Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)

Comprising the stapled units:
Stockland Direct Office Trust No. 3 (ARSN: 124 439 925)
Stockland Holding Trust No. 2 (ARSN: 132 129 134)

Consolidated Annual Report 30 June 2012

Registered office:

133 Castlereagh Street
Sydney NSW 2000

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)

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Directors' Report
For the year ended 30 June 2012

The Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity of Stockland Direct Office Trust No. 3 ("the Trust") and Stockland Holding Trust No. 2 ("SHT2") present their report together with the Annual Report for the year ended 30 June 2012 and the Independent Auditor's Report thereon. The consolidated Annual Report comprises the Financial Report of the Trust and its controlled entities including Stockland Holding Trust No. 2 ("SHT2") which together form the stapled entity ("stapled entity") and Stockland Holding Trust No.2 as an individual entity.

Stapled entity

The Trust was established on 3 November 2006 with Stockland Trust Management Limited ("STML") appointed as the Responsible Entity. Upon the retirement of STML as Responsible Entity, SCPL was appointed as the Responsible Entity on 13 March 2007. On 28 March 2007, the Trust was registered as a managed investment scheme with the Australian Securities and Investment Commission ("ASIC").

SHT2

SHT2 was established on 10 November 2003 with SCPL appointed as the Trustee. SCPL was then appointed as the Responsible Entity on 18 July 2008 when SHT2 was registered as a managed investment scheme with ASIC on 18 July 2008.

Stapled entity information

The stapled entity consists of two stapled Australian registered managed investment schemes: The Trust and SHT2.

On 18 August 2008, units in SHT2 were issued to investors holding units in the Trust ("Unitholders") and stapled to the units in the Trust ("Stapling Arrangement"). Stockland Direct Office Trust No. 3 and SHT2 units are stapled together so that one cannot be transferred, or otherwise dealt with, without the other (collectively known as the "Stapled Units"). This was disclosed in the Trust's Product Disclosure Statement ("PDS") issued to Unitholders on 12 August 2008.

Australian Accounting Standards Board ("AASB") Interpretation 1002: *Post-Date-of-Transition Stapling Arrangements* require one of the stapled entities of a stapled structure to be identified as the parent entity for the purpose of preparing a financial report. In accordance with this requirement, the Trust has been identified as the parent of the stapled entity. Accordingly from 18 August 2008, the results of SHT2 have been consolidated with that of the Trust and its controlled entities, the results of which have been referred to as "stapled entity" in the Financial Report.

SHT2 entity information

Up until 18 August 2008, SHT2 was a controlled entity of Stockland Trust. From that date onwards, SHT2 formed part of the stapled entity due to the Stapling Arrangement outlined above.

Directors

The Directors of the Responsible Entity of the stapled entity and SHT2 at any time during or since the end of the financial year ("the Directors") are:

Barry Neil
Chairman (Non-Executive)

Mr Neil was appointed as Director on the 19 October 2010 and has over thirty eight years experience in property, both in Australia and overseas. He is a Director of Dymocks Holdings Pty Limited and Terrace Tower Group Pty Ltd and was previously Director of Property for Woolworths Limited. He also served as Chief Executive Officer, Investment Division (1999 to 2004), and Executive Director (1987 to 2004) of Mirvac Limited. Mr Neil is Chairman of Stockland Capital Partners Limited, the Responsibility Entity for Stockland's unlisted funds and a member of the Stockland Audit and Corporate Responsibility and Sustainability Committees. He was a member of the Corporate Responsibility and Sustainability Committee until 30 June 2012 (renamed the Sustainability Committee from 1 July 2012).

Directors (continued)

David Kent
(Non-Executive)

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 Royal Sydney Golf Club Foundation and The Australian Club Inc, a fellow of the Australian Institute of Company Directors and Vice President of Alliance Francaise de Sydney. 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 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, Chairman of the S H Ervin Gallery Committee, and Chairman of the Brett Whiteley Foundation. He is a member of the Remuneration and Equity and Finance Committees of Sinclair Knight Merz and the Stockland Residential Estates Equity Fund No. 1 Investment Committee. Mr Kent retired from the Board of Stockland Capital Partners Limited on 30 June 2012.

Anthony Sherlock
(Non-Executive)

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 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.

Matthew Quinn
Managing Director – Stockland – (Executive)

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. Mr Quinn is a Director of the Business Council of Australia. He is a Fellow of the Australian Property Institute and the Royal Institute of Chartered Surveyors. He is a Director of Australian Business and Community Network Limited, having served as Chairman from November 2007 to November 2010, and Carbonxt Group Limited. Mr Quinn is a member of the Stockland Corporate Responsibility and Sustainability Committee, until 30 June 2012 (renamed the Sustainability Committee from 1 July 2012).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.

Directors (continued)

Tim Foster
Chief Financial Officer – Stockland – (Executive) -Alternate Director for Matthew Quinn

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 preceding 10 years before joining Stockland Group he 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. He has had significant exposure to the property sector throughout his career, including being a Director of the responsible entity listed Colonial First State property 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

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 auditor in the absence of management at least once a year. The Committee has the power to conduct or authorise investigations into, or consult independent specialists on, any matters within the Committee's scope of responsibility. The Committee has written terms of reference which incorporates best practice. Its members must be independent of management and at least one member of the Committee must have relevant accounting qualifications and experience and all members should 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.

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Directors' Report
For the year ended 30 June 2012

Principal activities

Stapled entity

The principal activity of the stapled entity is the investment in a portfolio of three commercial office properties located in New South Wales, Western Australia, Victoria and a car park located in Victoria.

SHT2

The principal activity of SHT2 is the investment in 75 George Street, Parramatta, New South Wales.

Review and results of operations

Stapled entity

The stapled entity recorded a profit from operating activities of $6,875,000 for the year ended 30 June 2012 (2011: $4,410,000).

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

An upwards revaluation totalling $6,523,000 (2011: $1,525,000 upwards revaluation) was recognised during the financial year in the stapled entity's consolidated Profit and Loss. During the financial year, independent valuations were performed on three properties and a directors valuation on one resulting in the total portfolio being revalued upwards to $96,580,000. This represents an increase of 9.9% on the 30 June 2011 total carrying value of $87,850,000. Refer to Note 8 for individual property values.

SHT2

SHT2 recorded a profit from operating activities of $522,000 for the financial year ended 30 June 2012 (2011: $932,000).

There were no distributions paid or declared by SHT2 to Unitholders for the financial year.

An upwards revaluation totalling $202,000 (2011: $1,054,000 upwards revaluation) was recognised in SHT2's Statement of Comprehensive Income. During the financial year, an independent valuation was performed resulting in the investment property being revalued upwards to $33,800,000. This represents an increase of 3.7% on the market value from the 30 June 2011 carrying value of $32,600,000. Refer to Note 8 for further details.

Loan facility

The Trust has a $60,810,000 (30 June 2011: $60,810,000) loan facility agreement, comprising a property facility and capital expenditure facility (collectively known as "loan facility"), with Australia and New Zealand Bank ("ANZ"). As at 30 June 2012, $55,153,000 (30 June 2011: $55,153,000) had been drawn on the loan facility.

The Trust's loan facility was due to mature on 27 June 2012. On 7 February 2012, the Trust refinanced its loan facility with ANZ, extending the maturity date to 27 June 2014.

Intercompany loan

On the 8 February 2012, SDOT3 and SHT2 agreed and finalised the terms of an extension to the existing maturity date of the loan facility from 31 August 2012 to 31 August 2013.

Result of Members' Meeting

A Meeting of Members was held on 30 April 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 investment properties and after the conclusion of the sale, terminate and wind up the Trust as soon as practicable thereafter.

Accordingly the stapled entity and SHT2 financial statements are now prepared on an "orderly windup" basis.

Sale of Interest in Investment Properties

A sale campaign was commenced to sell the Trust's investment properties, with expressions of interest closing on 27 July 2012. As a result, Investment Properties and their related balances are now classified as Non-current assets held for sale as at 30 June 2012.

Significant changes in the state of affairs

Other than the above there have been no significant changes in the state of affairs of the Trust during the financial year.

Events subsequent to the end of the year

On 25 July 2012, Managing Director Mr Matthew Quinn announced his decision to retire by February 2013. The Board is undertaking a comprehensive internal and external search to select his successor.

As at the date of signing, the Trust is in the process of exchanging a contract on an asset classified as Held for sale in the Financial Report, being 222 Russell Street. The proceeds are in line with the 30 June 2012 book value.

Other than the 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 stapled entity and SHT2, the results of operations, or the state of the affairs of the stapled entity and SHT2, in future financial years.

Likely developments

The stapled entity and SHT2 will continue to review investment management strategies in light of the sales campaign being undertaken to sell the Trust's investment properties, with a view to optimising both the income and capital return over the remaining investment term.

Environmental regulation

The stapled entity and SHT2's operations are subject to various environmental regulations under both Commonwealth and State legislation. The Responsible Entity believes that the stapled entity and SHT2 have 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 stapled entity and SHT2.

Related parties

Stockland Trust Management Limited, as the Responsible Entity of Stockland Trust, a related party of the Responsible Entity, holds 11,934,000 Stapled Units in the stapled entity and SHT2 as at 30 June 2012 (2011: 11,934,000).

Interests of the Responsible Entity

The Responsible Entity has not held any Stapled Units in the stapled entity or SHT2 either directly or indirectly during the financial year.

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Directors' Report
For the year ended 30 June 2012

Responsible Entity's remuneration

The Responsible Entity charged a responsible entity fee of 0.45% p.a. of the gross assets of the stapled entity including SHT2. 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 21 of the Financial Report.

Directors' interests

The relevant interest of each Director of the Responsible Entity holding stapled units in the stapled entity and SHT2 at the date of this report is as follows:

Directors	Number of Stapled Units held
Mr David Kent	85,000
Mr Matthew Quinn	10,000

Indemnities and insurance of officers and auditor's

Indemnification

Under the respective Constitutions, the Responsible Entity, including its officers and employees, is indemnified out of the stapled entity and SHT2'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 stapled entity and SHT2.

The stapled entity and SHT2 have not indemnified or made a relevant agreement for indemnifying against a liability in respect of any person who is the auditor of the stapled entity and SHT2.

Insurance premiums

The Responsible Entity has paid insurance premiums in respect of Directors' and officers' liability insurance contracts. 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 8 and forms part of the Directors' Report for the year ended 30 June 2012.

Rounding

The stapled entity and SHT2 are entities 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, 22 August 2012

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

To: the directors of Stockland Capital Partners Limited, as Responsible Entity of Stockland Direct Office Trust No. 3 and Stockland Holding 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 2012 there has 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

Karen Hopkins
Partner

Sydney
22 August 2012

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Consolidated Statement of Comprehensive Income
For the year ended 30 June 2012

		Stapled		SHT2	
		2012	2011	2012	2011
	Notes	$'000	$'000	$'000	$'000
Revenue and other income					
Rent from investment properties		**11,873**	11,507	**4,150**	4,008
Interest income		**122**	154	**-**	-
Net (loss)/gain from fair value adjustment on derivative financial instruments		**(1,939)**	189	**-**	-
Total revenue and other income		**10,056**	11,850	**4,150**	4,008
Net gain from fair value adjustment of investment properties	9	**6,523**	1,525	**202**	1,054
Investment property expenses		**(4,076)**	(3,509)	**(1,480)**	(1,160)
Finance costs relating to interest-bearing liabilities at amortised cost		**(4,845)**	(4,873)	**-**	-
Finance costs to related parties at amortised cost			-	**(2,087)**	(2,745)
Auditor's remuneration	4	**(122)**	(161)	**(34)**	(47)
Responsible Entity fees	21	**(433)**	(400)	**(151)**	(139)
Other expenses		**(228)**	(22)	**(78)**	(39)
Total expenses		**(3,181)**	(7,440)	**(3,628)**	(3,076)
Profit for the financial year		**6,875**	4,410	**522**	932
Other comprehensive income					
Amortisation of cash flow hedge reserve transferred to Profit or Loss	17	**123**	123	**-**	-
Other comprehensive income for the year		**123**	123	**-**	-
Total comprehensive income for the year		**6,998**	4,533	**-**	-
Profit for the financial year attributable to:					
Unitholders of the Trust		**6,353**	3,478	**-**	-
Unitholders of SHT2 (as non-controlling interest)		**522**	932	**-**	-
Profit for the financial year		**6,875**	4,410	**-**	-
Total comprehensive income for the year attributable to:					
Unitholders of the Trust		**6,476**	3,601	**-**	-
Unitholders of SHT2 (as non-controlling interest)		**522**	932	**522**	932
Total comprehensive income for the year		**6,998**	4,533	**522**	932

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

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Consolidated Balance Sheet
As at 30 June 2012

	Notes	Stapled 2012 $'000	2011 $'000	SHT2 2012 $'000	2011 $'000
Current assets					
Cash and cash equivalents	5	**4,200**	4,560	**9**	-
Trade and other receivables	6	**220**	382	**69**	211
Other assets	7	**264**	1,102	**-**	313
Receivable from related entity		**-**	-	**2,821**	3,655
Non-current assets held for sale	8	**96,580**	-	**33,800**	-
Total current assets		**101,264**	6,044	**36,699**	4,179
Non-current assets					
Investment properties	9	**-**	85,301	**-**	31,708
Trade and other receivables	10	**-**	467	**-**	275
Other assets	11	**-**	1,114	**-**	168
Total non-current assets		**-**	86,882	**-**	32,151
Total assets		**101,264**	92,926	**36,699**	36,330
Current liabilities					
Trade and other payables	12	**3,399**	3,286	**743**	618
Interest-bearing loans and borrowings	13	**55,031**	54,942	**32,032**	32,032
Other liabilities	14	**2,991**	648	**-**	278
Total current liabilities		**61,421**	58,876	**32,775**	32,928
Non-current liabilities					
Other liabilities	15	**-**	876	**-**	-
Total non-current liabilities		**-**	876	**-**	-
Total liabilities		**61,421**	59,752	**32,775**	32,928
Net assets		**39,843**	33,174	**3,924**	3,402
Unitholders' funds					
Issued capital	16	**34,998**	35,327	**7,340**	7,340
Reserves	17	**(247)**	(370)	**-**	-
Undistributed profit/(loss)		**1,168**	(5,185)	**(3,416)**	(3,938)
		35,919	29,772	**3,924**	3,402
Non-controlling interest		**3,924**	3,402	**-**	-
Total Unitholders' funds		**39,843**	33,174	**3,924**	3,402

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

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Consolidated Statement of Changes in Equity – Stapled Entity
For the year ended 30 June 2012

		Attributable to Unitholders of the stapled entity									
		Issued capital		Undistributed profit/(loss)		Reserves		Non-controlling interest		Total Stapled Unitholders' Funds	
	Notes	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000
Opening balance		**35,327**	35,356	**(5,185)**	(8,663)	**(370)**	(493)	**3,402**	2,470	**33,174**	28,670
Profit for the financial year		-	-	**6,353**	3,478	-	-	**522**	932	**6,875**	4,410
Amortisation of cash flow hedge reserve transferred to Profit or Loss		-	-	-	-	**123**	123	-	-	**123**	123
Total comprehensive income for the financial year		-	-	**6,353**	3,478	**123**	123	**522**	932	**6,998**	4,533
Transactions with Unitholders in their capacity as owners:											
Deferred establishment costs	16	**(29)**	(29)	-	-	-	-	-	-	**(29)**	(29)
Distributions paid/payable to Unitholders	16,18	**(300)**	-	-	-	-	-	-	-	**(300)**	-
Closing balance		**34,998**	35,327	**1,168**	(5,185)	**(247)**	(370)	**3,924**	3,402	**39,843**	33,174

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

Stockland Holding Trust No. 2
Statement of Changes in Equity – SHT2
For the year ended 30 June 2012

				Unitholders' funds			
		Issued capital		Undistributed loss		Total Unitholders' funds	
	Notes	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000
Opening balance		**7,340**	7,340	**(3,938)**	(4,870)	**3,402**	2,470
Profit for the financial year		**-**	-	**522**	932	**522**	932
Total comprehensive income for the financial year		**-**	-	**522**	932	**522**	932
Transactions with Unitholders in their capacity as owners:							
Distributions paid/payable to Unitholders	18	**-**	-	**-**	-	**-**	-
Closing balance		**7,340**	7,340	**(3,416)**	(3,938)	**3,924**	3,402

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

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Consolidated Cash Flow Statement
For the year ended 30 June 2012

		Stapled		SHT2	
		2012	2011	**2012**	2011
	Notes	**$'000**	$'000	**$'000**	$'000
Cash flows from operating activities					
Cash receipts in the course of operations		**13,322**	13,889	**4,522**	5,110
Cash payments in the course of operations		**(7,211)**	(6,006)	**(1,937)**	(1,805)
Interest received		**121**	153	**-**	-
Interest paid		**(4,395)**	(4,630)	**(2,087)**	(2,745)
Net cash inflow from operating activities	19	**1,837**	3,406	**498**	560
Cash flows from investing activities					
Payment for investment properties		**(2,075)**	(1,538)	**(1,355)**	(344)
Net cash utilised in investing activities		**(2,075)**	(1,538)	**(1,355)**	(344)
Cash flows from financing activities					
Borrowing costs paid		**(122)**	(106)	**-**	-
Receipt/(Payment) from related entity		**-**	-	**866**	(216)
Net cash (utilised in)/from financing activities		**(122)**	(106)	**866**	(216)
Net (decrease)/increase in cash and cash equivalents		**(360)**	1,762	**9**	-
Cash and cash equivalents at the beginning of the year		**4,560**	2,798	**-**	-
Cash and cash equivalents at the end of the year	5	**4,200**	4,560	**9**	-

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

1 Summary of significant accounting policies

Stockland Direct Office Trust No. 3 ("the Trust") and Stockland Holding Trust No. 2 ("SHT2") are Managed Investment Schemes domiciled in Australia. The consolidated Annual Report as at and for the financial year ended 30 June 2012 comprises of the Annual Report of the Trust and its controlled entities, including SHT2, which together form the stapled entity ("stapled entity") and Stockland Holding Trust No.2 as an individual entity.

The consolidated Annual Report as at and for the financial year ended 30 June 2012 was authorised for issue by the Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity, on 22 August 2012.

(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").

As permitted by Class Order 05/642, issued by the Australian Securities and Investments Commission, this Financial Report is a combined financial report that presents the financial statements and accompanying notes of the Trust and its controlled entities (including SHT2).

(b) Changes in Accounting Standards

There are a number of new and amended Accounting Standards issued by the AASB which are applicable for reporting periods beginning on 1 July 2011. The Trust has adopted all the mandatory new and amended Accounting Standards issued that are relevant to its operations and effective for the current reporting period.

There was no material impact on the Financial Report as a result of the mandatory new and amended Accounting Standards adopted.

(c) New Accounting Standards

Certain new or amended Accounting Standards have been published that are not mandatory for this reporting period. In May 2011 the IASB issued IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other entities and IFRS 13 Fair Value Measurement, which all have an effective date 30 June 2014. The IASB also issued IAS 27 Separate Financial Statements (2011), which supersedes IAS 27 (2008) and IAS 28 Investment in Associates and Joint Ventures (2011), which supersedes IAS 28 (2008). The impact of the recently issued or amended Accounting Standards detailed above on the amounts recognised or disclosures made have not been fully assessed by management.

(d) Basis of preparation

The consolidated Annual Report is presented in Australian dollars, which is the stapled entity and SHT2's functional currency.

The Trust and SHT2 are entities of the kind referred to in ASIC Class Order 98/100 (as amended) and in accordance with that Class Order, amounts in the consolidated Annual Report have been rounded to the nearest thousand dollars, unless otherwise stated.

1 Summary of significant accounting policies (continued)

(d) Basis of preparation (continued)

Orderly Wind Up Basis

The Financial Report for the period ended 30 June 2012 has not been prepared on a going concern basis as the unitholders on 30 April 2012 authorised the Responsible Entity to terminate and wind up the Trust and SHT2 as soon as practicable following the conclusion of the sale of the properties of the Trust and SHT 2, being its sole income producing assets. Accordingly an orderly windup basis has been adopted to reflect an orderly realisation of the Trust's and SHT2's assets and settlement of its liabilities over the next one to two years. The Trust and SHT2 has sufficient funding through its loan facility with ANZ (Refer Note 13) to enable this orderly realisation to occur over this timeframe.

The Financial Report has been prepared on the alternate basis set out in the accounting policies below.

The consolidated Annual Report has been prepared on the historical cost conventions except for derivative financial instruments and investment properties which are stated at their fair value.

In winding up the Trust on an orderly realisation basis, no future transaction costs or costs associated with the wind up are accrued and the Directors have continued to apply the requirements of Australian Accounting Standards. As the investment properties now meet the criteria of held for sale, they are classified as current and continue to be measured at fair value. Please refer to Note 8.

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 windup could differ to those amounts recorded in the financial statements at 30 June 2012.

The preparation of the consolidated Annual Report requires Directors 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 consolidated Financial Report.

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

(e) Basis of consolidation

The consolidated Annual Report of the stapled entity has been prepared based on a business combination by the parent entity and in recognition of the fact that the units of the Trust and SHT2 have been stapled and cannot be traded separately and can only be traded as stapled units.

On 18 August 2008, the units in SHT2 were stapled to the units in the Trust. AASB Interpretation 1002: *Post-Date-of-Transition Stapling Arrangements* requires that for the purposes of statutory reporting, one of the stapled entities is to be identified as the parent entity. In accordance with this requirement, the Trust was identified as the parent with SHT2 being the acquiree. Accordingly, the stapled entities which comprise of the Trust, its controlled entities and SHT2, are represented as the consolidated financial statements of the Trust, however in accordance with the AASB Interpretation, the interest in SHT2 is shown as a minority interest in both the consolidated Statement of Comprehensive Income and consolidated Balance Sheet.

Controlled entities are entities controlled by the Trust. Control exists when the Trust has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

1 Summary of significant accounting policies (continued)

(e) Basis of consolidation (continued)

The Financial Statements of controlled entities are included in the consolidated Annual Report from the date that control commences until the date that control ceases.

Any balances, unrealised gains or income and expenses resulting from transactions with or between controlled entities are eliminated in full within the stapled entity.

(f) Investments

Controlled entities

Investments in controlled entities are carried at the lower of cost and recoverable amount in the Trust's Financial Statements. Non-controlling interests are shown as a separate item in the stapled entity's Financial Statements.

(g) 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.

(h) Revenue recognition (continued)

Rent from investment properties

Rent from investment properties is recognised in the stapled entity and SHT2's Profit and Loss on a straight-line basis over the lease term. Rent not received at balance date is reflected in the consolidated Balance Sheet as a receivable or if paid in advance, as rents in advance. Lease incentives granted are recognised over the lease term, on a straight-line basis, as a reduction of rent.

Interest income

Interest income is recognised in the stapled entity and SHT2's Profit and Loss as it accrues using the effective interest method and if not received at balance date, is reflected in the Balance Sheet as a receivable.

Distributions

Revenue from distributions from controlled entities are recognised in the Profit and Loss on the date the Trust's right to receive payment is established, being the date when they are declared by those entities.

(i) Operating segments

An operating segment is a component of the stapled entity and SHT2 that engages in business activities from which it may earn revenues and incur expenses.

(j) 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)

(k) Income tax

Under current Australian income tax legislation, the Trust and SHT2 are not liable for income tax, provided that the taxable income (including any assessable component of any capital gains from the sale of investment assets) is fully distributed to Unitholders each year. Tax allowances for building, plant and equipment depreciation are distributed to Unitholders in the form of tax deferred components of distributions.

(l) Derivative financial instruments

The stapled entity 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 stapled entity 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 consolidated Profit and Loss. 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(m).

(m) 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 consolidated Profit and Loss.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated Profit and Loss.

Amounts in equity are recognised in the consolidated Statement of Comprehensive Income in the periods when the hedged item is recognised in the consolidated Statement of Comprehensive Income.

When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously in equity are transferred into the initial measurement of the cost of the asset or liability.

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

(n) 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.

1 Summary of significant accounting policies (continued)

(n) Finance costs (continued)

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

Finance costs to related parties – SHT2

Finance costs to related parties include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with arrangement of borrowings.

Finance costs to related parties are recognised as an expense in the Profit and Loss on an accruals basis, and if not paid at balance date are reflected in the Balance Sheet as a liability.

(o) 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 stapled entity's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated Cash Flow Statement.

(p) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before applying the classification as held for sale, the measurement of the assets is brought up to date in accordance with applicable accounting standards. Investment properties which are classified as held for sale are carried at fair value as the measurement provisions of AASB 5 Non–current Assets Held for Sale and Discontinuing Operations do not apply to investment properties.

(q) Impairment of assets

The carrying amounts of the stapled entity and SHT2's assets are reviewed at each balance date, to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the stapled entity and SHT2's Profit and Loss, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess impairment losses recognised through the stapled entity and SHT2's Profit and Loss.

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 sheet 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.

1 Summary of significant accounting policies (continued)

(q) Impairment of assets (continued)

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 receivables 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.

(r) 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 of the Responsible Entity on or before the end of the financial year, but not distributed at the balance sheet date.

(s) 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 stapled entity and SHT2's Profit and Loss over the period of the borrowings on an effective interest basis unless there is an effective fair value hedge of the borrowings, in which case the borrowings are carried at fair value and changes in the fair value is recognised in the consolidated Profit and Loss.

(t) 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.

Performance fee

The performance fee will be recognised in the stapled entity and SHT2's Profit and Loss on an accrual basis. The performance fee is calculated in accordance with the Constitution based on the value of the stapled entity and SHT2's properties at the current balance date, discounted to reflect the projected life of the stapled entity and SHT2 and inherent market risks. The performance fee recognised will continue to be remeasured at each reporting date to reflect movements in the stapled entity and SHT2's performance during the period. Any revision to the performance fee will be adjusted through the stapled and SHT2's Profit and Loss in the current financial year.

1 Summary of significant accounting policies (continued)

(u) Investment properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of producing rental income, capital appreciation, or both.

Investment properties are initially recognised at cost including any acquisition costs. Investment properties are subsequently stated at fair value at each balance date with any gain or loss arising from a change in fair value recognised in the stapled entity and SHT2's Profit and Loss in the period.

Where a property is undergoing redevelopment, it is carried at fair value. Where property does not qualify as investment property but is to be redeveloped into investment property it is treated as property, plant and equipment and carried at cost until completion and then transferred to investment property at fair value.

Lease incentives provided by the stapled entity and SHT2 to lessees, and rental guarantees which may be received by the stapled entity and SHT2 from third parties (arising from the acquisition of investment properties) are included in the measurement of fair value of investment property and are treated as separate assets. Such assets are amortised over the respective periods to which the lease incentives and rental guarantees apply, either using a straight-line basis, or a basis which is more representative of the pattern of benefits.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the stapled entity and SHT2 holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Fair value

When assessing fair value, the Directors of the Responsible Entity will consider the discounted cash flows of the investment property based on reliable estimates of future cash flows; other contracts and recent prices for similar properties; and capitalised income projections based on the property's net market income.

In addition, independent valuations are performed at regular intervals appropriate to the nature of the investment property. These valuations are considered by the Directors of the Responsible Entity when determining fair value.

Subsequent costs

The stapled entity and SHT2 recognise in the carrying amount of an investment property the cost of replacing part of that investment property when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the stapled entity and SHT2 and the cost can be measured reliably. All other costs are recognised in the stapled entity and SHT2's Profit and Loss as an expense as incurred.

Disposal of revalued assets

The gain or loss on disposal of revalued assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal and is included in the stapled entity and SHT2's Profit and Loss in the year of disposal.

(v) Unitholders Funds

Units within SDOT 3 and SHT 2 have been classified as equity as the units are redeemable on liquidation, the Responsible Entity determines the level of distributions on a discretionary basis and the Unitholders are entitled to a pro-rata share of the entity's net assets on termination.

1 Summary of significant accounting policies (continued)

(w) Life of the Trust

The underlying constitution of the Trust indicates that the life is indefinite and unitholder approval is required to wind up the Trust. The Trust and SHT2 will be wound up as soon as practicable following the sale of the investment properties. The Special Resolution (more than 75% of the total eligible votes cast by Unitholders entitled to vote) was approved by Unitholders on 30 April 2012 which authorised the Responsible Entity to sell the Trust's and SHT2's investment properties.

(x) Comparatives

No comparatives have been amended from those reported in the previous financial year except for those reclassified to conform with current 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.

The stapled entity and SHT2 make estimates and assumptions concerning the future. The resulting accounting estimates will seldom, by definition, 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

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.

2 Critical accounting estimates and judgements (continued)

(a) Key sources of estimation uncertainty (continued)

Assumptions underlying the Responsible Entity's estimates of fair value of investment properties

In determining the fair value, the capitalisation of net market income method and discounting future cash flows to their present value have been used. These approaches require assumptions and judgement in relation to the future receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements, property capitalisation rate or estimated yield and make reference to market evidence of transaction prices for similar properties. 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.

These valuations are regularly compared to market yield data, and actual transactions by the stapled entity and SHT2 and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition. Refer to Note 8.

Estimates of performance fee expense

A performance fee is payable to the Responsible Entity if certain out performance is achieved by the stapled entity and SHT2. The fee is calculated as 20.5% of the performance of the stapled entity and SHT2 above the benchmark (10 year bond yield plus 3.0% per annum). The performance fee is calculated for each six month period and is capped at 0.46125% p.a. on the closing gross asset value of the stapled entity and SHT2. The stapled entity and SHT2 have not provided for a performance fee as at 30 June 2012. Refer Note 21 for further detail.

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 stapled entity and SHT2's property.

The best evidence of the likely sales proceeds is the fair value of the property. Current prices in an active market for similar investment properties, leases and other contracts are the best indicator of fair value. Where such information is not available, the stapled entity and SHT2 determine the property's fair value within a range of reasonable fair value estimates. In making its judgement, the stapled entity and SHT2 consider information from a variety of sources as described in Note 2(a)(i)–(iv) on previous page.

An estimate of the performance fee expense is then made factoring in the current fair value of the stapled entity and SHT2's property interest and expectations regarding future property market volatility.

2 Critical accounting estimates and judgements (continued)

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

The performance fee, if any, is recognised in the stapled entity and SHT'2 Profit and Loss on an accruals basis. The performance fee is calculated in accordance with the respective Constitutions. This involves the assumptions set out below.

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

The principal assumptions underlying the Responsible Entity's estimation of fair value are those related to the receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements, and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the stapled entity and SHT2 and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

It is assumed payment of the performance fee will occur in accordance with the respective Constitutions and the projected life of the stapled entity and SHT2. The stapled entity and SHT2 have 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 20.

3 Operating segments

The stapled entity and SHT2 operate solely in the business of investment management in Australia, this being it's one operating segment.

4 Auditor's remuneration

	Stapled		SHT2	
	2012	2011	**2012**	2011
	$	$	**$**	$
Audit services by KPMG Australia				
Audit and review of the Financial Report	**73,000**	94,000	**16,000**	24,000
Compliance audit services	**18,400**	27,400	**9,200**	13,700
	91,400	121,400	**25,200**	37,700
Other services by KPMG Australia				
Taxation compliance services	**30,785**	40,060	**9,275**	9,790
Total remuneration	**122,185**	161,460	**34,475**	47,490

	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000

5 Current assets – Cash and cash equivalents

Cash at bank and on hand	**4,200**	4,560	**9**	-

Stapled entity

The weighted average interest rate for cash at bank and on hand as at 30 June 2012 was 4.06% p.a. (2011: 4.36% p.a.).

Cash includes an amount of $1,372,228 (2011: $1,323,834) in a designated bank account held as a set off account against the borrowings of the Trust as part of the Trust's loan covenant requirements.

SHT2

The weighted average interest rate for cash at bank and on hand as at 30 June 2012 was 0% p.a. (2011: 0% p.a.). The bank account held is non-interest bearing.

6 Current assets – Trade and other receivables

Straight-line of rental income	**-**	314	**-**	187
Other receivables	**220**	68	**69**	24
	220	382	**69**	211

7 Current assets – Other assets

Lease incentives (deferred cost)	**-**	654	**-**	262
Other assets	**264**	448	**-**	51
	264	1,102	**-**	313

8 Non-current assets held for sale[1]

541 St Kilda Road, Melbourne, VIC	**26,500**	-	**-**	-
222 Russell Street, Melbourne, VIC	**16,880**	-	**-**	-
181 Great Eastern Highway, Belmont, WA	**19,400**	-	**-**	-
75 George Street, Parramatta, NSW	**33,800**	-	**33,800**	-
	96,580	-	**33,800**	-

[1] These properties are presented as held for sale in view of the intention of management to sell these properties during the twelve months ending 30 June 2013. All properties have been reclassified from Investment Property. Refer to Basis of Preparation Note 1(d).

9 Non-current assets – Investment property

Stapled entity

Description	Acquisition date	Original purchase price $'000	Independent Valuation Date	Independent Valuation $'000	Capitalisation rate 30 Jun 2012 %	Capitalisation rate 30 Jun 2011 %	Weighted average lease term 2012 Years	Weighted average lease term 2011 Years	Stapled[4] Book value 2012 $'000	Stapled Book value 2011 $'000
541 St Kilda Road, Melbourne, VIC[1]	June 2007	30,162	**June 2012**	**26,500**	**8.75**	9.25	4.44	1.40	**26,500**	25,000
222 Russell Street, Melbourne, VIC[1]	June 2007	16,879	**December 2011**	**14,000**	**8.50**	8.50	3.59	3.69	**16,880**[5]	13,250
181 Great Eastern Highway, Belmont, WA[2]	June 2007	13,756	**June 2012**	**19,400**	**8.50**	8.50	6.59	7.60	**19,400**	17,000
75 George Street, Parramatta, NSW[2]	June 2007	39,328	**June 2012**	**33,800**	**9.00**	9.00	4.43	5.30	**33,800**	32,600
Total Investment properties (including amounts classified in Trade and other receivables and Other assets)									**96,580**	87,850
Less amounts classified as:										
- Trade and other receivables (straight-line of rental income)									**(823)**	(781)
- Other assets (lease incentives)									**(2,086)**	(1,768)
									93,671	85,301
Less amounts transferred to Non-current assets held for sale									**(93,671)**[3]	-
Total Investment properties									**-**	85,301

[1] These properties are leasehold properties.

[2] These properties are freehold properties.

[3] The amounts transferred to Non-current assets held for sale include straight-line of rental income and lease incentives.

[4] The book value reflects the fair value at 30 June 2012 based on Independent Valuations or other indicative information and is based on value in use. If the assets are realised through sale, as is the current intention, transaction costs in the range of $1,000,000 to $3,400,000 are expected to be incurred which will reduce the net realisable amount. These costs are expensed when incurred.

[5] The fair value assessed by the Directors reflects the purchase price achieved in a signed agreement received post balance sheet date. Directors determine this to be best indication of the fair value at 30 June 2012 as there have not been any significant changes to market conditions between 30 June 2012 and the date of the signed purchase agreement.

9 Non-current assets – Investment property

SHT2

Description	Acquisition date	Original purchase price $'000	Independent Valuation date	Independent Valuation $'000	Capitalisation rate 30 Jun 2012 %	Capitalisation rate 30 Jun 2011 %	Weighted average lease term 2012 Years	Weighted average lease term 2011 Years	SHT2 Book value 2012 $'000	SHT2 Book value 2011 $'000
75 George Street, Parramatta, NSW[1]	Aug 2008	37,500	**June 2012**	**33,800**	**9.00**	9.00	**4.43**	5.30	**33,800**	32,600
Total Investment properties (including amounts classified in Trade and other receivables and Other assets)									**33,800**	32,600
Less amounts classified as:										
- Trade and other receivables (straight-line of rental income)									**(292)**	(462)
- Other assets (lease incentives)									**(242)**	(430)
									33,266	31,708
Less amounts transferred to Non-Current assets held for sale									**(33,266)[2]**	-
Total Investment properties									**-**	31,708

[1] This property is a freehold property.

[2] The amounts transferred to Non-current assets held for sale include straight-line of rental income and lease incentives.

		Stapled		SHT2	
		2012	2011	**2012**	2011
		$'000	$'000	**$'000**	$'000
9	**Non-current assets – Investment property (continued)**				
	Reconciliation – investment properties				
	Direct investments and controlled entities				
	Carrying amount at the beginning of the financial year	**85,301**	82,084	**31,708**	30,362
	Net gain on fair value adjustments of investment properties	**6,523**	1,525	**202**	1,054
	Expenditure capitalised	**1,847**	1,692	**1,356**	292
	Transfer to Non-current assets held for sale	**(93,671)**	-	**(33,266)**	-
	Carrying amount at the end of the financial year	**-**	85,301	**-**	31,708
10	**Non-current assets – Trade and other receivables**				
	Straight-line of rental income	**-**	467	**-**	275
11	**Non-current assets – Other assets**				
	Lease incentive (deferred cost)	**-**	1,114	**-**	168
12	**Current liabilities – Trade and other payables**				
	Trade payables and accruals	**3,356**	3,253	**721**	589
	Goods and services ("GST") payable	**22**	15	**22**	29
	Interest payable on loan facility	**21**	18	**-**	-
		3,399	3,286	**743**	618

	Stapled		SHT2	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
13 Current – Interest-bearing loans and borrowings				
Current liabilities – Interest-bearing loans and borrowings				
Loan facility	**55,153**	55,153	-	-
Less: attributable transaction costs	**(122)**	(211)	-	-
Interest-bearing loan with related entity	-	-	**32,032**	32,032
Balance Sheet carrying amount at amortised cost	**(55,031)**	54,942	**32,032**	32,032

Loan facility – Stapled entity

The Trust has a $60,810,000 (2011: $60,810,000) loan facility agreement, comprising a property facility and capital expenditure facility (collectively known as "loan facility"), with Australia and New Zealand Bank ("ANZ"). As at 30 June 2012, $55,153,000 (2011: $55,153,000) had been drawn on the loan facility.

The Trust's loan facility was due to mature on 27 June 2012. On 7 February 2012, the Trust refinanced its loan facility, extending the loan maturity to 27 June 2014.

The loan has been classified as a current liability as the unitholders have authorised the Responsible Entity to terminate and wind up the Trust as soon as practicable following the conclusion of the sale of the properties of SDOT 3 and its sub-Trusts and SHT 2.

The weighted average interest rate on the loan facility for the year to 30 June 2012 was 7.36% p.a. (30 June 2011: 7.70% p.a.). This loan facility has been hedged through an interest rate swap agreement (refer to below paragraphs). Taking into account the interest rate swap in place, the weighted average interest rate on the loan facility for the period to 30 June 2012 is 8.40% p.a. (30 June 2011: 8.40% p.a.).

The loan facility provided to the Trust is secured by a limited registered first mortgage over the properties and a fixed and floating charge over all assets of the stapled entity.

Interest rate swap contract – Stapled entity

The Responsible Entity, on behalf of the Trust, entered into an interest rate swap agreement with STML, as responsible entity for Stockland Trust, to manage cash flow risks associated with the interest rates on the loan facility provided by ANZ that are floating. The interest rate swap allows the Trust to swap the floating rate borrowing into a fixed rate borrowing.

During the financial year ended 30 June 2010, the Trust and STML agreed for the original interest rate swap agreement to be terminated and a new interest rate swap entered into with a reduced face value of $55,153,000 (30 June 2009: $86,353,000). All other terms of the new interest rate swap remained unchanged from the terms of the original interest rate swap agreement (i.e. the new interest rate swap still incurs a fixed cost equal to 6.35% p.a. payable quarterly in arrears and will terminate on 30 June 2014).

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

Interest rate swap contract – Stapled entity (continued)

Although the interest rate swap is transacted for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting to the interest rate swap and accordingly, changes in the fair value of the interest rate swap are recorded in the profit or loss in the consolidated Profit and Loss as "Net gain/(loss) from fair value adjustment on derivative financial instruments". Notwithstanding the accounting outcome, the Responsible Entity considers that the new interest rate swap agreement is effective in offsetting the economic interest rate exposures of the Trust.

The interest rate swap has been classified as a current liability as the unitholders have authorised the Responsible Entity to terminate and wind up the Trust as soon as practicable following the conclusion of the sale of the properties of SDOT 3 and its sub-Trusts and SHT 2.

As a result of not applying hedge accounting, the remaining balance in the cash flow hedge reserve is amortised over the life of the original swap. Refer to Note 17.

Loan facility - Stockland Holding Trust No. 2

On 18 August 2008, SHT2 entered into a loan agreement with SDOT No. 3 for $32,032,000 to repay the existing debt owing to Stockland Trust by SHT2 which related to the original purchase of the Parramatta property by SHT2.

The loan was due to mature on 27 June 2012. On 8 February 2012, SHT2 and SDOT No. 3 agreed to extend the loan maturity to 31 August 2013. The loan may be extended on an ongoing basis upon agreement between both SHT2 and SDOT No. 3.

The loan has been classified as a current liability as the unitholders have authorised the Responsible Entity to terminate and wind up the Trust as soon as practicable following the conclusion of the sale of the properties of SDOT 3 and its sub-Trusts and SHT 2.

Interest is payable by SHT2 annually in arrears. The weighted average interest rate on the property facility for the year to 30 June 2012 was 6.51% p.a. (30 June 2011: 8.57% p.a.).

	Stapled		**SHT2**	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
14 Current liabilities – Other liabilities				
Fair value of financial instrument	**2,691**	-	-	-
Distribution payable	**300**	-	-	-
Other liabilities	-	648	-	-
	2,991	648	-	278
15 Non-current liabilities – Other liabilities				
Fair value of financial instrument	-	876	-	-

16 Issued capital

Stapled entity

	2012 No. of units	2011 No. of units	2012 $'000	2011 $'000
Stapled units on issue	**60,020,000**	60,020,000	**34,998**	35,327

Date	Details	No. of units	Issue price	$'000
Movement in stapled units				
1 July 2011	Opening balance	60,020,000		35,327
30 June 2012	Deferred establishment costs	-	-	(29)
30 June 2012	Distributions from contributed equity	-	-	(300)
30 June 2012	**Closing balance**	**60,020,000**		**34,998**

Rights and restrictions over units

Each Stapled Unit ranks equally with all other Stapled Units for the purpose of distributions and on termination of the Trust and SHT2.

SHT2

	2012 No. of units	2011 No. of units	2012 $'000	2011 $'000
SHT2 units on issue	**60,020,000**	60,020,000	**7,340**	7,340

Date	Details	No. of units	Issue price	$'000
Movement in units				
1 July 2011	Opening balance	60,020,000	-	7,340
30 June 2012	Balance	60,020,000	-	7,340
30 June 2012	**Closing balance**	**60,020,000**	-	**7,340**

Rights and restrictions over units

Each Stapled Unit ranks equally with all other Stapled Units for the purpose of distributions and on termination of the Trust and SHT2.

	Stapled		SHT2	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
17 Reserves				
Cash flow hedge reserve				
Balance at the beginning of the financial year	**(370)**	(493)	-	-
Amortisation of cash flow hedge reserve transferred to Profit or Loss	**123**	123	-	-
Balance at the end of the financial year	**(247)**	(370)	-	-

18 Distributions to Unitholders

Stapled entity

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

	Distribution per unit	Total amount $'000	Date of payment	Tax deferred
2012				
30 June 2012	**0.4998¢**	300[2]	31 August 2012[1]	100%

[1]Proposed payment date.

[2]This is a distribution from contributed equity

No distributions to Unitholders were recognised in the previous financial year by the stapled entity.

SHT2

No distributions to Unitholders were recognised during the financial year and in the previous financial year by SHT2.

19 Notes to the Cash Flow Statement

	Stapled 2012 $'000	Stapled 2011 $'000	SHT2 2012 $'000	SHT2 2011 $'000
Reconciliation of profit for the financial year to net cash inflow from operating activities:				
Profit for the financial year	**6,875**	4,410	**522**	932
Amortisation of borrowing costs	**211**	242	-	-
Amortisation of incentives	**716**	512	**332**	243
Net gain from fair value adjustment of investment properties	**(6,523)**	(1,525)	**(202)**	(1,054)
Net loss/(gain) from fair value adjustment on derivative financial instruments	**1,939**	(189)	-	-
Net cash inflow from operating activities before change in assets and liabilities	**3,218**	3,450	**652**	121
Decrease in trade and other receivables and other assets	**(1,041)**	(1,100)	**(23)**	(24)
(Decrease)/Increase in trade payables and other liabilities	**(340)**	1,056	**(131)**	463
Net cash inflow from operating activities	**1,837**	3,406	**498**	560

20 Financial instruments

(a) Financial risk and capital management

The stapled entity and SHT2's activities expose them to a variety of financial risks: credit risk, liquidity risk and interest rate risk. The stapled entity and SHT2's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the stapled entity and SHT2's financial performance. The stapled entity and SHT2 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 of the Responsible Entity 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 stapled entity and SHT2 by adjusting the amount of distributions paid to Unitholders, selling assets to reduce debt, and adjusting the timing of capital expenditure. In this context, the stapled entity and SHT2 consider capital to include interest-bearing loans and borrowings and Unitholders' funds.

Management monitor the capital structure of the stapled entity and SHT2 through the loan-to-value ratio. The ratio is calculated as the amount of the stapled entity and SHT2's loan facility drawn divided by the latest valuation of the stapled entity and SHT2's properties. The LVR as at 30 June 2012 is 57% (2011: 61.3%) which is in compliance with the LVR covenant requirement of 65% (2011: 65%).

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 stapled entity and SHT2.

The stapled entity and SHT2 have no significant concentrations of credit risk and has policies to review the aggregate exposure of tenancies across its portfolio. The stapled entity and SHT2 also have policies to ensure that leases are made to customers with an appropriate credit history.

Derivative counterparties are limited to entities with high credit ratings set down by Standard and Poors.

As at 30 June 2012 and 30 June 2011, 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 stapled entity's maximum exposure to credit risk in relation to these assets. Refer to Note 5, 6 and 7 for a breakdown of these financial assets.

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 stapled entity and SHT2's financial assets are substantially independent of changes in market interest rates.

20 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Stapled entity

The Responsible Entity, on behalf of the stapled entity, manages interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The debt fixed/hedged percentage at 30 June 2012 was 100% (2011: 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 20(b) for further details about the interest rate swap contracts.

SHT2

SHT2's related party loan from SDOT No.3 is the only financial instrument which exposes SHT2 to interest rate risk.

Sensitivity analysis – Stapled entity

The following sensitivity analysis shows the effect on the stapled entity's consolidated Profit and Loss and equity if market interest rates at balance date had been 100 basis points higher/lower (2011: 100 basis points) with all other variables held constant.

	2012		2011	
	Interest rates higher $'000	**Interest rates lower $'000**	Interest rates higher $'000	Interest rates lower $'000
Market interest rate movement of 100 basis points (2011: 100 basis points)				
Profit and Loss	**444**	**(465)**	873	(917)
Equity	**-**	**-**	-	-

Sensitivity analysis – SHT2

The following sensitivity analysis shows the effect on the SHT2's Profit and Loss and equity if market interest rates at balance date had been 100 basis points higher/lower (2011: 100 basis points) with all other variables held constant.

	2012		2011	
	Interest rates higher $'000	**Interest rates lower $'000**	Interest rates higher $'000	Interest rates lower $'000
Market interest rate movement of 100 basis points (2011: 100 basis points)				
Profit and Loss	**(320)**	**320**	(320)	320
Equity	**-**	**-**	-	-

20 Financial instruments (continued)

(a) Financial risk and capital management (continued)*Liquidity risk – Stapled entity*

Liquidity risk is the risk that the stapled entity 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 stapled entity 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 stapled entity manages liquidity risk through monitoring the maturity of its debt portfolio. As at 30 June 2012, the current weighted average debt maturity is 2.0 years (2011: 1.0 years). Refer to Note 13 for details of the loan facility. However as the stapled entity's financial report is prepared on an orderly wind up basis (Refer to Note 1(d)) the loan has been classified as current.

The table below 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 may not equate to carrying amounts of financial liabilities in the Balance Sheet.

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
			2012		
Stapled entity					
Trade and other payables	**(3,356)**	**(3,356)**	-	-	-
Loan facility	**(61,621)**	**(61,621)**	-	-	-
Interest rate swap	**(2,802)**	**(2,802)**	-	-	-
	(67,779)	**(67,779)**	-	-	-
			2011		
Stapled entity					
Trade and other payables	(3,076)	(3,076)	-	-	-
Loan facility	(59,316)	(59,316)	-	-	-
Interest rate swap	(933)	(482)	(451)	-	-
	(63,325)	(62,874)	(451)	-	-

20 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Liquidity risk – SHT2

Liquidity risk is the risk that SHT2 will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. SHT2 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.

SHT2's only significant financial obligation is the related party loan provided by SDOT No.3. SHT2 manages liquidity risk through monitoring the maturity of its debt portfolio. The current weighted average debt maturity is 2.0 years (2011: 1.0 years). This loan may be extended on an on-going basis upon agreement between SHT2 and SDOT No. 3. As the stapled entity's financial report is prepared on an orderly wind up basis (Refer to Note 1(d)) the loan has been classified as current. Refer to Note 13 for details of the intercompany loan.

The table below 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 may not equate to carrying amounts of financial liabilities in the Balance Sheet.

Contractual maturity of financial liabilities

		2012	
	Contractual cash flows $'000	**1 year or less $'000**	**1-4 years $'000**
SHT2			
Trade and other payables	**(721)**	**(721)**	-
Loan with related entity	**(35,908)**	**(35,908)**	-
	(36,629)	**(36,629)**	-
		2011	
SHT2			
Trade and other payables	(561)	(561)	-
Loan with related entity	(34,581)	(34,581)	-
	(35,142)	(35,142)	-

(b) Derivative financial instruments used by the stapled entity

The stapled entity 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 stapled entity's financial risk management policies as mentioned above.

Interest rate swap contract

The Responsible Entity, on behalf of the stapled entity, has entered into an interest rate swap contract with Stockland Trust Management Limited to manage cash flow risks associated with the interest rates on borrowings that are floating. The interest rate swap allows the stapled entity to swap the floating rate borrowing into a fixed rate.

20 Financial instruments (continued)

(b) Derivative financial instruments used by the stapled entity (continued)

Interest rate swap contract (continued)

The interest rate swap provides a fixed rate of 6.35% p.a. on the funds drawn against the property facility for the duration of the facility.

The swap covers 100% of the loan principal outstanding and is timed to expire on 30 June 2014.

The fixed interest rate is 6.35% p.a. and the variable rate is the 90 day bank bill rate which at the last reset date to 30 June 2012 was 3.59% p.a. plus a margin of 0.06% p.a.

As at 30 June 2012, the notional principal amounts and period of expiry of the interest rate swap contract is as follows:

	Stapled	
	2012	2011
	$'000	$'000
1-5 years	**55,153**	55,153
Over 5 years	-	-

The contract requires settlement of net interest receivable or payable quarterly. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

As at 30 June 2012, for the current swap, Stockland Direct Office Trust No. 3 did not apply cash flow hedge accounting and the change in the fair value of the interest rate swap contract is recognised in the consolidated Profit and Loss. Refer accounting policy at Note 1(m).

Notwithstanding the accounting outcome, the Responsible Entity considers that the interest rate swap agreement is appropriate and effective in offsetting the economic interest rate exposures of the Trust. At the balance sheet date, the swap contract had a fair value of $2,691,000 (2011: $876,000) included in Current liabilities – Other liabilities on the consolidated Balance Sheet. The stapled entity does not hold derivative financial instruments for speculative purposes.

(c) Fair value of financial assets and financial liabilities

The carrying amounts of cash and cash equivalents, trade and other receivables, loan to related entity, trade and other payables, the loan facility and interest rate swap as disclosed in the stapled entity and SHT2's Balance Sheet reflect the fair value of these financial assets and liabilities as at 30 June 2012.

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 consolidated Balance Sheet at fair value. Hedge accounting is not applied, accordingly, the ineffective portion of the change in the fair value of the interest rate swap contract is recognised in the consolidated Profit and Loss.

20 Financial instruments (continued)

(d) Fair value hierarchy

The fair value hierarchy requires the stapled entity and SHT2 to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements.

Stapled entity

The following hierarchy is used for determining and disclosing the fair value of SDOT No. 3's financial instruments, by valuation method:

- 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 stapled entity's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2012 and 30 June 2011.

Financial liabilities	2012 $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Interest rate swap	**2,691**	-	**2,691**	-

Financial liabilities	2011 $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Interest rate swap	876	-	876	-

SHT2

As SHT2 does not hold any financial instruments at fair value, the hierarchy disclosure is not required.

21 Related parties

Stockland Capital Partners Limited ("SCPL") is the Responsible Entity of the stapled entity and SHT2. The Key Management Personnel of the stapled entity has been defined as the Responsible Entity. The Responsible Entity does not hold any stapled units in the stapled entity and the Trust.

The relevant interests of each Director of the Responsible Entity holding stapled units in the stapled entity and SHT2 at the date of this report is as follows:

Directors	**Number of Stapled Units**
Mr David Kent	85,000
Mr Matthew Quinn	10,000

	Stapled		**SHT2**	
Responsible Entity fees and other transactions	**2012 $'000**	2011 $'000	**2012 $'000**	2011 $'000
Trust establishment fee – Stapled entity				
As stated in the PDS, the Responsible Entity has agreed for the Trust to defer payment of part of the Trust establishment fee amounting to $550,000 and has been included in Current liabilities – Trade and other payables as at 30 June 2012 (2011: $550,000).	-	-	-	-
Responsible Entity fees – Stapled entity				
The Responsible Entity charged responsible entity fees to the stapled entity calculated at 0.45% p.a. of the gross value of the assets of the stapled entity. Responsible Entity fees reported by the stapled entity include the Responsible Entity fees of SHT2 which are paid by and reported separately in SHT2.				
For the year ended 30 June 2012, the Responsible Entity has agreed for the stapled entity to defer payment of part of the Responsible Entity fees amounting to $195,031 (2011: $180,249).	**433**	400	**n/a**	n/a
Total deferred and accrued Responsible Entity fees by the stapled entity included in Current liabilities – Trade and other payables as at 30 June 2012 is $1,411,330 (2011: $1,011,106).				
Responsible Entity fees – SHT2				
The Responsible Entity charged a responsible entity fee to the SHT2 calculated at 0.45% p.a. of the gross value of the assets of the SHT2.	**n/a**	n/a	**151**	139
For the year ended 30 June 2012, the Responsible Entity has agreed for SHT2 to defer payment of part of the Responsible Entity fees amounting to $68,000 (2011:$62,484).				
Total deferred and accrued Responsible Entity fees by SHT2 included in Current liabilities – Trade and other payables as at 30 June 2012 is $280,222 (2011: $210,507).				

21 Related parties (continued)

	Stapled		SHT2	
	2012	2011	**2012**	2011
Responsible Entity fees and other transactions	**$'000**	$'000	**$'000**	$'000
Performance fee – Stapled entity and SHT2				
The Responsible Entity is entitled to a performance fee calculated as 20.5% of the performance of the stapled entity above the benchmark (10 year bond yield plus 3.0% per annum). The performance fee is calculated for each six month half year and is capped at 0.46125% p.a. on the closing gross asset value of the stapled entity and SHT2 as disclosed on the balance sheet at each reporting date or realised on a sale of the property or properties during the year.				
The stapled entity has not provided for a performance fee as at 30 June 2012 (2011: $nil).	-	-	-	-
SHT2 has not provided for a performance fee as at 30 June 2012 (2011: $nil)	-	-	-	-
Total Responsible Entity fees and other transactions recognised in the stapled entity and SHT2's Profit and Loss	**433**	400	**151**	139

Other related party transactions

Limited Liquidity Facility ("LLF") – Stapled entity & SHT2

The LLF closed after the 30 September 2010 quarter in accordance with the with the terms of the LLF agreement with Westpac.

Units held by Stockland Trust – Stapled entity & SHT2

As at 30 June 2012, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 11,934,000 Stapled Units in the stapled entity (2011: 11,934,000).

Property management fee – Stapled entity

Stockland Property Management Pty Limited has been appointed as the property manager to undertake the ongoing property management and leasing of the properties. A fee of $422,591 (2011: $405,681) was paid/payable to the property manager during the financial year. Total accrued property management fees by the stapled entity included in Current liabilities – Trade and other payables as at 30 June 2012 is $44,817 (2011: $304,935).

21 Related parties (continued)

Other related party transactions (continued)

Property management fee – SHT2

Stockland Property Management Pty Limited has been appointed as the property manager to undertake the ongoing property management and leasing of the properties. A fee of $148,640 (2011: $165,096) was paid/payable to the property manager by SHT2 during the financial year. Total accrued property management fees by SHT2 included in Current liabilities – Trade and other payables as at 30 June 2012 is $16,138 (2011: $165,096).

Interest-bearing loan from SDOT No. 3 – SHT2

As at 30 June 2012, SHT2 has a loan payable to SDOT No. 3 of $32,032,000 (2011: $32,032,000). Interest is payable to SDOT No. 3 annually in arrears. The weighted average interest rate on the loan for the period to 30 June 2012 was 6.52% p.a. (2011: 8.57% p.a.). During the year ended 30 June 2012, $2,087,000 (2011: $2,745,000) has been paid to SDOT No. 3.

The loan which was due to mature on 27 June 2012 has been extended to 31 August 2013. Further information in relation to this can be found in Note 13 to the Financial Report.

Intercompany loan between SHT2 and SDOT No .3

	2012 $'000	2011 $'000
Aggregate amount receivable by SHT2 from SDOT No. 3	**2,821**	3,655

This loan is interest free and repayable at call.

Interest rate swap agreement with Stockland Trust Management Limited

STML has provided an interest rate swap on the loan facility to the Trust. The interest rate swap will incur a fixed cost equal to 6.35% p.a. payable quarterly in arrears and will terminate on the earlier of 3 years from 30 June 2011 and when the underlying debt becomes due and payable (refer to Note 13).

Loan facility offer

Stockland Trust Management Limited, a subsidiary of Stockland Corporation has provided a loan facility offer to the Trust, which may be accepted by the Trust at any time up to 31 August 2012, with that facility to be provided on the market terms and conditions current at the time of acceptance by the Trust. The loan facility offer is intended to refinance the then current drawn debt amount of the existing facility held by the Trust from ANZ.

SHT2 related party payable

Stockland Property Management Pty Limited paid $230,950 (2011: $105,386) for land tax costs on behalf of SHT2 during the financial year. This amount is included in current other liabilities.

22 Controlled entities

The following entities were 100% controlled by the parent entity during the current and previous financial years:

Controlled entities of Stockland Direct Office Trust No. 3

SDOT 3 Property No. 1 Trust
SDOT 3 Property No. 2 Trust
SDOT 3 Property No. 4 Trust
SDOT 3 Property No. 5 Trust

23 Commitments

As at 30 June 2012, the stapled entity and SHT2 have no commitments (2011: $nil).

Non-cancellable operating lease receivable from investment property tenants

Non-cancellable operating lease commitments receivable:

	Stapled		**SHT2**	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Within one year	**7,932**	8,541	**3,743**	3,891
Later than one year but not later than five years	**23,970**	25,646	**12,418**	7,395
Later than five years	**4,800**	9,038	**1,356**	239
	36,702	43,225	**17,517**	11,525

24 Contingent liabilities and contingent assets

As at 30 June 2012, the stapled entity and SHT2 have no contingent liabilities or contingent assets (2011: $nil).

25 Parent Entity Disclosures

As at, and throughout, the financial year ended 30 June 2012 the parent company of the stapled entity was Stockland Direct Office Trust No.3

	Trust	
	2012	2011
	$'000	$'000
Results of the parent entity		
Loss for the financial year	**1,533**	1,543
Other comprehensive income	**-**	-
Total comprehensive income for the year	**1,533**	1,543
Financial position of the parent entity at year end		
Current assets	**36,079**	36,831
Total assets	**84,805**	84,158
Current liabilities	**59,502**	56,241
Total liabilities	**59,502**	57,116
Net assets	**25,303**	27,042
Total Unitholders funds of the parent entity comprising of:		
Issued capital	**34,998**	35,327
Reserves	**(247)**	(370)
Undistributed loss	**(9,448)**	(7,915)
Total Unitholder's funds	**25,303**	27,042

Parent entity contingencies

There are no contingencies with the parent entity as at 30 June 2012 (2011: $nil).

Parent entity capital commitments

The parent entity has not entered into any capital commitments as at 30 June 2012 (2011: $nil).

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has not entered into any guarantees in respect of debts of its subsidiaries.

26 Events subsequent to the end of the year

On 25 July 2012, Managing Director Mr Matthew Quinn announced his decision to retire by February 2013. The Board are undertaking a comprehensive internal and external search to select his successor.

As at the date of signing, the Trust is in the process of exchanging a contract on an asset classified as Held for sale in the Financial Report, being 222 Russell Street. The proceeds are in line with the 30 June 2012 book value.

Other than the 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 stapled entity and SHT2, the results of operations, or the state of the affairs of the stapled entity and SHT2, in future financial years.

Stockland Direct Office Trust No. 3 and its controlled entities (including Stockland Holding Trust No. 2)
Directors' Declaration
For the year ended 30 June 2012

In the opinion of the Directors of Stockland Capital Partners Limited, the Responsible Entity of Stockland Direct Office Trust No. 3 ("the Trust") and Stockland Holding Trust No 2('SHT2"):

1. the Financial Statements and Notes set out on pages 9 to 42 are in accordance with the Corporations Act 2001 including:
   (a) giving a true and fair view of the Trust, the stapled entity and SHT2's financial position as at 30 June 2012 and of their 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, the stapled entity and SHT2 will be able to pay their debts as and when they become due and payable;
4. the Trust and SHT2 operated during the financial year ended 30 June 2012 in accordance with the provisions of the Constitutions as amended dated 13 March 2007 respectively; and
5. the Register of Unitholders has, during the financial year ended 30 June 2012, been properly drawn and maintained so as to give a true account of the Unitholders of the Trust and SHT2.

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, 22 August 2012

KPMG

Independent auditor's report to the unitholders of Stockland Direct Office Trust No.3 and Stockland Holding Trust No.2

Report on the financial report

We have audited the accompanying financial reports which have been prepared in accordance with ASIC Class Order 05/642 and comprise:

- the consolidated balance sheet as at 30 June 2012, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended on that date, notes 1 to 26 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of Stockland Direct Office Trust No.3 Stapled Entity which comprises the consolidation of Stockland Direct Office Trust No.3 and the entities it controlled at the year end and from time to time during the financial year including Stockland Holding Trust No.2 (SHT 2), which form the consolidated entity ("Stapled Entity").
- the balance sheet as at 30 June 2012, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, notes 1 to 26 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of Stockland Holding Trust No. 2.

Directors' responsibility for the financial reports

The directors of Stockland Capital Partners Limited (the Responsible Entity for Stockland Direct Office Trust No.3 and Stockland Holding Trust No.2) are responsible for the preparation of the financial reports that give a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the financial reports that are free from material misstatement, whether due to fraud or error. In note 1, the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial reports based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those 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 reports are 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 entity's preparation of the financial report that gives a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial reports present fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Stapled Entity and SHT 2's financial position, and of its performance.

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

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 reports of the Stapled Entity and SHT 2 is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Stapled Entity's and SHT 2's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

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

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Hopkins

Karen Hopkins
Partner

Sydney
22 August 2012