the best indicator of fair value. Where such information is not available, the 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 performance fee expense

The discounted cash flow approach applied for determining the fair value of the property usually includes assumptions in relation to current and recent investment property prices. If such prices are not available, then the fair value of investment properties is determined using assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying the Responsible Entity's estimation of fair value are those related to the receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements, and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the 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.

It is assumed payment of the performance fee will occur in accordance with the Constitution and the projected life of the Trust.

The Trust has then applied an appropriate discount rate to reflect the projected life of the fund.

3 SEGMENT REPORTING

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

Notes to the financial statements

For the year ended 30 June 2007

4 INTEREST INCOME

	2007 $'000	2006 $'000
Macquarie Park Trust Series B Notes	**1,982**	1,568
Other	**455**	356
	2,437	1,924

5 AUDITORS' REMUNERATION

	2007 $	2006 $
Audit services		
Audit and review of the Financial Reports (KPMG Australia)	**17,000**	15,000
Other audit services (KPMG Australia)	**6,525**	-
Compliance audit services (KPMG Australia)	**18,300**	16,500
	41,825	31,500
Other services		
Tax compliance services (KPMG Australia)	**10,095**	10,550
	10,095	10,550
Total remuneration	**51,920**	42,050

	2007 $'000	2006 $'000

6 CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank and on hand	**2,815**	8,154

The weighted average interest rate for cash at bank and on hand at 30 June 2007 was 5.93% (2006: 5.46%).

7 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

Other receivables	**48**	-

8 CURRENT ASSETS - OTHER

Other assets	**234**	5

Notes to the financial statements

For the year ended 30 June 2007

9 NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	LOCATION	PRINCIPAL ACTIVITY	HOLDING		CARRYING AMOUNT	
			2007	2006	2007 $'000	2006 $'000
Macquarie Park Trust	NSW	Property investment	49%	-	202,373	-

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

	2007 $'000	2006 $'000
Movements in carrying amount of investments accounted for using the equity method		
Carrying amount at the beginning of the financial year	-	-
Interest in joint venture entity acquired	172,507	-
Share of change in net assets/profit	29,161	-
Distributions received	-	-
Carrying amount at the end of the financial year	201,668	-
Capitalised acquisition costs	705	
	202,373	
Share of joint venture entity's assets and liabilities		
Current assets	940	-
Non-current assets	200,893	-
Total assets	201,833	-
Current-liabilities	(165)	-
Non-current liabilities	-	-
Total liabilities	(165)	-
Share of net assets after equity accounting adjustments	201,668	-
Share of joint venture entity's revenue, expenses and results		
Revenue	29,186	-
Expenses	(25)	-
Net profit accounted for using the equity method	29,161	-
Summarised financial information of the investment using the equity method (100%)		
Current assets	1,919	-
Non-current assets	409,986	-
Current liabilities	(336)	-
Non-current liabilities	-	-
Net assets	411,569	-
Revenues	59,565	-
Expenses	(52)	-
Net profit	59,513	-

On 15 June 2007, the Trust's MPT Series B Notes with a face value of $25,188,000 were extinguished and the Trust acquired its 49% interest in MPT for $172,507,951.

Notes to the financial statements

For the year ended 30 June 2007

	2007 $'000	2006 $'000

10 NON-CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	2007 $'000	2006 $'000
Macquarie Park Trust Series B notes	**-**	25,188
Capitalised acquisition costs	**-**	705
	-	25,893

11 NON-CURRENT ASSETS – OTHER

	2007 $'000	2006 $'000
Fair value of hedging instruments	**5,632**	2,687
Other assets	**1,161**	-
	6,793	2,687

12 CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	2007 $'000	2006 $'000
Trade payables and accruals	**371**	115
Distribution payable	**1,000**	542
	1,371	657

13 NON-CURRENT LIABILITIES – INTEREST-BEARING LOANS AND BORROWINGS

	2007 $'000	2006 $'000
Facility agreement	**103,225**	7,425
Capitalised borrowing costs	**(3,856)**	(2,041)
	99,369	5,384

The Trust has a $107,225,000 (30 June 2006: $107,225,000) loan facility agreement with Westpac Banking Corporation. As at 30 June 2007, $103,225,000 has been drawn down (30 June 2006: $7,425,000). The weighted average interest rate on the loan facility is 7.11%p.a (30 June 2006: 6.68%p.a). The facility matures on 30 June 2013.

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. Interest is charged on the 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.

Acquisition Tranche 2
The Acquisition Tranche 2 facility of $95,800,218 was 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. The full amount of the Tranche 2 facility was drawn down on 15 June 2007. 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 was 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 2007. Line fees of 0.325% p.a. are charged from 26 September 2005 on the facility limit.

13 NON-CURRENT LIABILITIES – INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

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 2007. 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 2007 $'000	UTILISED 2007 $'000	FACILITY LIMITS 2006 $'000	UTILISED 2006 $'000
Acquisition Tranche 1	28 June 2013	**7,425**	**7,425**	7,425	7,425
Acquisition Tranche 2	28 June 2013	**95,800**	**95,800**	95,800	-
Capital Expenditure	28 June 2013	**3,000**	**-**	3,000	-
Overdraft	28 June 2013	**1,000**	**-**	1,000	-
		107,225	**103,225**	107,225	7,425

The variable interest rates on the Acquisition facilities have been swapped to fixed rates. Refer Note 20 (b).

14 NON-CURRENT LIABILITIES – PROVISIONS

	2007 $'000	2006 $'000
Performance Fee	**1,589**	-

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.

A performance fee provision has been recognised due to the Optus lease commencement and the upward revaluation of the Macquarie Park property. This indicates it is likely an amount will be payable by the Trust.

Based upon the value of the property interest at 30 June 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 $1,589,000 has been recognised.

15 NON-CURRENT LIABILITIES – OTHER PAYABLES

	2007 $'000	2006 $'000
Deferred line fees payable	**-**	192

16 UNITS ON ISSUE CLASSIFIED AS DEBT

	30 JUNE 2007 NUMBER OF UNITS	30 JUNE 2006 NUMBER OF UNITS	30 JUNE 2007 $'000	30JUNE 2006 $'000
Units on issue	**85,867,010**	85,867,010	**80,353**	28,833

DATE	DETAILS	NUMBER OF UNITS	PRICE PER UNIT	$'000
1 July 2005	Opening balance	85,867,010	-	-
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
15 June 2007	Units paid	85,867,000	$0.60	51,520
30 June 2007	**Closing Balance**	**85,867,010**		**80,353**

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 until the final instalment is paid by investors.

17 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS CLASSIFIED AS A LIABILITY

		$'000
1 July 2005	Opening balance	28,833
30 June 2006	Movement in fair value of interest rate swaps	2,687
30 June 2006	Change in net assets for the year attributable to unitholders holdersunitholders	(1,014)
30 June 2006	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 holdersunitholders	**24,963**
30 June 2007	Closing balance	**109,934**

18 DISTRIBUTIONS TO UNITHOLDERS

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

	DISTRIBUTION PER UNIT	TOTAL AMOUNT $'000	DATE OF PAYMENT	TAX DEFERRED
2007				
30 September 2006	0.6680¢	**574**	3 November 2006	100%
31 December 2006	0.6873¢	**590**	28 February 2007	100%
31 March 2007	0.7142¢	**613**	30 April 2007	100%
30 June 2007	2.6610¢	**2,285**	28 August 2007*	100%
		4,062		

* Interest of $1,285,000 relating to the Final Instalment was paid to the Security Trustee, on behalf of investors, on 15 June 2007, in accordance with the Security Trustee Deed. Other fees totalling $376,000 were paid to the Security Trustee, on behalf of investors, on 2 July 2007. The balance of the distribution payable of $624,000 is proposed to be paid to unitholders on 28 August 2007.

Notes to the financial statements

For the year ended 30 June 2007

18 DISTRIBUTIONS TO UNITHOLDERS (CONTINUED)

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

	DISTRIBUTION PER UNIT	TOTAL AMOUNT $'000	DATE OF PAYMENT	TAX DEFERRED
2006				
31 December 2005	1.2540¢	1,077	17 February 2006	100%
31 March 2006	0.6350¢	545	3 May 2006	100%
30 June 2006	0.6310¢	542	28 August 2006	100%
		2,164		

19 NOTES TO THE CASH FLOW STATEMENT

RECONCILIATION OF PROFIT FROM OPERATING ACTIVITIES TO NET CASH FLOWS FROM OPERATING ACTIVITIES	2007 $'000	2006 $'000
Profit from operating activities	**29,025**	1,150
Amortisation of borrowing costs	**203**	16
Change in value of investment using the equity method	**(29,161)**	-
Reclassification of borrowing costs	**290**	-
Change in assets and liabilities:		
(Increase) in trade and other receivables	**(43)**	-
(Increase) in other assets	**(2,019)**	(5)
Increase in trade and other payables	**1,842**	307
Net cash flows from operating activities	**137**	1,468

20 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 Responsible Entity 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.

20 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Derivative financial instruments 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.

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.

On 15 June 2007, being lease commencement, two derivative instruments were terminated resulting in a realised gain of $540,000. The two derivative instruments were no longer required, given that the Trust was entitled to receive distribution income from MPT from 15 June 2007.

At 30 June 2007, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

30 JUNE 2007	SWAPS ON ACQUISITION FACILITIES $'000	SWAPS ON UNITHOLDER FUNDS $'000	TOTAL SWAPS $'000
Less than 1 year	**-**	**-**	**-**
1 – 2 years	**103,225**	**-**	**103,225**
2 – 3 years	**-**	**-**	**-**
3 – 4 years	**-**	**-**	**-**
4 – 5 years	**-**	**-**	**-**
Over 5 years	**103,225**	**-**	**103,225**

30 JUNE 2006	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.

The swaps meet the hedge accounting criteria per AASB 139 "Financial Instruments: Recognition and Measurement" and have been tested for effectiveness. At 30 June 2007, the swaps are considered to be 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 $5,632,000 (2006: $2,687,000) included in other assets on the Balance Sheet.

Notes to the financial statements

For the year ended 30 June 2007

20 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk exposures

In respect of income-earning financial assets and interest-bearing liabilities, the following table indicates their effective interest rate at the balance date and the periods in which they reprice at reporting date.

30 JUNE 2007	EFFECTIVE INTEREST RATE	FLOATING INTEREST RATE $000S	MATURITY PROFILE 1 YEAR OR LESS $000S	1 – 2 YEARS $000S	MORE THAN 5 YEARS $000S	TOTAL $000S
Financial assets						
Cash and cash equivalents	**5.93%**	**2,815**	**-**	**-**	**-**	**2,815**
Other receivables	**-**	**48***	**-**	**-**	**-**	**48**
Financial liabilities						
Facility agreement	**7.11%**	**(103,225)**	**-**	**-**	**-**	**(103,225)**
Effect of interest rate swaps	**(0.74%)**	**7,425**	**-**	**(7,425)**	**-**	**-**
Future dated interest rate swaps**	**-**	**-**	**-**	**-**	**-**	**-**

* Non-interest bearing financial asset.

** Future dated interest rate swaps with a total notional amount of $199,025,000 at a fixed interest rate effective starting from July 2007.

30 JUNE 2006	EFFECTIVE INTEREST RATE	FLOATING INTEREST RATE $000S	MATURITY PROFILE 1 YEAR OR LESS $000S	1 – 2 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
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 swaps***	-	-	-	-	-	-

*** Includes a future dated interest rate swap.

(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 2007.

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

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.

21 RELATED PARTIES

Stockland Funds Management Limited ("SFML") is the Responsible Entity of the Trust. The Key Management Personnel of the Trust has been defined as the Responsible Entity. The Responsible Entity does not hold any units in the Trust.

The directors of the Responsible Entity and their instalment receipts held in the Trust at 30 June 2007 are as follows:

DIRECTORS	NUMBER OF INSTALMENT RECEIPTS HELD
Mr David Kent	425,000
Mr Matthew Quinn	25,000
Mr Peter Scott	25,000
Mr Terry Williamson	100,000

RESPONSIBLE ENTITY FEES AND OTHER TRANSACTIONS	**2007 $'000**	2006 $'000
Fund establishment & procurement fees		
In the previous financial year, 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
Responsible Entity fees		
The Responsible Entity charged responsible entity fees calculated at 0.45% p.a. of the gross value of the assets of the Trust.	**221**	121
Performance fees		
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%. The Trust has provided for a performance fee at 30 June 2007. Refer Note 14.	**1,589**	-
Services arranging fee		
In the previous financial year, the Responsible Entity received a fee for arranging the provision of professional services in relation to the establishment of the Trust and the offer.		
In the previous financial year, the Responsible Entity paid $872,992 for trust legal costs, PDS production costs and advisory costs.	**-**	894
Total Responsible Entity fees and other transactions	**1,810**	7,897

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 Investors 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 financial year STML, as Responsible Entity of Stockland Trust, acquired no instalment receipts (30 June 2006: Nil) in the Trust via the LLF. The LLF will commence on 1 July 2007.

Underwriting

In the previous financial year, 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.

Notes to the financial statements

For the year ended 30 June 2007

21 RELATED PARTIES (CONTINUED)

Other related party transactions (continued)

Units held by Stockland Trust

As at 30 June 2007, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 5,247,050 (2006: 5,247,050) instalment receipts in the Trust.

As at 30 June 2007, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, held 31% (2006: 100%) of the units in MPT.

Stockland Development Pty Limited

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 has also undertaken to contribute $42,000 to the Trust to compensate for costs incurred as a consequence of early settlement of the MPT acquisition on 15 June 2007.

22 CAPITAL COMMITMENT

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. The Optus lease commenced on 15 June 2007.

The $172,507,951 capital commitment was funded by the following sources of capital:

	2007 $'000	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 on behalf of unitholders	-	51,520
	-	172,508

23 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.

24 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2007, the Trust has no contingent liabilities or contingent assets (2006: $Nil).

25 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 2007.

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 22, 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 2007 and of its performance for the financial year 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 will be able to pay its debts as and when they become due and payable.
3. The Trust has operated during the financial year ended 30 June 2007 in accordance with the provisions of the Trust Constitution as amended dated 27 June 2005.
4. The Register of Unitholders has, during the financial year ended 30 June 2007, 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 Section 295(5) of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors:

Matthew Quinn
Director

Dated at Sydney, 16 August 2007

Independent auditor's report

to the unitholders of Stockland Direct Office Trust No.2

Report on the financial report

We have audited the accompanying financial report of Stockland Direct Office Trust No.2 ("the Trust"), which comprises the balance sheet as at 30 June 2007, the income statement, statement of changes in equity and cash flow statement for the year ended on that date, explanatory notes 1 to 25 and the directors' declaration set out on pages 5 to 23.

Directors' responsibility for the financial report

The directors of the Responsible Entity, Stockland Funds Management Limited, are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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. In note 1(a), the directors of the Responsible Entity of the Trust also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

Auditor's opinion

In our opinion:

(a) the financial report of Stockland Direct Office Trust No.2 is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Trust's financial position as at 30 June 2007 and of its performance for the financial year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

KPMG

Scott Fleming
Partner

Sydney
16 August 2007

Stockland
DIRECT

Responsible Entity
Stockland Funds Management Limited
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AFS Licence 241188

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Lyn Gearing
David Kent
Matthew Quinn
Tony Sherlock
Terry Williamson

Company Secretaries of the Responsible Entity
Phillip Hepburn
Derwyn Williams

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