

Stockland Direct Office Trust No. 2

ARSN: 115 017 466

**Interim Report
31 December 2014**

Registered office:

133 Castlereagh Street
Sydney NSW 2000

Stockland Direct Office Trust No. 2

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This Interim Report covers Stockland Direct Office Trust No. 2 ("the Trust") which was formed and is domiciled in Australia.

Stockland Direct Office Trust No. 2
Directors' Report
For the half year ended 31 December 2014

The Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity of Stockland Direct Office Trust No. 2 ("the Trust"), present their Report together with the Interim Financial Report made in accordance with a resolution of the Directors with respect to the results of the Trust for the half year ended 31 December 2014, the state of the Trust's affairs as at 31 December 2014 and the Independent Auditor's Review 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 half year ("the Directors") are:

Name	Date of appointment/resignation
<i>Non-Executive Directors</i>	
Mr Barry Neil, Chairman ¹	Appointed 19 October 2010
Mr Anthony Sherlock	Appointed 9 August 2004
<i>Executive Directors</i>	
Mr Mark Steinert ¹	Appointed 29 January 2013

¹ Mr Barry Neil and Mr Mark Steinert are also Directors of Stockland Corporation Limited.

Principal activity

The Trust's investment was sold and settled on 7 February 2014. The retention period under the sale contract ends on 30 April 2015. The Trust will terminate and wind up as soon as practical thereafter.

Review and results of operations

The Trust recorded a profit from operating activities of \$78,000 for the half year ended 31 December 2014 (profit of \$2,232,000 for the half year ended 31 December 2013).

Distributions paid or declared by the Trust to Unitholders during the half year ended 31 December 2014 are set out in Note 6 of the Interim Financial Report.

Result of Members' Meeting

A Meeting of Members was held on 24 September 2012 for the Responsible Entity to make a recommendation to Unitholders concerning the future strategy of the Trust. The Special Resolution (more than 75% of the total eligible votes cast by Unitholders entitled to vote) was approved by Unitholders which authorised the Responsible Entity to sell the Trust's interest in the investment property, and after the conclusion of the sale, terminate and wind up the Trust as soon as practicable thereafter.

Events subsequent to the end of the half year

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

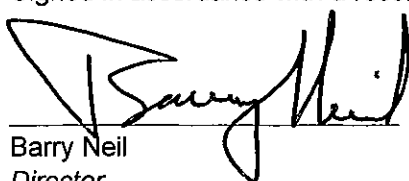
Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The external auditor's independence declaration is set out on page 2 and forms part of the Directors' Report for the half year ended 31 December 2014.

Rounding

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

Signed in accordance with a resolution of the Directors:



Barry Neil
Director

Dated at Sydney, 27 February 2015



Auditor's Independence Declaration

As lead auditor for the review of Stockland Direct Office Trust No. 2 for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in dark ink, appearing to read 'N R McConnell', written over the printed name.

N R McConnell
Partner
PricewaterhouseCoopers

Sydney
27 February 2015

Stockland Direct Office Trust No. 2
Interim Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 31 December 2014

		Half year ended	
	Notes	31 Dec 2014 \$'000	31 Dec 2013 \$'000
Revenue and other income			
Interest income		188	12
Total revenue and other income		188	12
Share of net profit of equity-accounted investment		-	5,907
Finance expense		-	(2,528)
Auditor's Remuneration		(19)	(15)
Responsible Entity fees	7	(32)	(424)
Other expenses		(59)	(720)
Total expenses		(110)	2,220
Profit for the half year		78	2,232
Total comprehensive income for the half year		78	2,232

The above Interim Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Stockland Direct Office Trust No. 2
Interim Balance Sheet
As at 31 December 2014

	Notes	31 Dec 2014 \$'000	30 June 2014 \$'000
Current assets			
Cash and cash equivalents		2,524	5,381
Trade and other receivables		133	242
Other assets	3	10,000	10,000
Total current assets		12,657	15,623
Total assets		12,657	15,623
Current liabilities			
Trade and other payables	4	1,802	2,966
Total current liabilities		1,802	2,966
Total liabilities		1,802	2,966
Net assets		10,855	12,657
Unitholders' funds			
Units on issue	5	9,110	10,999
Undistributed profit		1,745	1,658
Total unitholders' funds		10,855	12,657

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

Stockland Direct Office Trust No. 2
Interim Statement of Changes in Equity
For the half year ended 31 December 2014

	Notes	Unitholders' Funds				
		Issued capital		Undistributed profit		Total
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	
Opening balance		10,999	68,961	1,658	9,615	78,576
Profit for the half year		-	-	78	2,232	2,232
Total comprehensive income for the half year		-	-	78	2,232	2,232
Transactions with Unitholders in their capacity as owners:						
Distributions paid/payable to Unitholders	6	(1,889)	-	9 ¹	(1,610)	(1,610)
Closing balance		9,110	68,961	1,745	10,237	79,198

¹ Current period distribution payable includes an adjustment of \$9,000 to prior year distributions accrual.

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

Stockland Direct Office Trust No. 2
Interim Cash Flow Statement
For the half year ended 31 December 2014

		Half year ended	
	Notes	31 Dec 2014 \$'000	31 Dec 2013 \$'000
Cash flows from operating activities			
Cash receipts in the course of operations (including GST)		107	47
Cash payments in the course of operations (including GST)		(339)	(1,287)
Distributions received from joint venture entity		-	6,440
Interest received		55	12
Interest paid		-	(2,317)
Net cash (outflow)/inflow from operating activities		(177)	2,895
Cash flows from investing activities			
Disposal of investment – Proceeds from working capital adjustment		209	-
Disposal of investment – Payment for related expenses		(505)	-
Net cash utilised in investing activities		(296)	-
Cash flows from financing activities			
Distributions paid		(1,889)	(3,124)
Withholding Tax on profit distributions from prior year		(495)	-
Net cash utilised in financing activities		(2,384)	(3,124)
Net decrease in cash and cash equivalents		(2,857)	(229)
Cash and cash equivalents at the beginning of the half year		5,381	706
Cash and cash equivalents at the end of the half year		2,524	477

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

Stockland Direct Office Trust No. 2
Notes to the Interim Financial Statements
For the half year ended 31 December 2014

1 Summary of significant accounting policies

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

The Interim Financial Report as at and for the half year ended 31 December 2014 was authorised for issue by the Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity, on 27 February 2015.

(a) Statement of compliance

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

The Interim Financial Report does not include all of the information required for a full Annual Financial Report, and should be read in conjunction with the Annual Financial Report of the Trust as at and for the year ended 30 June 2014.

(b) Changes in Accounting Standards and Regulatory requirements

Details of new or revised accounting standards, interpretations or amendments which are effective for periods beginning on or after 1 July 2014 and which are considered to have an impact on the Trust can be found in the Annual Financial Report as at and for the year ended 30 June 2014.

(c) Basis of preparation

The Interim 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.

Orderly wind up basis

The Interim Financial Report for the period ended 31 December 2014 has not been prepared on a going concern basis as, on 24 September 2012 the unitholders authorised the Responsible Entity to terminate and wind up the Trust as soon as practicable following the conclusion of the sale of the investment in which the Trust has an interest. Accordingly, an orderly wind up basis has been adopted as the Trust's assets and liabilities will be realised over the next 12 months.

The orderly settlement of liabilities has also resulted in all non-current liabilities being reclassified to current to reflect the Directors expectations regarding payment.

However, the ultimate amounts achieved in the wind up could differ to those amounts recorded in the financial statements at 31 December 2014, as a result of certain items such as net costs yet to be incurred on the wind up of the Trust.

(d) Comparatives

No comparatives have been amended from those reported in the prior year except for those reclassified to conform to the current financial year's presentation.

2 Critical accounting estimates and judgements

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. 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.

In preparing this Interim Financial Report the significant judgements made by the Directors in applying the Trust's accounting policies and key sources of estimation uncertainty were the same as those that applied to the Annual Financial Report of the Trust as at and for the year ended 30 June 2014.

Stockland Direct Office Trust No. 2
Notes to the Interim Financial Statements
For the half year ended 31 December 2014

	31 Dec 2014 \$'000	30 June 2014 \$'000		
<hr/>				
3 Current assets – Other assets				
Other assets	10,000	10,000		
	<u>10,000</u>	<u>10,000</u>		
<p>Other assets of \$10,000,000 relates to retention monies held on behalf of the Trust by an external solicitor until the retention period matures on 30 April 2015. If no claims have been made on the retention monies at that date, the full amount will be returned to the Trust.</p>				
4 Current liabilities – Trade and other payables				
Trade payables and accruals	1,802	2,966		
	<u>1,802</u>	<u>2,966</u>		
5 Units on issue				
	31 Dec 2014 No. of units	30 June 2014 No. of units	31 Dec 2014 \$'000	30 June 2014 \$'000
	<u>85,867,000</u>	<u>85,867,000</u>	<u>9,110</u>	<u>10,999</u>

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.

6 Distributions to Unitholders

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

	Distribution per unit	Total amount \$'000	Date of payment	Tax deferred
2014				
30 September 2014	2.20¢	1,889 ¹	31 October 2014	100%
Total Distributions		<u>1,889</u>		

¹ The above distribution was a capital distribution.

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

	Distribution per unit	Total amount \$'000	Date of payment	Tax deferred
2013				
30 September 2013	1.8750¢	1,610 ¹	31 October 2013	100%
Total distributions		<u>1,610</u>		

¹ The above distribution was an income distribution. In addition, this distribution included interest of \$844,000 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 distribution to Unitholders after the payment of interest was \$766,000.

Stockland Direct Office Trust No. 2
Notes to the Interim Financial Statements
For the half year ended 31 December 2014

7 Related party transactions

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. All fees and charges from the Responsible Entity and its related parties are in accordance with the PDS and the Trust's constitution.

	Half year ended	
	31 Dec	31 Dec
	2014	2013
Responsible Entity fees and other transactions	\$'000	\$'000
<i>Responsible Entity fees</i>		
The Responsible Entity charged responsible entity fees calculated at 0.45% p.a. of the gross value of the assets of the Trust. Total Responsible Entity fees included in Current liabilities – Trade and other payables as at 31 December 2014 is \$1,511,720 (30 June 2014: \$1,514,799).	32	424
<i>Disposal fees</i>		
The Responsible Entity and its related parties performed services on behalf of the Trust to facilitate the disposal of the Trust's investment in MPT. Services provided included due diligence management, agency services, the provision of legal and research services and contract negotiation expertise. A provision of \$613,649 was recognised in the 31 December 2013 Interim Financial Statements. This was revised to \$504,620 in the Annual Financial Report as at and for the year ended 30 June 2014 and was benchmarked against comparable external industry fees for similar services in accordance with the PDS. No fee was charged in the half year ended 31 December 2014.	-	614
<i>Manager expenses</i>		
Other recoverable expenses including accounting, taxation and compliance service fees totalling \$36,800 have been charged by the Responsible Entity (31 December 2013: \$nil). Total manager expenses included the Current liabilities – Trade and other payables at 31 December 2014 are \$36,800 (30 June 2014: \$73,800).	37	-
<i>Performance fees</i>		
The Responsible Entity is entitled to charge a performance fee calculated on a sliding scale provided the final distribution per unit exceeds the application price by at least 6%. No performance fee was charged in the current period (2013: \$nil) as the Responsible Entity has not achieved the performance targets required to earn this fee. No performance fees will be charged in the future.	-	-
Total Responsible Entity fees and other transactions recognised in the Interim Statement of Comprehensive Income	69	1,038

Units held by Stockland Trust

As at 31 December 2014, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 17,083,717 (19.9%) fully paid units (30 June 2014: 17,083,717) in the Trust.

8 Contingent liabilities and contingent assets

As at 31 December 2014, the Trust has a contingent liability amounting to \$10,000,000 (30 June 2014: \$10,000,000) in relation to retention amounts on the sale of the investment in MPT. The retention period expires on 30 April 2015. As per Note 3 to the Financial Statements, \$10,000,000 has been set aside in escrow in the event of any claims.

9 Events subsequent to the end of the half year

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

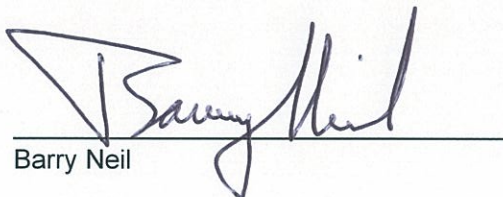
Stockland Direct Office Trust No. 2
Directors' Declaration
For the half year ended 31 December 2014

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

1. the Interim Financial Statements and Notes set out on pages 3 to 9, are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the financial position of the Trust as at 31 December 2014 and of its performance for the half year ended on that date; and
 - (b) complying with Australian Accounting Standards AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001;
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 half year ended 31 December 2014 in accordance with the provisions of the Trust Constitution as amended dated 27 June 2005; and
4. the Register of Unitholders has, during the half year ended 31 December 2014, been properly drawn 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:



Barry Neil

Director

Dated at Sydney, 27 February 2015



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Stockland Direct Office Trust No. 2 (the Trust), which comprises the interim balance sheet as at 31 December 2014, the interim statement of profit or loss and other comprehensive income, interim statement of changes in equity and interim cash flow statement for the half-year ended on that date, selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of Stockland Capital Partners Limited (the responsible entity) are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Trust's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Stockland Direct Office Trust No. 2, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

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

- a) giving a true and fair view of the Trust's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



PricewaterhouseCoopers



N R McConnell
Partner

Sydney
27 February 2015