Stockland Direct Office Trust No. 2

ARSN: 115 017 466

Annual Financial Report
30 June 2010

Registered office:

133 Castlereagh Street
Sydney NSW 2000

Stockland Direct Office Trust No. 2
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Stockland Direct Office Trust No. 2
Directors' Report
For the year ended 30 June 2010

The Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity of Stockland Direct Office Trust No. 2 ("the Trust"), present their report together with the 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 2010, the state of the Trust's affairs as at 30 June 2010 and the Independent Auditor's Report thereon.

SCPL was appointed the Responsible Entity at the date the Trust commenced.

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"). He is Chairman of Sinclair Knight Merz Holdings Limited and Chairman-elect of Perpetual Limited where he was appointed a Director on 31 July 2005. Mr Scott is a Director of Pilotlight, a non-profit making organisation and O'Connell Street Associates Pty Limited. He was appointed to the Advisory Board of Laing O'Rourke Australia in August 2008. 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 is Chairman of the Human Resources Committee and Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds.

David Kent
(Non-Executive)
Appointed 9 August 2004

Mr Kent was appointed a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds, in August 2004. He is Chairman of the S H Ervin Gallery Committee and a Director of the Royal Sydney Golf Club Foundation and The Australian Club Inc. Mr Kent spent the majority of his executive career at Morgan Stanley where he became Managing Director and Head of Investment Banking. He held positions in Sydney, Melbourne and New York for Morgan Stanley. Other positions held have included Chairman of Everest Financial Group, Director of the Everest Alternative Investment Trust, Executive General Manager of Axiss Australia and Senior Trade & Investment Commissioner in Paris and Washington DC for the Australian Trade Commission. Mr Kent has been a Member of the Financial Sector Advisory Council and the Australian Chapter of the Alternative Investment Management Association. He has previously served as Deputy Chairman of the AGNSW Foundation and Chairman of the Brett Whiteley Foundation. He is a member of the Board Equity and Finance Committee of Sinclair Knight Merz and of the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

Anthony Sherlock
(Non-Executive)
Appointed 9 August 2004

Mr Sherlock was appointed as a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds, in August 2004. He is a former Senior Partner of Coopers & Lybrand having national responsibility for credit risk management. In that capacity, he obtained experience in the banking and finance, mining, agriculture, building, construction and development sectors. Mr Sherlock is a non-executive Director of IBA Health Limited, Export Finance Insurance Corporation and Equatorial Mining Limited. He is the former Chairman of Australian Wool Corporation Limited and The Woolmark Company Pty Ltd, a former non-executive Director of Austral Coal Limited and Sydney Attractions Group Limited, and has acted on a number of committees for both Federal and State governments. He is a member of the Stockland Capital Partners Limited Audit and Risk Committee, the Stockland and Stockland Capital Partners Financial Services Compliance Committees and the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

Directors (continued)

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 and the Royal Institute of Chartered Surveyors. He was appointed Chairman of Australian Business and Community Network Limited in November 2007. Mr Quinn is a member of the Corporate Responsibility and Sustainability Committee, a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds and a member of the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

Hugh Thorburn
Director – Stockland - (Executive)
Appointed 25 October 2007, retired on 26 February 2010

Mr Thorburn was appointed to the Board on 25 October 2007 as alternate Director for Mr Quinn. He is a Chartered Accountant and has held a number of senior financial and general management roles in Australian companies. Mr Thorburn was a member of the Stockland Treasury Policy Committee until 26 February 2010.

Tim Foster
Chief Financial Officer – Stockland – (Executive)
Appointed 26 February 2010

Mr Foster was appointed an alternate Director for Mr Quinn on 26 February 2010. Mr Foster joined Stockland Group in February 2010 with 25 years of financial experience, including 15 years in the financial services industry. For the past 10 years he has held CFO roles in three major organisations including Colonial First State Investments, Challenger Financial Services and HBOS Australia. In his most recent role at HBOS Australia, Mr Foster led the Corporate Services Division and was also the Chairman of the HBOSA Assets & Liabilities Committee and the HBOSA Learning Council.With significant exposure to the property sector throughout his career, he was a Director of Colonial First State's property trust and managed the property accounting team for the trust. Mr Foster commenced his career with a major global accounting firm in the UK.

Stockland Capital Partners Limited Financial Services Compliance Committee

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

The role of the Committee includes evaluation of the effectiveness of the Trust's Compliance Plans designed to protect the interests of Unitholders. The Compliance Plan has been approved by the Australian Securities and Investments Commission ("ASIC"). The Committee meets regularly and must report breaches of the law and Constitution to the Board which is required to report any material breach of the Compliance Plan to ASIC.

The members of the Committee during and since the end of the financial year were:

Mr T Williamson (Chair) – Non-Executive Director of Stockland
Mr A Sherlock – Non-Executive Director
Mr P Hepburn – Executive Member

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Directors’ Report
For the year ended 30 June 2010

Stockland Capital Partners Limited Audit and Risk Committee

The Audit and Risk Committee assists the Board in fulfilling its governance and disclosure responsibilities in relation to financial reporting, internal controls, risk management systems and internal and external audits.

The primary objective of the Committee is to assist the Board of SCPL in discharging its responsibilities for:

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

The Committee meets at least quarterly and its meetings are attended by management and internal and external audit and other parties as relevant. The Committee may meet privately with the external auditors 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 terms of reference which incorporates best practice. Its members must be independent of management and at least one member of the Committee has relevant accounting qualifications and experience and all members have a good understanding of financial reporting.

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

Mr T Williamson (Chair) – Non-Executive Director of Stockland
Mr A Sherlock – Non-Executive Director

Principal activity

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

Review and results of operations

The Trust recorded a profit from operating activities of $14,247,000 for the financial year ended 30 June 2010 (2009: loss of $19,159,000). This profit includes certain significant items, such as the gain/(loss) from fair value adjustment of investment property that, in the opinion of Directors, need adjustment to enable Unitholders to obtain an understanding of the Trust’s underlying profit (refer to the table below).

The underlying profit for the year was $5,961,000 (2009: $7,179,000), reflecting a 17% decrease from the previous financial year.

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

The following table provides information to Unitholders that reconciles underlying profit to statutory profit. Underlying profit reflects statutory profit as adjusted in order to present a figure which reflects the Directors’ assessment of the result for the ongoing business activities of the Trust, in accordance with the AICD / Finsia principles for reporting underlying profit.

		Trust	
		2010	2009
	Note	**$’000**	$’000
Underlying profit		**5,961**	7,179
Certain significant items:			
Gain/(loss) from fair value adjustment of investment property	8	**8,286**	(26,338)
Profit/(loss) for the financial year		**14,247**	(19,159)

An upwards revaluation of the Macquarie Park property totalling $20,000,000 was recognised in the Trust through the recognition of the Trust’s share of net profit in MPT. During the financial year, an independent valuation was performed resulting in the Macquarie Park property being revalued upwards to $370,000,000 (100% basis). This represents an increase of 6% on the 30 June 2009 carrying value of $350,000,000 (100% basis).

Review and results of operations (continued)

For the financial year ended 30 June 2010, a fair value decrement of $488,000 (2009: decrement of $9,821,000) in the valuation of the interest rate swap was recorded in Reserves as set out in Note 16 of the Financial Statements. As at 30 June 2010, the fair value of the interest rate swap was $2,311,000 liability (2009: $1,823,000 liability) as set out in Note 14 of the Financial Statements.

Significant changes in the state of affairs

There have been no significant changes in the state of the affairs of the Trust during the financial year.

Events subsequent to the end of the year

On 16 July 2010, the Trust received a special distribution of $1,470,000 from Macquarie Park Trust.

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

Likely developments

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

Environmental regulation

The Trust's operations are subject to various environmental regulations 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 the Responsible Entity of Stockland Trust, a related party of the Responsible Entity, holds 14,943,976 instalment receipts in the Trust as at 30 June 2010 (2009: 12,247,050).

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. 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 winding up of the Trust. The Responsible Entity charges are set out in Note 20 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:

Directors	Number of instalment receipts held
Mr David Kent	150,000
Mr Matthew Quinn	25,000
Mr Peter Scott	25,000

Stockland Direct Office Trust No. 2
Directors' Report
For the year ended 30 June 2010

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 6 and forms part of the Directors' Report for the year ended 30 June 2010.

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, 19 August 2010

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

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

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 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

KPMG

S. G. Fleming

Scott Fleming

Partner

Sydney

19 August 2010

Stockland Direct Office Trust No. 2
Statement of Comprehensive Income
For the year ended 30 June 2010

	Notes	**2010 $'000**	2009 $'000
Revenue and other income			
Interest income		**57**	102
Total revenue and other income		**57**	102
Share of net profit/(loss) of investments accounted for using the equity method	8	**21,891**	(12,862)
Finance costs to external parties		**(6,872)**	(6,885)
Auditors' remuneration	4	**(43)**	(51)
Responsible Entity fees	20	**(781)**	(880)
Performance fee write back	13	**-**	1,622
Unwind of discount on performance fee provision	13	**-**	(75)
Other expenses		**(5)**	(130)
Profit/(loss) for the financial year		**14,247**	(19,159)
Other comprehensive income/(expense)			
Effective portion of changes in fair value of cash flow hedges	16	**(488)**	(9,821)
Other comprehensive expense for the year		**(488)**	(9,821)
Total comprehensive income/(expense) for the year		**13,759**	(28,980)

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

Stockland Direct Office Trust No. 2
Balance Sheet
As at 30 June 2010

	Notes	2010 $'000	2009 $'000	2008[1] $'000
Current assets				
Cash and cash equivalents	5	**1,348**	694	2,279
Trade and other receivables	6	**1**	11	1
Other assets	7	**233**	233	282
Total current assets		**1,582**	938	2,562
Non-current assets				
Investments accounted for using the equity method	8	**182,614**	172,685	197,272
Other assets	9	**465**	697	8,927
Total non-current assets		**183,079**	173,382	206,199
Total assets		**184,661**	174,320	208,761
Current liabilities				
Trade and other payables	10	**2,672**	1,622	2,227
Other liabilities	11	**24**	63	-
Total current liabilities		**2,696**	1,685	2,227
Non-current liabilities				
Interest-bearing loans and borrowings	12	**101,284**	100,642	100,004
Provisions	13	**-**	-	1,547
Other liabilities	14	**2,311**	1,823	-
Total non-current liabilities		**103,595**	102,465	101,551
Total liabilities		**106,291**	104,150	103,778
Net assets		**78,370**	70,170	104,983
Unitholders' funds				
Units on issue	15	**68,961**	74,520	80,353
Undistributed profit/(loss)		**11,720**	(2,527)	16,632
Reserves	16	**(2,311)**	(1,823)	7,998
Total unitholders' funds		**78,370**	70,170	104,983

[1] AASB 101 Presentation of financial statements prescribes an additional balance sheet be presented at the beginning of the earliest comparative period following a change in accounting policy. Refer to note 1(q) for changes in accounting policy during the year ended 30 June 2010.

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

Stockland Direct Office Trust No. 2
Statement of Changes in Equity
For the year ended 30 June 2010

		Unitholders' Funds							
		Issued capital		Undistributed profit/(loss)		Reserves		Total	
	Notes	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000
Opening balance		**74,520**	-	**(2,527)**	-	**(1,823)**	-	**70,170**	-
Change in accounting policy as a result of AASB 2008-02	1(q)	**-**	80,353	**-**	16,632	**-**	7,998	**-**	104,983
Restated opening balance		**-**	80,353	**-**	16,632	**-**	7,998	**-**	104,983
Other comprehensive (expense) for the year	16	**-**	-	**-**	-	**(488)**	(9,821)	**(488)**	(9,821)
Profit/(loss) for the financial year		**-**	-	**14,247**	(19,159)	**-**	-	**14,247**	(19,159)
Total comprehensive income/(expense) for the year		**-**	-	**14,247**	(19,159)	**(488)**	(9,821)	**13,759**	(28,980)
Transactions with Unitholders in their capacity as owners:									
Distributions paid/payable to Unitholders	17	**(5,559)**	(5,833)	**-**	-	**-**	-	**(5,559)**	(5,833)
Closing balance		**68,961**	74,520	**11,720**	(2,527)	**(2,311)**	(1,823)	**78,370**	70,170

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

Stockland Direct Office Trust No. 2
Cash Flow Statement
For the year ended 30 June 2010

	Notes	2010 $'000	2009 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		**71**	38
Cash payments in the course of operations		**(694)**	(774)
Distributions received from joint venture entity	8	**12,237**	11,725
Interest received		**57**	102
Interest paid		**(5,981)**	(6,062)
Net cash inflow from operating activities	18	**5,690**	5,029
Cash flows from investing activities			
Payments for unlisted units in joint venture entity		**(275)**	-
Net cash utilised in investing activities		**(275)**	-
Cash flows from financing activities			
Distributions paid		**(4,761)**	(6,614)
Net cash utilised in financing activities		**(4,761)**	(6,614)
Net increase/(decrease) in cash and cash equivalents		**654**	(1,585)
Cash and cash equivalents at the beginning of the year		**694**	2,279
Cash and cash equivalents at the end of the year	5	**1,348**	694

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

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 of the Trust as at and for the financial year ended 30 June 2010 was authorised for issue by the Directors of the Responsible Entity on 19 August 2010.

(a) Statement of compliance

The Financial Report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The Financial Report complies with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

(b) Basis of preparation

The Financial Report is presented in Australian dollars, which is the Trust's functional currency.

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

The Financial Report has been prepared on the basis of the going concern and historical cost conventions except for derivative financial instruments and investment property held by the joint venture entity, which are stated at their fair value.

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Refer to Note 2 for significant areas of estimation.

The accounting policies have been applied consistently for the purposes of this Financial Report.

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

(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.

Interest income

Interest income is recognised in the Statement of Comprehensive Income 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) Operating segments

An operating segment is a component of the Trust that engages in business activities from which it may earn revenues and incur expenses.

(e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred is not recoverable from the relevant taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

1 Summary of significant accounting policies (continued)

(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.

(g) Derivative financial instruments

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

Derivative financial instruments are recognised initially at fair value and subsequently are remeasured at each balance date. The gain or loss on re-measurement to fair value is recognised in the Statement of Comprehensive Income. 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).

(h) Hedging

The Responsible Entity formally designates and documents the relationship between hedging instruments and hedged items at the inception of the transaction, as well as its risk management objective and strategy for undertaking various hedge transactions. The Responsible Entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or highly probable forecast transaction that could affect the Statement of Comprehensive Income.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Unitholders' funds. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Income.

Amounts in Unitholders' funds are recognised in the Statement of Comprehensive Income in the periods when the hedged item is recognised in the Statement of Comprehensive Income.

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 Unitholders' funds remains in Unitholders' funds and is recognised when the forecast transaction is ultimately recognised in the Statement of Comprehensive Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in Unitholders' funds is recognised immediately in the Statement of Comprehensive Income.

(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 arrangement of borrowings.

Where interest rates are hedged, the finance costs are recognised net of any realised effect of the hedge.

Finance costs to external parties are recognised as an expense in the Statement of Comprehensive Income on an accruals basis, and if not paid at balance date are reflected in the Balance Sheet as a liability.

1 Summary of significant accounting policies (continued)

(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.

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

Trade and 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 Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

(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 is recognised in the Statement of Comprehensive Income 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 Statement of Comprehensive Income in the current financial year.

(o) 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 entity's net profit or loss is recognised in the Trust's Statement of Comprehensive Income 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.

(p) New Accounting Standards

Certain new or amended Accounting Standards have been published that are not mandatory for this reporting year. The impact of these new or amended standards (to the extent relevant to the Trust) and interpretations are set out below.

> AASB 2009-5 "Further amendments to Australian Accounting Standards arising from the Annual Improvements Process" affects various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments will become mandatory for the Trust's 30 June 2011 Financial Report.

These recently issued or amended standards are not expected to have a significant impact on the amounts recognised or disclosures made in these Financial Statements when restated for the application of these new or amended Accounting Standards.

(q) Changes in Accounting Standards

The following amended Accounting Standards have been adopted by the Trust as of 1 July 2009. The significant impact of these amended standards (to the extent relevant to the Trust) is set out below:

> Revised AASB 101 "Presentation of Financial Statements" ("AASB 101") introduced as a financial statement (formerly "primary" statement) the "Statement of Comprehensive Income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs.
>
> AASB 2008–02 "Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation" ("AASB 2008-02") represents a change in accounting policy that is applied retrospectively, and has resulted in the Trust reclassifying Unitholders' funds from liability to equity of $78,370,000 (2009: $70,170,000). In addition finance expenses for the period of $5,559,000 (2009: $5,833,000) have been reclassified from a finance expense in the Statement of Comprehensive Income to distribution from equity in the Statement of Changes in Equity.

1 Summary of significant accounting policies (continued)

(q) Changes in Accounting Standards (continued)

"Amendments to AASB 7 Financial Instruments: Disclosures" requires disclosures of financial instruments measured at fair value to be based on a three-level fair value hierarchy that reflects the significance of the inputs in such fair value measurements. The impact of the change resulted in disclosure of the Trust's financial instruments measured at fair value to be disclosed in each of the three levels as well as a reconciliation of the movement in the Level 3 financial instruments during the financial year. Refer to Note 19(d).

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, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(a) Key sources of estimation uncertainty

Estimates of fair value of investment property interest

The Trust's joint venture entity holds an investment property which is measured at fair value.

The best evidence of fair value is current prices in an active market for similar investment properties. Where such information is not available, the Responsible Entity determines the property's value within a range of reasonable fair value estimates. In making its judgement, the Responsible Entity 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 leases 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 the Responsible Entity's estimates of fair value of investment property interest

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 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.

2 Accounting estimates and assumptions (continued)

(a) Key sources of estimation uncertainty (continued)

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%. Refer Note 20 for further details.

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

The best evidence of the likely sales proceeds is the fair value of the property interest. See Note 2(a)(i)–(iv) above.

An estimate of the performance fee expense is then made factoring in the current fair value of the Trust's property interest and expectations regarding future property market volatility.

Assumptions underlying the Responsible Entity's estimates of performance fee expense

The performance fee, if any, is recognised in the Statement of Comprehensive Income on an accruals basis. The performance fee is calculated in accordance with the Constitution. This involves the assumptions set out below.

The discounted cash flow approach applied for determining the fair value of the property interest 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 transactions 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.

Assumptions underlying the Responsible Entity's estimates of fair value of derivatives

The fair value of derivatives is determined using a generally accepted pricing model based on a discounted cash flow analysis using assumptions supported by observable market rates. The determination of fair value of derivatives is described further in Note 19.

3 Operating segments

The Trust operates solely in the business of investment management in Australia, this being one operating segment.

	2010 $	2009 $
4 Auditors' remuneration		
Audit services to KPMG (Australia)		
Audit and review of the Financial Reports	**21,000**	27,000
Compliance audit services	**13,000**	15,000
	34,000	42,000
Other services to KPMG (Australia)		
Taxation compliance services	**9,164**	8,750
	9,164	8,750
Total remuneration	**43,164**	50,750

	2010 $'000	2009 $'000	2008 $'000
5 Current assets – Cash and cash equivalents			
Cash at bank and on hand	**1,348**	694	2,279

The weighted average interest rate for cash at bank and on hand as at 30 June 2010 was 3.45% p.a. (2009: 4.74% p.a.; 2008: 6.74% p.a.).

	2010 $'000	2009 $'000	2008 $'000
6 Current assets – Trade and other receivables			
Other receivables	**1**	11	1
7 Current assets – Other assets			
Prepayments	**233**	233	232
Interest receivable under interest rate swap	**-**	-	50
	233	233	282

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

			Holding			Carrying amount		
		Principal	**2010**	2009	2008	**2010**	2009	2008
	Location	**activity**	**%**	%	%	**$'000**	$'000	$'000
Macquarie Park Trust ("MPT")	NSW	Property investment	**49**	49	49	**182,614**	172,685	197,272

The joint venture was formed in Australia.

The principal activity is investment in real property.

During the financial year, an independent valuation was performed as at 30 June 2010, resulting in the Macquarie Park property being revalued upwards from $350,000,000 to $370,000,000 (100% basis). The capitalisation rate used in the June 2010 valuation was 7.25% (2009: 7.50%; 2008: 6.50%). The weighted average lease expiry is 12.01 years (2009: 13.01 years; 2008: 13.96 years).

	2010	2009	2008
	$'000	$'000	$'000
Movements in carrying amount of investments accounted for using the equity method			
Carrying amount at the beginning of the financial year	**172,685**	197,272	202,373
Share of net profit/(loss)	**21,891**	(12,862)	6,936
Distributions received	**(12,237)**	(11,725)	(11,332)
Interest in joint venture entity acquired during the financial year	**275**	-	-
Fair value adjustment on MPT investment	**-**	-	(705)
Carrying amount at the end of the financial year	**182,614**	172,685	197,272
Share of joint venture entity's assets and liabilities			
Current assets	**1,949**	3,402	3,255
Non-current assets	**181,300**	171,500	196,000
Total assets	**183,249**	174,902	199,255
Current-liabilities	**(635)**	(2,217)	(1,983)
Total liabilities	**(635)**	(2,217)	(1,983)
Share of net assets after equity accounting adjustments	**182,614**	172,685	197,272
Share of joint venture entity's revenue, expenses and results			
Revenue	**15,969**	15,560	15,493
Gain/(loss) from fair value adjustment of investment property	**8,286**	(26,338)	(6,633)
Expenses	**(2,364)**	(2,084)	(1,924)
Net profit/(loss) accounted for using the equity method	**21,891**	(12,862)	6,936
Summarised financial information of the investment using the equity method (100%)			
Current assets	**3,977**	6,942	6,644
Non-current assets	**370,000**	350,000	400,000
Current liabilities	**(1,295)**	(4,524)	(4,045)
Net assets	**372,682**	352,418	402,599
Revenues	**32,590**	31,756	31,619
Loss from fair value adjustment of investment property	**16,910**	(53,750)	(13,537)
Expenses	**(4,826)**	(4,254)	(3,926)
Net profit/(loss)	**44,674**	(26,248)	14,156

		2010	2009	2008
		$'000	$'000	$'000
9	**Non-current assets – Other assets**			
	Fair value of hedging instruments	**-**	-	7,998
	Prepayments	**465**	697	929
		465	697	8,927
10	**Current liabilities – Trade and other payables**			
	Trade payables and accruals	**1,073**	877	540
	Interest payable on loan facility	**140**	84	245
	Distribution payable	**1,459**	661	1,442
		2,672	1,622	2,227
11	**Current liabilities – Other liabilities**			
	Interest payable under interest rate swap	**24**	63	-
12	**Non-current liabilities – Interest-bearing loans and borrowings**			
	Facility agreement	**103,225**	103,225	103,225
	Less: attributable transaction costs	**(1,941)**	(2,583)	(3,221)
	Total Balance Sheet carrying amount at amortised cost	**101,284**	100,642	100,004

Details of the facilities are set out below:

		Facility limit			**Utilised**		
Facility	**Maturity date**	**2010 $'000**	2009 $'000	2008 $'000	**2010 $'000**	2009 $'000	2008 $'000
Acquisition Tranche 1	28 June 2013	**7,425**	7,425	7,425	**7,425**	7,425	7,425
Acquisition Tranche 2	28 June 2013	**95,800**	95,800	95,800	**95,800**	95,800	95,800
Capital Expenditure	28 June 2013	**3,000**	3,000	3,000	**-**	-	-
Overdraft	28 June 2013	**1,000**	1,000	1,000	**-**	-	-
		107,225	107,225	107,225	**103,225**	103,225	103,225

The Trust has a total $107,225,000 (2009: $107,225,000; 2008: $107,225,000) loan facility agreement with Westpac Banking Corporation ("Westpac"). As at 30 June 2010, $103,225,000 has been drawn down (2009: $103,225,000; 2008: $103,225,000). The weighted average interest rate on the loan facility for the period to 30 June 2010 was 4.38% p.a. (2009: 6.13% p.a.; 2008: 8.51% p.a.). The total loan facility has been effectively hedged through an interest rate swap contract. Taking into account the interest rate swap in place, the weighted average interest rate on the total loan facility for the period to 30 June 2010 is 6.40% p.a. (2009: 6.41% p.a.; 2008: 7.01% p.a.).

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 on the facility limit.

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 is charged on the utilised portion of the facility at the 90 day BBSY plus a margin of 0.39% p.a. Line fees of 0.250% p.a. are charged on the facility limit.

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

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 2010. Line fees of 0.325% p.a. are charged 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 2010. Line fees of 0.325% p.a. are charged on the facility limit.

Interest rate swap contract

On 3 June 2005, the Trust entered into two interest rate swap contracts to hedge the anticipated variable interest rate exposure of the Trust on the debt facilities provided by Westpac. 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.

	2010 $'000	2009 $'000	2008 $'000
13 Non-current liabilities – Provisions			
Performance fee provision at the beginning of the financial year	**-**	1,547	1,589
Performance fee provision written back during the financial year	**-**	(1,622)	(195)
Unwind of discount	**-**	75	153
Performance fee provision at the end of the financial year	**-**	-	1,547

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 of the Trust's property interest.

Based upon the value of the property interest as at 30 June 2010, the final distribution per unit is forecast to not exceed the application price by 6%. Consequently, no provision has been recognised at 30 June 2010 (2009: $Nil).

14 Non-current liabilities – Other liabilities

	2010 $'000	2009 $'000	2008 $'000
Fair value of hedging instrument	**2,311**	1,823	-

15 Units on issue

	2010 No. of units	2009 No. of units	2008 No. of units	**2010 $'000**	2009 $'000	2008 $'000
Units on issue	**85,867,000**	85,867,000	85,867,000	**68,961**	74,520	80,353

Date	**Details**	**No. of units**	**Issue price**	**$'000**
1 July 2007	Opening balance	85,867,000		80,353
30 June 2008	Balance	85,867,000		80,353
30 September 2008	Distribution from contributed equity	-	-	(1,454)
31 December 2008	Distribution from contributed equity	-	-	(1,454)
31 March 2009	Distribution from contributed equity	-	-	(1,454)
30 June 2009	Distribution from contributed equity	-	-	(1,471)
30 June 2009	Balance	85,867,000		74,520
30 September 2009	Distribution from contributed equity	-	-	**(1,458)**
31 December 2009	Distribution from contributed equity	-	-	**(1,459)**
31 March 2010	Distribution from contributed equity	-	-	**(1,183)**
30 June 2010	Distribution from contributed equity	-	-	**(1,459)**
30 June 2010	**Closing balance**	**85,867,000**		**68,961**

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.

16 Reserves

	Notes	**2010 $'000**	2009 $'000	2008 $'000
Balance at the beginning of the financial year		**(1,823)**	-	-
Change in accounting policy as a result of AASB 2008-02		**-**	7,998	5,632
Effective portion of changes in fair value of the cash flow hedge during the financial year	9, 14	**(488)**	(9,821)	2,366
Balance at the end of the financial year		**(2,311)**	(1,823)	7,998

17 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
2010				
30 September 2009	**1.6985¢**	**1,458**[2]	31 October 2009	100%
31 December 2009	**1.6985¢**	**1,459**[2]	26 February 2010	100%
31 March 2010	**1.3781¢**	**1,183**[2]	30 April 2010	100%
30 June 2010	**1.6985¢**	**1,459**[2]	31 August 2010[1]	100%
Total distributions		**5,559**		

[1] Proposed payment date.

[2] The above distributions are distributions from contributed equity. In addition, each of the above distributions includes interest of $810,000 relating to the Final Instalment paid to the Security Trustee on behalf of investors in accordance with the Security Trustee Deed. The balance of the above distributions to Unitholders after the payment of interest is $648,000 for the September 2009, $649,000 for the December 2009 distribution, $373,000 for the March 2010 distribution and $649,000 for the June 2010 distribution.

Distributions to Unitholders recognised in the previous financial year by the Trust are:

	Distribution per unit	Total amount $'000	Date of payment	Tax deferred
2009				
30 September 2008	1.6935¢	1,454[3]	31 October 2008	100%
31 December 2008	1.6935¢	1,454[3]	27 February 2009	100%
31 March 2009	1.6935¢	1,454[3]	28 April 2009	100%
30 June 2009	1.7135¢	1,471[4]	28 August 2009	100%
Total distributions		5,833		

[3] Each of the above distributions are distributions from contributed equity. In addition, each of the above distributions includes interest of $810,000 relating to the Final Instalment paid to the Security Trustee on behalf of investors in accordance with the Security Trustee Deed. The balance of the above distributions to Unitholders after the payment of interest is $644,000 per quarter.

[4] The above distribution was a distribution from contributed equity. In addition, this distribution includes interest of $810,000 relating to the Final Instalment paid to the Security Trustee on behalf of investors in accordance with the Security Trustee Deed. This $810,000 was paid on 29 June 2009. The remaining balance payable to Unitholders after the payment of interest is $661,000.

18 Notes to the Cash Flow Statement

Reconciliation of profit/(loss) for the financial year to net cash inflow from operating activities:

	2010 $'000	2009 $'000
Profit/(loss) for the financial year	**14,247**	(19,159)
Amortisation of borrowing costs	**642**	638
Change in value of investment using the equity method	**(9,654)**	24,587
Net cash inflow from operating activities before change in assets and liabilities	**5,235**	6,066
Decrease in prepayments	**232**	231
Decrease in other assets	**10**	50
Increase/ (decrease) in trade and other payables	**213**	(1,318)
Net cash inflow from operating activities	**5,690**	5,029

19 Financial instruments

(a) Financial risk and capital management

The Trust's activities expose it to a variety of financial risks: credit risk, liquidity risk and interest rate risk. The Trust's overall financial risk management 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 and capital 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 managing capital, mitigating interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

Capital management

The Responsible Entity's objective when managing capital is to safeguard the ability to continue as a going concern, whilst providing returns for Unitholders and benefits for other stakeholders and to maintain a capital structure to minimise the cost of capital.

The Responsible Entity can alter the capital structure of the Trust by adjusting the amount of distributions paid to Unitholders.

In this context, the Trust considers capital to include interest-bearing loans and borrowings and Unitholders' funds.

Management monitor the capital structure of the Trust through the loan-to-value ratio. The ratio is calculated as the amount of the loan facility drawn divided by 49% of the latest valuation of the Macquarie Park property. The loan-to-value ratio as at 30 June 2010 is 57% (2009: 60%).

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will default on their contractual obligations resulting in a financial loss to the Trust.

Derivative counterparties and cash deposits are currently limited to high credit quality financial institutions.

As at 30 June 2010 and 30 June 2009, there were no significant financial assets that were past due. Additionally, there were no significant financial assets that would otherwise be past due whose terms have been renegotiated.

The carrying amount of financial assets included in the Balance Sheet represents the Trust's maximum exposure to credit risk in relation to these assets. Refer to Note 5 and 6 for a breakdown of these financial assets.

Liquidity risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Trust aims at maintaining flexibility in funding by keeping sufficient committed credit lines available. Management prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flow.

The Trust manages liquidity risk through monitoring the maturity of its debt portfolio. The current weighted average debt maturity is 3.0 years (2009: 4.0 years) which is the expected remaining life of the Trust.

The table on the next page reflects all contractual maturities of financial liabilities including principal and estimated interest cash flows calculated based on conditions existing at balance date. The amounts presented represent the future undiscounted cash flows and do not equate to carrying amounts of financial liabilities in the Balance Sheet.

19 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Liquidity risk (continued)

Contractual maturity of financial liabilities including derivatives and estimated interest

	Contractual cash flows $'000	1 year or less $'000	1-3 years $'000	3-5 years $'000	5+ Years $'000
30 June 2010					
Trade and other payables	**(1,073)**	**(1,073)**	**-**	**-**	**-**
Distribution payable	**(1,459)**	**(1,459)**	**-**	**-**	**-**
Facility agreement	**(119,867)**	**(5,334)**	**(114,533)**	**-**	**-**
Interest rate swap	**(2,684)**	**(1,043)**	**(1,641)**	**-**	**-**
	(125,083)	**(8,909)**	**(116,174)**	**-**	**-**
30 June 2009					
Trade and other payables	(877)	(877)	-	-	-
Distribution payable	(661)	(661)	-	-	-
Facility agreement	(125,390)	(4,633)	(12,083)	(108,674)	-
Interest rate swap	(1,940)	(2,843)	72	831	-
	(128,868)	(9,014)	(12,011)	(107,843)	-

Interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows associated with instruments will fluctuate due to changes in market interest rates.

The income and the associated operating cash flows of the Trust's financial assets are substantially independent of changes in market interest rates.

The Responsible Entity, on behalf of the Trust, manages interest rate risk by using floating-to-fixed interest rate swaps. The interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The debt fixed/hedged percentage as at 30 June 2010 was 100% (2009: 100%). 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. Refer to Note 19(b) for further details about the interest rate swap contracts.

Sensitivity analysis

The following sensitivity analysis shows the effect on the Trust's Statement of Comprehensive Income and Unitholders' funds if market interest rates at balance date had been 100 basis points higher/lower (2009: 25 basis points) with all other variables held constant.

An increase of 100 basis points (2009: 25 basis points) in market interest rate would result in a loss to the Statement of Comprehensive Income of $Nil (2009: $Nil) and an increase in Unitholders' funds of $1,537,070 (2009: $870,817). A decrease of 100 basis points (2009: 25 basis points) in market interest rate would result in a gain to the Statement of Comprehensive Income of $Nil (2009: $Nil) and a decrease in Unitholders' funds of $1,526,120 (2009: $879,745).

19 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 contract

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.

As at 30 June 2010, the notional principal amounts and periods of expiry of the interest rate swap contracts for the loan facilities are as follows:

	2010 $'000	2009 $'000
Less than 1 year	**-**	-
1-2 years	**-**	-
2-3 years	**103,225**	-
3-4 years	**-**	103,225
4-5 years	**-**	-
Over 5 years	**-**	-

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.

This swap has been designated as an effective cash flow hedge in accordance with AASB 139 "Financial Instruments: Recognition and Measurement" ("AASB 139") and has been tested for effectiveness. As at 30 June 2010, the swaps are considered to be effective and accordingly the full change in the fair value is recognised in Unitholders' funds. Refer accounting policy at Note 1(h).

At balance date, the swap contracts had a fair value of $2,311,000 (2009: $1,823,000) included in Non-current liabilities – Other liabilities on the Balance Sheet.

(c) Fair value of financial assets and financial liabilities

The carrying amounts of cash and cash equivalents, other receivables, trade and other payables, interest-bearing loans and borrowings and the interest rate swap as disclosed in the Balance Sheet reflect the fair value of these financial assets and liabilities as at 30 June 2010.

The fair value of the interest rate swap has been determined in accordance with generally accepted pricing models by discounting the expected future cash flows at prevailing market interest rates.

The interest rate swap has been accounted for on the Balance Sheet at its fair value. The interest rate swap has been deemed to be an effective hedge. Accordingly, the unrealised gain has been recognised directly in Unitholders' funds.

(d) Fair value hierarchy

The Trust has adopted the amendments to the AASB 7, effective 1 July 2009. This requires the Trust to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements.

The following hierarchy is used for determining and disclosing the fair value of SDOT2's financial instruments, by valuation method:

19 Financial instruments (continued)

(d) Fair value hierarchy (continued)

- Level 1: quoted prices (unadjusted) in active markets for identical financial assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly or indirectly; and
- Level 3: inputs for the financial asset or liability that are not based on observable market data.

The determination of what constitutes "observable" requires significant judgement by the responsible entity. The responsible entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

	2010 $,000	Level 1 $,000	Level 2 $,000	Level 3 $,000
Financial liabilities				
Hedging Instrument	**2,311**	**-**	**2,311**	**-**
	2,311	**-**	**2,311**	**-**

20 Related parties

Stockland Capital Partners Limited ("SCPL") 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 as at 30 June 2010 are as follows:

Directors	Number of instalment receipts
Mr David Kent	150,000
Mr Matthew Quinn	25,000
Mr Peter Scott	25,000

Responsible Entity fees and other transactions	2010 $'000	2009 $'000
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.		
For the year ended 30 June 2010, the Responsible Entity has agreed for the Trust to defer payment of part of the Responsible Entity fees amounting to $273,338 (2009: $308,000).	**781**	880
Total accrued and deferred Responsible Entity fees included in Current liabilities – Trade and other payables as at 30 June 2010 is $1,034,477 (2009: $779,177).		
Performance fees		
The Responsible Entity is entitled to a performance fee which is calculated on a sliding scale and is payable by the Trust provided the final distribution per unit exceeds the application price by at least 6%. Refer Note 13.	**-**	(1,547)
Total accrued Performance fee included in Non-current liabilities – Provisions as at 30 June 2010 is $Nil (2009: $Nil).		
Total Responsible Entity fees and other transactions recognised in the Statement of Comprehensive Income	**781**	(667)

20 Related parties (continued)

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 Net Tangible Assets ("NTA") per instalment receipt less transaction costs, from Unitholders seeking to realise their units. Stockland Trust Management Limited ("STML"), as Responsible Entity for Stockland Trust, has placed a standing order with Westpac to acquire a maximum of 1,000,000 instalment receipts per quarter from lease commencement. As outlined in the Trust's Product Disclosure Statement ("PDS"), the LLF can be terminated by Westpac when STML withdraws its standing order with Westpac to acquire instalment receipts, which it may do at any time at its complete discretion or when STML beneficially owns 19.9% (17,087,533) of the total instalment receipts.

During the financial year, STML, as Responsible Entity of Stockland Trust, acquired 2,696,926 instalment receipts (2009: 4,000,000) in the Trust via the LLF.

Units held by Stockland Trust

As at 30 June 2010, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 14,943,976 instalment receipts (2009: 12,247,050) in the Trust.

As at 30 June 2010, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, held 31% (2009: 31%) of the units in Macquarie Park Trust ("MPT").

Property Management and Leasing Fee

Stockland Property Management Pty Limited, a related party of the Responsible Entity, charged $519,638 (2009: $545,000) to MPT for property management services including onsite property management staff and leasing fees. Of this amount, $519,638 (2009: $545,000) forms part of the outgoings recoverable from tenants pursuant to leases.

Macquarie Park Trust Responsible Entity fee

Stockland Trust Management Limited, a related party of the Responsible Entity charged $549,488 (2009: $572,446) to MPT as a Responsible Entity fee.

21 Commitments

As at 30 June 2010, the Trust has no commitments (2009: $Nil).

22 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.

23 Contingent liabilities and contingent assets

As at 30 June 2010, the Trust has no contingent liabilities and no contingent assets (2009: $Nil).

24 Events subsequent to the end of the year

On 16 July 2010, the Trust received a special distribution of $1,470,000 from Macquarie Park Trust.

Other than noted above, there have been no events subsequent to the end of the year which would have a material effect on the Trust's financial statements as at 30 June 2010.

Stockland Direct Office Trust No. 2
Directors' Declaration
For the year ended 30 June 2010

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

1. the Financial Statements and Notes set out on pages 7 to 27, 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 2010 and of its performance for the financial year ended on that date; and
   (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. the Financial Report also complies with International Financial Reporting Standards as disclosed in Note 1(a);
3. at the date of this declaration there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable;
4. the Trust has operated during the financial year ended 30 June 2010 in accordance with the provisions of the Trust Constitution as amended dated 27 June 2005; and
5. the Register of Unitholders has, during the financial year ended 30 June 2010, 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, 19 August 2010

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

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 2010, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 24 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Responsible Entity, Stockland Capital Partners Limited, are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 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 (including the Australia Accounting Interpretations), a view which is consistent with our understanding of the Trust's financial position, and of its performance.

KPMG

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

Independence

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

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 2010 and of its performance for the year ended on that date; and

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

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

KPMG

KPMG

S. G. Fleming

Scott Fleming
Partner

Sydney

19 August 2010