# Stockland Direct Office Trust No. 3

and its controlled entities

**ARSN: 124 439 925 Annual Financial Report, 30 June 2008 Registered office: 133 Castlereagh Street Sydney NSW 2000**

# one company, diversified portfolio

*Diversity by asset class and geography underpins our continued performance. Our capability is strengthened by being one diversified company with the strength of one platform.*

**About us**
Stockland (ASX:SGP) is one of the largest and most diversified property groups in Australia with interests in retail, commercial, industrial, residential and retirement living investment and development, and funds management. Stockland currently has total assets in Australia and the united Kingdom of $14.7 billion, market capitalisation of $8 billion, and reported an operating profit of $674 million for the year ended 30 June 2008. Additional information can be found on our website **www.stockland.com.au**

Our vision is to create a world class property group. We see that our purpose is to deliver enduring value for our stakeholders through innovative, customer focussed property solutions.

# directors' report

**for the year ended 30 June 2008**

The Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity of Stockland Direct Office Trust No. 3 ("the Trust"), present their report together with the consolidated Financial Report made in accordance with a resolution of the Directors with respect to the results of the Trust and its controlled entities ("the consolidated entity") for the year ended 30 June 2008, the state of the consolidated entity's affairs as at 30 June 2008 and the Independent Auditor's Report.

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, Stockland Funds Management Limited ("SFML") was appointed as the Responsible Entity on 13 March 2007.

On 28 March 2007, the Trust was registered as a managed investment scheme with Australian Securities & Investments Commission ("ASIC"). SFML changed its name to Stockland Capital Partners Limited on 21 December 2007.

## DIRECTORS

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

**Peter Scott**
Chairman (Non-Executive)

Appointed 22 November 2005

Mr Scott is a Director of Stockland Corporation Limited ("Stockland"), the Chairman of Sinclair Knight Merz Holdings Limited and was appointed a Director of Perpetual Limited on 31 July 2005. Mr Scott is also a Director of Pilotlight, a non-profit making organisation, O'Connell Street Associates Pty Limited and is on the Advisory Board of Jones Lang LaSalle Australia. Mr Scott was the Chief Executive Officer of MLC and Executive General Manager, Wealth Management of National Australia Bank until January 2005. Prior to this, he held a number of senior positions with Lend Lease, following a successful career as a consulting engineer in Australia and overseas. Mr Scott was appointed as a Director and was elected Chairman of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds on 22 November 2005 and is also a member of Stockland's Human Resources Committee.

**Lyn Gearing**
(Non-Executive)

Appointed 22 November 2005,
retired 30 June 2008

Ms Gearing is currently a Director of Stockland, Hancock Natural Resources Group Australasia Pty Limited, IMB Limited, Queensland Investment Corporation and the Garvan Research Foundation. Ms Gearing was Chief Executive of NSW State Super from 1997 to 2002, and has extensive business experience in superannuation, funds management, corporate finance and management consulting. She is a member of Stockland's Audit and Risk Committee and was a member of Stockland Capital Partners Limited Audit and Risk Committee until 30 September 2007. She was also a Director of Stockland Capital Partners Limited, the Responsible Entity of Stockland's unlisted funds, until 30 June 2008. Ms Gearing was appointed Chair of Stockland and Stockland Capital Partners Financial Services Compliance Committees on 1 July 2006.

**David Kent**
(Non-Executive)

Appointed 9 August 2004

Mr Kent is currently Executive Chairman of Everest Babcock and Brown Limited and a Director of the Australian chapter of the Alternative Investment Management Association ("AIMA"). He was previously Executive General Manager of Axiss Australia and served as a member of the Financial Sector Advisory Council. Mr Kent is a past Senior Trade and Investment Commissioner in Paris and Washington DC for the Australian Trade Commission. Mr Kent formerly worked for Morgan Stanley in Sydney, Melbourne and New York where he became Managing Director and Head of Investment Banking. Mr Kent has previously served as Deputy Chairman of the Art Gallery of NSW Foundation, Chairman of the Brett Whiteley Foundation and is currently on the S.H. Ervin Gallery Committee. He is a member of the Stockland Residential Estates Equity Fund No.1 ("SREEF1") Investment Committee.

**Anthony Sherlock**
(Non-Executive)

Appointed 9 August 2004

Mr Sherlock is a former senior partner of Coopers and 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 Sydney Attractions Group Limited, IBA Health Limited, Export Finance Insurance Corporation and Equatorial Mining Limited. He is a consultant to the Chairman of the Audit Committee of Commander Communications Limited. Mr Sherlock is the former Chairman of The Woolmark Company Pty 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 Trust Management Limited and Stockland Capital Partners Financial Services Compliance Committees and the SREEF1 Investment Committee.

## DIRECTORS (CONTINUED)

**Terry Williamson**
(Non-Executive)

Appointed 2 July 2004,
retired 23 October 2007

Mr Williamson is a Director of Stockland, Avant Insurance Limited, ING Australia Limited and a member of the University of Sydney Faculty of Economics and Business Studies Advisory Board. Mr Williamson was previously Chief Financial Officer of Bankers Trust Australia Limited/BT Financial Group Pty Limited from 1997 to 2002 and prior to that was a partner of Price Waterhouse for 17 years. He retired as Director of Stockland Capital Partners Limited and was replaced by Mr Barry Neil on 23 October 2007. He was also a member of both the Stockland Trust Management Limited and Stockland Capital Partners Limited Compliance Committees until he retired on 23 October 2007. Mr Williamson is Chair of the Stockland and Stockland Capital Partners Audit and Risk Committees and Stockland's Treasury Policy Committee.

**Barry Neil**
(Non-Executive)

Appointed 23 October 2007,
retired 30 June 2008

Mr Neil was appointed to the Board on 23 October 2007 and has over thirty five years experience in property, both in Australia and overseas. He is a Director of Stockland, Dymocks Book Arcade Pty Limited and was, until recently, Director of Property for Woolworths Limited. He previously served as Chief Executive Officer, Investment Division (1999 to 2004), Executive Director (1987 to 2004) of Mirvac Limited. Mr Neil was a Director of Stockland Capital Partners Limited, the Responsible Entity of Stockland's unlisted funds, from November 2007 until 30 June 2008.

**Matthew Quinn**
Managing Director – Stockland – (Executive)

Appointed 19 October 2000

Mr Quinn has an extensive background in commercial, retail, industrial, and residential property investment and development. He began his career in the United Kingdom as a Chartered Accountant and moved to Australia in 1987 with Price Waterhouse. In 1988 he joined the Rockingham Park Group, a substantial Western Australian private property group. Mr Quinn joined Stockland in 1999 and was appointed to his current role of Managing Director in October 2000. Mr Quinn held the position of National President of the Property Council of Australia from March 2003 until March 2005 and is a Fellow of the Australian Property Institute and Royal Institute of Charted Surveyors. He was appointed Chairman of Australian Business and Community Network Limited in November 2007. Mr Quinn is a member of Stockland's Corporate Responsibility & Sustainability Committee and a Director of Stockland Capital Partners Ltd, the Responsible Entity for Stockland's unlisted funds.

**Hugh Thorburn**
Finance Director – Stockland – (Executive)

Appointed 25 October 2007

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

## 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 or since the end of the financial year were:

Ms L Gearing (Chair) –
Non-Executive Director

Mr A Sherlock –
Non-Executive Director

Mr P Hepburn –
Executive Member

On 23 October 2007 Mr T Williamson (Chair) resigned as a member of this committee and was replaced by Mr P Hepburn.

# directors' report

for the year ended 30 June 2008

## STOCKLAND CAPITAL PARTNERS LIMITED AUDIT AND RISK COMMITTEE

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

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

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

The Committee meets at least quarterly and its meetings are attended by management and internal and external audit and other parties as relevant. The Committee may meet privately with the external auditors in the absence of management at least once a year. The Committee has the power to conduct or authorise investigations into, or consult independent specialists on, any matters within the Committee's scope of responsibility. The Committee has a written terms of reference which incorporates best practice. Its members must be independent of management and at least one member of the Committee has relevant accounting qualifications and experience and all members have a good understanding of financial reporting.

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

Mr T Williamson (Chair) –
Non-Executive Director

Mr A Sherlock –
Non-Executive Director

Ms L Gearing –
Non-Executive Director,
retired 30 September 2007

## PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity is the investment in a portfolio of four commercial office properties and a car park located in New South Wales, Western Australia, Australian Capital Territory and Victoria.

## REVIEW OF OPERATIONS

The consolidated entity achieved a profit from operating activities of $6,182,000 for the financial year ended 30 June 2008 (30 June 2007: loss of $2,423,000).

Distributions paid or declared by the consolidated entity to Unitholders during the financial year are set out in Note 15 of the Financial Statements.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

## EVENTS SUBSEQUENT TO THE END OF THE YEAR

The stapling of units in Stockland Holding Trust No. 2 ("SHT 2") to the units of the consolidated entity took place on 18 August 2008. A Product Disclosure Statement ("PDS") was issued to Unitholders on 12 August 2008 which provided the details of this subsequent event. Refer to Note 18.

Apart from the above subsequent event, there have been no other events subsequent to balance date which would have a material effect on the consolidated entity's Financial Report at 30 June 2008.

## LIKELY DEVELOPMENTS

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

## ENVIRONMENTAL REGULATION

The consolidated entity's operations are subject to various environmental regulations under both Commonwealth and State legislation. The Responsible Entity believes that the consolidated entity has adequate systems in place for the management of its environmental responsibilities and is not aware of any breach of environmental requirements as they may apply to the consolidated entity.

## RELATED PARTIES

Stockland Trust Management Limited as the Responsible Entity of Stockland Trust, a related party of the Responsible Entity, holds 6,402,000 (2007: 21,079,500) units as at 30 June 2008.

## INTERESTS OF THE RESPONSIBLE ENTITY

The Responsible Entity has not held any units in the consolidated entity either directly or indirectly during the financial year.

## RESPONSIBLE ENTITY'S REMUNERATION

The Responsible Entity charged a responsible entity fee of 0.45% p.a. of the gross assets of the consolidated entity. 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 18 of the Financial Report.

# directors' report

**for the year ended 30 June 2008**

## DIRECTORS' INTERESTS

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

| DIRECTOR | NUMBER OF UNITS HELD |
|---|---|
| Mr David Kent | 85,000 |
| Mr Matthew Quinn | 10,000 |
| Mr Peter Scott | 20,000 |

## INDEMNITIES AND INSURANCE OF OFFICERS AND AUDITORS

**Indemnification**

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

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

**Insurance premiums**

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

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

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

## LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The external auditor's independence declaration is set out on page 5 and forms part of the Directors' Report for the year ended 30 June 2008.

## ROUNDING

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

Signed in accordance with a resolution of the Directors:

**Matthew Quinn**
Director

Dated at Sydney, 21 August 2008

# lead auditor's independence declaration

under section 307C of the corporations act 2001

To: The Directors of the Stockland Capital Partners Limited, Responsible Entity of Stockland Direct Office Trust No. 3 and its controlled entities.

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

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

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

**KPMG**

**Scott Fleming**
Partner

Dated at Sydney 21, August 2008

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

# income statements

**for the year ended 30 June 2008**

| | NOTES | CONSOLIDATED 2008 $'000 | CONSOLIDATED 2007[1] $'000 | TRUST 2008 $'000 | TRUST 2007[1] $'000 |
|---|---|---|---|---|---|
| **Revenue and other income** | | | | | |
| Rent from investment properties | | **12,906** | 81 | **3,645** | 22 |
| Net gain from fair value adjustment of investment properties[2] | 8 | **2,780** | – | **–** | 712 |
| Distribution received | | **–** | – | **4,965** | – |
| Interest income | | **366** | 4 | **366** | 4 |
| **Total revenue and other income** | | **16,052** | 85 | **8,976** | 738 |
| Investment property expenses | | **(3,292)** | (6) | **(1,188)** | – |
| Finance cost relating to interest-bearing liabilities at amortised cost | | **(3,561)** | (40) | **(3,561)** | (40) |
| Finance costs to related parties at amortised cost | 18 | **(1,310)** | (14) | **(1,310)** | (14) |
| Unwinding of discount on deferred consideration | 12 | **(773)** | (9) | **(773)** | (9) |
| Net loss from fair value adjustment of investment properties | 8 | **–** | (2,347) | **(2,308)** | – |
| Auditors' remuneration | 4 | **(132)** | (81) | **(132)** | (81) |
| Responsible Entity fees | 18 | **(651)** | (7) | **(651)** | (7) |
| Other expenses | | **(151)** | (4) | **(151)** | (4) |
| **Total expenses** | | **(9,870)** | (2,508) | **(10,074)** | (155) |
| **Profit/(loss) from operating activities** | | **6,182** | (2,423) | **(1,098)** | 583 |

[1] For the period 3 November 2006 to 30 June 2007.

[2] In the previous financial year, the Trust included a $0.7 million gain from a fair value adjustment associated with the Parramatta investment property. Under AASB 140 "Investment Property" ("AASB 140") if payment for the property is deferred, the initial cost is deemed to be the present value of the consideration payable, being $39.34 million. However the fair value accounting policy requires the property to be recorded at the independent valuation amount of $40.04 million at acquisition date (30 June 2007). The prior year difference of $0.7 million has therefore been recorded as a fair value gain.

The above Income Statements should be read in conjunction with the accompanying notes.

# balance sheets

as at 30 June 2008

| | NOTES | CONSOLIDATED 2008 $'000 | CONSOLIDATED 2007 $'000 | TRUST 2008 $'000 | TRUST 2007 $'000 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | 5 | **7,915** | 5,393 | **4,768** | 5,393 |
| Trade and other receivables | 6 | **1,153** | 49 | **1,060** | 21 |
| Loan to related entities | 18 | **-** | - | **67,238** | 77,194 |
| Other assets | 7 | **287** | 3,782 | **134** | 2,726 |
| **Total current assets** | | **9,355** | 9,224 | **73,200** | 85,334 |
| **Non-current assets** | | | | | |
| Investment properties | 8 | **133,293** | 128,165 | **37,162** | 37,786 |
| Units in controlled entities | | **-** | - | **28,046** | 18,046 |
| Trade and other receivables | 9 | **613** | - | **304** | - |
| Other assets | 10 | **4,735** | 2,925 | **3,325** | 1,615 |
| **Total non-current assets** | | **138,641** | 131,090 | **68,837** | 57,447 |
| **Total assets** | | **147,996** | 140,314 | **142,037** | 142,781 |
| **Current liabilities** | | | | | |
| Trade and other payables | 11 | **4,558** | 1,528 | **4,029** | 1,458 |
| Other liabilities | 12 | **33,458** | 31,941 | **32,302** | 31,472 |
| **Total current liabilities** | | **38,016** | 33,469 | **36,331** | 32,930 |
| **Non-current liabilities** | | | | | |
| Interest-bearing loans and borrowings | 13 | **53,887** | 53,859 | **53,887** | 53,859 |
| **Total non-current liabilities** | | **53,887** | 53,859 | **53,887** | 53,859 |
| **Total liabilities** | | **91,903** | 87,328 | **90,218** | 86,789 |
| **Net assets** | | **56,093** | 52,986 | **51,819** | 55,992 |
| **Unitholders' funds** | | | | | |
| Issued capital | 14 | **49,009** | 53,794 | **49,009** | 53,794 |
| Undistributed profit/(loss) | | **3,759** | (2,423) | **(515)** | 583 |
| Reserves | | **3,325** | 1,615 | **3,325** | 1,615 |
| **Total Unitholders' funds** | | **56,093** | 52,986 | **51,819** | 55,992 |

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

# statements of changes in equity

**for the year ended 30 June 2008**

| CONSOLIDATED | NOTES | ISSUED CAPITAL 2008 $'000 | ISSUED CAPITAL 2007 $'000 | UNITHOLDERS' FUNDS UNDISTRIBUTED PROFIT/(LOSS) 2008 $'000 | UNITHOLDERS' FUNDS UNDISTRIBUTED PROFIT/(LOSS) 2007 $'000 | RESERVES 2008 $'000 | RESERVES 2007 $'000 | TOTAL 2008 $'000 | TOTAL 2007 $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Opening balance** | | **53,794** | – | **(2,423)** | – | **1,615** | – | **52,986** | – |
| Effective portion of changes in fair value of cash flow hedges | | **–** | – | **–** | – | **1,710** | 1,615 | **1,710** | 1,615 |
| **Total income and expenses recognised directly in equity** | | **–** | – | **–** | – | **1,710** | 1,615 | **1,710** | 1,615 |
| Profit/(loss) for the year | | **–** | – | **6,182** | (2,423) | **–** | – | **6,182** | (2,423) |
| **Total recognised income and expenses for the year** | | **–** | – | **6,182** | (2,423) | **1,710** | 1,615 | **7,892** | (808) |
| Units issued for the year | 14 | **–** | 53,794 | **–** | – | **–** | – | **–** | 53,794 |
| Deferred establishment costs | 14 | **(13)** | – | **–** | – | **–** | – | **(13)** | – |
| Distributions paid/payable | 15 | **(4,772)** | – | **–** | – | **–** | – | **(4,772)** | – |
| **Closing balance** | | **49,009** | 53,794 | **3,759** | (2,423) | **3,325** | 1,615 | **56,093** | 52,986 |

| TRUST | NOTES | ISSUED CAPITAL 2008 $'000 | ISSUED CAPITAL 2007 $'000 | UNITHOLDERS' FUNDS UNDISTRIBUTED PROFIT/(LOSS) 2008 $'000 | UNITHOLDERS' FUNDS UNDISTRIBUTED PROFIT/(LOSS) 2007 $'000 | RESERVES 2008 $'000 | RESERVES 2007 $'000 | TOTAL 2008 $'000 | TOTAL 2007 $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Opening balance** | | **53,794** | – | **583** | – | **1,615** | – | **55,992** | – |
| Effective portion of changes in fair value of cash flow hedges | | **–** | – | **–** | – | **1,710** | 1,615 | **1,710** | 1,615 |
| **Total income and expenses recognised directly in equity** | | **–** | – | **–** | – | **1,710** | 1,615 | **1,710** | 1,615 |
| (Loss)/profit for the year | | **–** | – | **(1,098)** | 583 | **–** | – | **(1,098)** | 583 |
| **Total recognised income and expenses for the year** | | **–** | – | **(1,098)** | 583 | **1,710** | 1,615 | **612** | 2,198 |
| Units issued for the year | 14 | **–** | 53,794 | **–** | – | **–** | – | **–** | 53,794 |
| Deferred establishment costs | 14 | **(13)** | – | **–** | – | **–** | – | **(13)** | – |
| Distributions paid/payable | 15 | **(4,772)** | – | **–** | – | **–** | – | **(4,772)** | – |
| **Closing balance** | | **49,009** | 53,794 | **(515)** | 583 | **3,325** | 1,615 | **51,819** | 55,992 |

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

# cash flow statements

**for the year ended 30 June 2008**

| | NOTES | CONSOLIDATED 2008 $'000 | CONSOLIDATED 2007 $'000 | TRUST 2008 $'000 | TRUST 2007 $'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash receipts in the course of operations | | **15,538** | 213 | **4,913** | 213 |
| Cash payments in the course of operations | | **(3,867)** | – | **(1,471)** | – |
| Interest received | | **366** | 4 | **366** | 4 |
| Interest paid | | **(4,870)** | (47) | **(4,870)** | (47) |
| **Net cash inflows from/(utilised in) operating activities** | 16 | **7,167** | 170 | **(1,062)** | 170 |
| **Cash flows from investing activities** | | | | | |
| Payment for investment properties | | **(364)** | (103,078) | **(203)** | (8,008) |
| Units issued in controlled entities | | **–** | – | **(10,000)** | – |
| Payment for acquisition of/incorporation of controlled entities | | **–** | – | **–** | (18,046) |
| **Net cash utilised in investing activities** | | **(364)** | (103,078) | **(10,203)** | (26,054) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from external party financing | | **–** | 54,193 | **–** | 54,193 |
| Borrowing costs paid | | **(124)** | (178) | **(124)** | (178) |
| Proceeds from issue of units to Unitholders | | **–** | 60,020 | **–** | 60,020 |
| Payment of establishment fee | | **(578)** | (5,734) | **(578)** | (5,734) |
| Distributions paid to Unitholders | | **(3,579)** | – | **(3,579)** | – |
| Receipts for intercompany loans | | **–** | – | **14,921** | – |
| Loans to controlled entities | | **–** | – | **–** | (77,024) |
| **Net cash (utilised in)/inflows from financing activities** | | **(4,281)** | 108,301 | **10,640** | 31,277 |
| **Net increase/(decrease) in cash and cash equivalents** | | **2,522** | 5,393 | **(625)** | 5,393 |
| Cash and cash equivalents at the beginning of the financial year | | **5,393** | – | **5,393** | – |
| **Cash and cash equivalents at the end of the financial year** | 5 | **7,915** | 5,393 | **4,768** | 5,393 |

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

# notes to the consolidated financial statements

for the year ended 30 June 2008

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stockland Direct Office Trust No. 3 ("the Trust") is a Managed Investment Scheme domiciled in Australia. The Financial Report of the Trust comprises the Trust and its controlled entities ("the consolidated entity").

The Financial Report as at and for the Financial year ended 30 June 2008 was authorised for issue by the Directors of the Responsible Entity on 21 August 2008.

### (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 of the consolidated entity and the Trust comply with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

### (b) Basis of preparation

The Financial Report is presented in Australian dollars which is the consolidated entity's functional currency.

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

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

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

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

The accounting policies have been applied consistently in the preparation of this Financial Report.

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

### (c) Revenue recognition

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

#### Rent from investment properties

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

#### Interest income

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

### (d) Segment reporting

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

### (e) Goods and services tax

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

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the Balance Sheet.

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

### (f) Income tax

Under current Australian income tax legislation, the Trust and the consolidated entity 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.

# notes to the consolidated financial statements

for the year ended 30 June 2008

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Derivative financial instruments

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

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

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

### (h) Hedging

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

#### Cash flow hedge

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

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

Amounts accumulated in equity are recognised in the Income Statement in the periods when the hedged item is recognised in the Income Statement. When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously in equity are transferred into the initial measurement of the cost of the asset or liability.

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

### (i) Finance costs

#### Finance costs to external parties

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

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

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

### (j) Cash and cash equivalents

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

### (k) Impairment of assets

The carrying amounts of the consolidated entity's assets, other than investment properties (refer to Note 1(r)) are reviewed at each balance date, to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

#### Calculation of recoverable amount

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Impairment of assets (continued)

**Calculation of recoverable amount (continued)**

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

**Reversals of impairment**

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

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

### (l) Trade and other payables

Trade and other payables are stated at cost.

**Distributions to Unitholders**

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

### (m) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement 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 Income Statement.

### (n) Provisions

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

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

**Performance Fee**

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

### (o) Basis of consolidation

This consolidated Financial Report has been prepared based upon a business combination of the Trust and its controlled entities.

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. The financial statements of controlled entities are included in the consolidated Financial Report from the date that control commences until the date that control ceases. Any balances, unrealised gains and losses or income and expenses resulting from transactions with or between controlled entities are eliminated in full within the consolidated entity.

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

### (p) Investments

**Controlled entities**

Investments in controlled entities are carried at their cost of acquisition in the Trust's Financial Statements.

### (q) Property, plant and equipment

Property under construction or development for future use as investment property (but which does not yet qualify as investment property as it is not completed) is classified as property, plant and equipment and stated at cost until construction or development is complete and the property is able to be leased, at which time it is reclassified as investment property. Property under construction or development for future sale is classified as inventory and stated at the lower of cost or net realisable value. The construction or development of a self-constructed investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

### (r) 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.

# notes to the consolidated financial statements

for the year ended 30 June 2008

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Investment properties (continued)

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 Income Statement 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 consolidated entity to lessees, and rental guarantees which may be received by the consolidated entity 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 consolidated entity 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 flow of the investment property, the highest and best use of the investment property and sales of similar properties.

Fair value is based on the price at which a property might reasonably be expected to be sold at the date of valuation, assuming:

(i) a willing, but not anxious, buyer and seller on an arm's length basis;

(ii) a reasonable period in which to negotiate the sale, having regard to the nature and situation of the investment property and the state of the market for property of the same kind;

(iii) that the investment property will be reasonably exposed to that market;

(iv) that no account is taken of the value or other advantage or benefit to the buyer, additional to market value, that is incidental to ownership of the investment property being valued; and

(v) that it only takes into account instructions given by the Trust and is based on all the information that the valuer needs for the purposes of the valuation being made available by, or on behalf of the Trust.

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

#### Subsequent costs

The consolidated entity recognises 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 consolidated entity and the cost can be measured reliably. All other costs are recognised in the Income Statement 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 Income Statement in the year of disposal.

### (s) New accounting standards

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

Revised AASB 101 "Presentation of Financial Statements" ("AASB 101") introduces as a financial statement (formerly "primary" statement) the "Statement of Comprehensive Income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the consolidated enitiy's 30 June 2010 Financial Report. Application of this standard will not affect any of the amounts recognised in the financial statements but may result in changes in terminology used in the Financial Report.

Revised AASB 123 "Borrowing Costs" ("AASB 123") removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. In accordance with the transitional provisions the revised AASB 123 will apply to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The revised AASB 123 will become mandatory for the consolidated entity's 30 June 2010 Financial Report. This will have no impact on the consolidated entity as it currently has no qualifying assets.

# notes to the consolidated financial statements

for the year ended 30 June 2008

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(s) New accounting standards (continued)**

Revised AASB 3 "Business Combinations" ("AASB 3") changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutual entities. The revised standard becomes mandatory for the consolidated entity's 30 June 2010 Financial Report. The consolidated entity has not yet determined the potential effect of the revised standard on the Financial Report.

Revised AASB 127 "Consolidated and Separate Financial Statements" ("AASB 127") changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in the Income Statement; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the consolidated entity's 30 June 2010 Financial Report. The consolidated entity has not yet determined the potential effect of the revised standard on the Financial Report.

## 2 ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

**(a) Key sources of estimation uncertainty**

**Estimates of fair value of investment property interest**

The best evidence of fair value is current prices in an active market for similar investment properties, leases and other contracts. Where such information is not available, the consolidated entity determines the property's fair value within a range of reasonable fair value estimates. In making its judgement, the consolidated 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 lease or other contracts), adjusted to reflect those differences;

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

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

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

**Assumptions underlying management's estimates of fair value of investment properties**

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

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

## 2 ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

### (a) Key sources of estimation uncertainty (continued)

#### Estimates of performance fee expense

A performance fee is payable to the Responsible Entity if certain out performance is achieved by the consolidated entity. The fee is calculated as 20.5% of the performance of the consolidated entity 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 consolidated entity. The consolidated entity has not provided for a performance fee at 30 June 2008 (2007: $nil). Refer Note 18.

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

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

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

#### Assumptions underlying management's estimates of performance fee expense

The performance fee if any is recognised in the income statement on an accruals basis. The performance fee is calculated in accordance with the Constitution. This involves the below assumptions.

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

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

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition. It is assumed payment of the performance fee will occur in accordance with the Constitution and the projected life of the Trust. The Trust has then applied an appropriate discount rate to reflect the projected life of the fund.

#### Fair value of derivatives

The fair value of derivatives is determined using a discounted cash flow analysis based on assumptions supported by observable market rates. The determination of fair value of derivatives is described further in Note 1(g) and Note 17.

## 3 SEGMENT REPORTING

The Trust and its consolidated entities operate solely in the business of investment management in Australia.

# notes to the consolidated financial statements

**for the year ended 30 June 2008**

## 4 AUDITORS' REMUNERATION

| | CONSOLIDATED 2008 $ | CONSOLIDATED 2007 $ | TRUST 2008 $ | TRUST 2007 $ |
|---|---|---|---|---|
| **Audit services – KPMG Australia** | | | | |
| Audit of the Financial Reports | **66,000** | 41,000 | **66,000** | 41,000 |
| Other audit services | **4,000** | 7,000 | **4,000** | 7,000 |
| Compliance audit services | **15,000** | 6,000 | **15,000** | 6,000 |
| | **85,000** | 54,000 | **85,000** | 54,000 |
| **Other services – KPMG Australia** | | | | |
| Tax compliance services | **47,100** | 27,350 | **47,100** | 27,350 |
| | **47,100** | 27,350 | **47,100** | 27,350 |
| Total remuneration | **132,100** | 81,350 | **132,100** | 81,350 |

## 5 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

| | CONSOLIDATED 2008 $'000 | CONSOLIDATED 2007 $'000 | TRUST 2008 $'000 | TRUST 2007 $'000 |
|---|---|---|---|---|
| Cash at bank and on hand | **7,915** | 5,393 | **4,768** | 5,393 |

The weighted average interest rate for cash at bank and on hand as at 30 June 2008 was 6.78% p.a. (30 June 2007: 5.93% p.a.)

## 6 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

| | | | | |
|---|---|---|---|---|
| Other receivables | **1,153** | 49 | **1,060** | 21 |

## 7 CURRENT ASSETS – OTHER ASSETS

| | | | | |
|---|---|---|---|---|
| Rental income support | **34** | 3,215 | **34** | 2,254 |
| Goods and services tax ("GST") receivable | **28** | 428 | **5** | 428 |
| Other assets | **225** | 139 | **95** | 44 |
| | **287** | 3,782 | **134** | 2,726 |

# notes to the consolidated financial statements

for the year ended 30 June 2008

## 8 NON-CURRENT ASSETS – INVESTMENT PROPERTIES

| DESCRIPTION | TITLE | ACQUISITION DATE | ORIGINAL PURCHASE PRICE (INCLUDING ACQUISITION COSTS) $'000 | COST INCLUDING ADDITIONS $'000 | INDEPENDENT VALUATION DATE | INDEPENDENT VALUATION (EXCLUDING ACQUISITION COSTS) $'000 | CONSOLIDATED BOOK VALUE 2008 $'000 | CONSOLIDATED BOOK VALUE 2007 $'000 | TRUST BOOK VALUE 2008 $'000 | TRUST BOOK VALUE 2007 $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| 40 Cameron Avenue, Belconnen, ACT[1] | Leasehold | 27 June 2007 | 34,912 | 34,920 | 30 June 2008 | 32,500 | **32,500** | 32,750 | **–** | – |
| 541 St Kilda Road, Melbourne, VIC | Leasehold | 27 June 2007 | 30,162 | 30,305 | 30 June 2008 | 29,800 | **29,800** | 30,100 | **–** | – |
| 222 Russell Street, Melbourne, VIC | Leasehold | 27 June 2007 | 16,879 | 16,883 | 30 June 2008 | 16,800 | **16,800** | 16,800 | **–** | – |
| 181 Great Eastern Highway, Belmont, WA | Freehold | 27 June 2007 | 13,756 | 13,768 | 30 June 2008 | 18,750 | **18,750** | 13,000 | **–** | – |
| 75 George Street, Parramatta, NSW[2] | – | 27 June 2007 | 39,328 | 39,531 | 30 June 2008 | 37,500 | **37,500** | 40,040 | **37,500** | 40,040 |
| Total Investment Properties (including amounts classified in Trade and other receivables and Other assets) | | | | | | | **135,350** | 132,690 | **37,500** | 40,040 |
| Less amounts classified as: | | | | | | | | | | |
| – Trade and other receivables | | | | | | | **(613)** | – | **(304)** | – |
| – Other assets | | | | | | | **(1,444)** | (4,525) | **(1,034)** | (2,254) |
| Total Investment Properties | | | | | | | **133,293** | 128,165 | **37,162** | 37,786 |

[1] The consolidated entity has a 50% interest as a tenant in common for the Belconnen property.

[2] A put and call option has been issued over the property and was to be exercised by July 2008. Instead an alternative transaction was entered into on 18 August 2008 whereby the units of Stockland Holding Trust No. 2 ("SHT 2") were stapled to the units in the consolidated entity. Upon stapling, the Parramatta property belongs to the stapled entity which comprises of the consolidated entity and SHT 2. The put and call was extended to 19 August 2008 following the agreement of both parties. Refer to Note 18.

## 8 NON-CURRENT ASSETS – INVESTMENT PROPERTIES (CONTINUED)

| | CONSOLIDATED 2008 $'000 | CONSOLIDATED 2007 $'000 | TRUST 2008 $'000 | TRUST 2007 $'000 |
|---|---|---|---|---|
| Reconciliation – investment properties | | | | |
| *Direct investments and controlled entities* | | | | |
| Carrying amount at the beginning of the financial year | **128,165** | – | **37,786** | – |
| Acquisitions | **–** | 130,512 | **–** | 37,074 |
| Net gain/(loss) on fair value adjustments of investment properties | **2,780** | (2,347) | **(2,308)** | 712 |
| Expenditure capitalised | **370** | – | **203** | – |
| Expiration of rental income support | **1,978** | – | **1,481** | – |
| Carrying amount at the end of the financial year | **133,293** | 128,165 | **37,162** | 37,786 |

## 9 NON-CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

| | | | | |
|---|---|---|---|---|
| Straight line of rental income | **613** | – | **304** | – |

## 10 NON-CURRENT ASSETS – OTHER ASSETS

| | | | | |
|---|---|---|---|---|
| Fair value of hedging instrument | **3,325** | 1,615 | **3,325** | 1,615 |
| Rental income support | **1,410** | 1,310 | **–** | – |
| | **4,735** | 2,925 | **3,325** | 1,615 |

## 11 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

| | | | | |
|---|---|---|---|---|
| Trade payables and accruals | **3,328** | 1,490 | **2,799** | 1,420 |
| Distribution payable | **1,193** | – | **1,193** | – |
| Interest payable on loan facility | **37** | 38 | **37** | 38 |
| | **4,558** | 1,528 | **4,029** | 1,458 |

## 12 CURRENT LIABILITIES – OTHER LIABILITIES

| | | | | |
|---|---|---|---|---|
| Deferred consideration – Opening | **31,259** | 31,250 | **31,259** | 31,250 |
| Unwinding of discount on deferred consideration | **773** | 9 | **773** | 9 |
| Deferred consideration – Closing | **32,032** | 31,259 | **32,032** | 31,259 |
| Other liabilities | **1,426** | 682 | **270** | 213 |
| | **33,458** | 31,941 | **32,302** | 31,472 |

In the prior year, the consolidated entity entered into a deed of agreement with Stockland Holding Trust No. 2 ("SHT 2") to acquire the Parramatta property. The deferred consideration relates to the final payment for the Parramatta property and will be funded with external borrowings. A PDS was issued to Unitholders on 12 August 2008 which provides further details on the stapling arrangement. Refer Note 18.

# notes to the consolidated financial statements

for the year ended 30 June 2008

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

| | CONSOLIDATED 2008 $'000 | CONSOLIDATED 2007 $'000 | TRUST 2008 $'000 | TRUST 2007 $'000 |
|---|---|---|---|---|
| Loan facility | **54,193** | 54,193 | **54,193** | 54,193 |
| Less: attributable transaction costs | **(306)** | (334) | **(306)** | (334) |
| Balance Sheet carrying amount at fair value | **53,887** | 53,859 | **53,887** | 53,859 |

The Trust has an $89,010,000 (2007: $89,010,000) loan facility agreement, comprising a property facility and capital expenditure facility, with Australia and New Zealand Bank ("ANZ"). As at 30 June 2008, $54,193,000 (2007: $54,193,000) has been drawn on the property facility. The weighted average interest rate on the property facility is 8.47% p.a. (2007: 7.07% p.a.).

The facility matures on 27 June 2010 and may be extended for a further twelve months on an ongoing basis upon agreement with both the trust and ANZ.

The debt facility 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 consolidated entity.

The Responsible Entity, on behalf of the Trust has entered into an interest rate swap contract with Stockland Trust to manage cash flow risks associated with the interest rates on borrowings that are floating. The interest rate swap allows the Trust to swap the floating rate borrowing into a fixed rate. The consolidated entity does not hold derivative financial instruments for speculative purposes.

The interest rate swap on the property facility will incur a fixed cost equal to 6.35% payable quarterly in arrears and will terminate on the earlier of 6 years or when the underlying debt becomes due and payable. The swap covers 100% of the property loan facility outstanding.

## 14 ISSUED CAPITAL

| | NUMBER OF UNITS 2008 | NUMBER OF UNITS 2007 | TRUST 2008 $'000 | TRUST 2007 $'000 |
|---|---|---|---|---|
| | **60,020,000** | 60,020,000 | **49,009** | 53,794 |

| DATE | DETAILS | NUMBER OF UNITS | PRICE PER UNIT | $'000 |
|---|---|---|---|---|
| **Movement in units** | | | | |
| 3 November 2006 | Opening balance | – | | – |
| 3 November 2006 | Units issued | 100 | $1.00 | – |
| 15 June 2007 | Units issued | 20,655,000 | $1.00 | 20,655 |
| 27 June 2007 | Units redeemed | (100) | $1.00 | – |
| 27 June 2007 | Units issued | 39,365,000 | $1.00 | 39,365 |
| 27 June 2007 | Transaction costs | – | | (6,226) |
| **30 June 2007** | **Balance** | **60,020,000** | | **53,794** |
| 30 September 2007 | Distribution paid from contributed equity | **–** | | **(1,193)** |
| 31 December 2007 | Distribution paid from contributed equity | **–** | | **(1,193)** |
| 31 March 2008 | Distribution paid from contributed equity | **–** | | **(1,193)** |
| 30 June 2008 | Distribution paid from contributed equity | **–** | | **(1,193)** |
| 30 June 2008 | Deferred establishment costs | **–** | | **(13)** |
| **30 June 2008** | **Closing Balance** | **60,020,000** | | **49,009** |

Rights and restrictions over units: each unit ranks equally with all other units for the purpose of distributions and on termination of the Trust.

## 15 DISTRIBUTIONS TO UNITHOLDERS

Distributions to Unitholders recognised in the year by the consolidated entity are:

| 2008 | DISTRIBUTION PER UNIT | TOTAL AMOUNT $'000 | DATE OF PAYMENT | TAX DEFERRED % |
|---|---|---|---|---|
| 30 September 2007 | 1.9875¢ | **1,193**[2] | 31 October 2007 | 100 |
| 31 December 2007 | 1.9875¢ | **1,193**[2] | 28 February 2008 | 100 |
| 31 March 2008 | 1.9875¢ | **1,193**[2] | 28 April 2008 | 100 |
| 30 June 2008 | 1.9875¢ | **1,193**[2] | 29 August 2008[1] | 100 |
| | | **4,772** | | |

[1] Proposed payment date.

[2] This distribution was/is a distribution from contributed equity.

In the previous financial year, there were no distributions made.

## 16 NOTES TO THE CASH FLOW STATEMENT

| | CONSOLIDATED 2008 $'000 | CONSOLIDATED 2007 $'000 | TRUST 2008 $'000 | TRUST 2007 $'000 |
|---|---|---|---|---|
| **Reconciliation of profit from operating activities to net cash inflows from/(utilised in) operating activities** | | | | |
| Profit/(loss) from operating activities | **6,182** | (2,423) | **(1,098)** | 583 |
| Amortisation of borrowing costs | **32** | – | **32** | – |
| Unwinding of discount on deferred consideration | **773** | 9 | **773** | 9 |
| Net (gain)/loss from fair value adjustment of investment properties | **(2,780)** | 2,347 | **2,308** | (712) |
| Distributions from controlled entities | **–** | – | **(4,965)** | – |
| Change in assets and liabilities: | | | | |
| Decrease/(increase) in trade and other receivables | **398** | (197) | **414** | (76) |
| Increase in trade and other payables | **2,562** | 434 | **1,474** | 366 |
| Net cash inflows from/(utilised in) operating activities | **7,167** | 170 | **(1,062)** | 170 |

# notes to the consolidated financial statements

**for the year ended 30 June 2008**

## 17 FINANCIAL INSTRUMENTS

### (a) Financial risk management

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

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

#### Capital management

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

The consolidated entity considers capital to include interest-bearing liabilities and Unitholders' equity.

The Directors of the Responsible Entity monitor the capital structure of the consolidated entity through the loan-to-value ratio. The ratio is calculated as the amount of the loan facility drawn divided by the latest valuation of the properties. The loan-to-value ratio at 30 June 2008 is 62% (2007: 65%).

#### 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 consolidated entity's financial assets are substantially independent of changes in market interest rates.

The Responsible Entity, on behalf of the consolidated entity, manages the consolidated entity's cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The fixed/hedged percentage at 30 June 2008 was 100% (2007: 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 17 (b) for further details about the interest rate swap contracts.

*Sensitivity analysis*

The following sensitivity analysis shows the effect on the Trust's and consolidated entity's Income Statement and equity if market interest rates at balance date had been 25 basis points higher/lower with all other variables held constant.

An increase of 25 basis points in market interest rate would result in a $nil impact to the Trust's and consolidated entity's Income Statement (2007: $nil) and an increase in the Trust's and consolidated entity's equity of $571,000 (2007: $683,000). A decrease of 25 basis points in market interest rate would result in a $nil impact to the Trust's and consolidated entity's Income Statement (2007: $nil) and a decrease in the Trust's and consolidated entity's equity of $580,000 (2007: $695,000).

#### Liquidity risk

Liquidity risk is the risk that the consolidated 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 consolidated entity aims at maintaining flexibility in funding by keeping sufficient committed credit lines available.

The current weighted average debt maturity is 2.0 years (2007: 3.0 years).

The table on the following page reflects all contractual maturities of financial liabilities including principal and estimated interest cash flows calculated based on conditions existing at balance date. The amounts presented represent the future undiscounted cash flows.

#### 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 consolidated entity.

The consolidated entity has no significant concentrations of credit risk and has policies to review the aggregate exposure of tenancies across its portfolio. The consolidated entity also has 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 2008 and 30 June 2007, there were no significant financial assets that were past due. Additionally, there were no significant financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

The carrying amount of financial assets included in the Balance Sheet represents the consolidated entity's maximum exposure to credit risk in relation to these assets. Refer to Note 5, 6 and 10 for a breakdown of these financial assets.

## 17 FINANCIAL INSTRUMENTS (CONTINUED)

### (a) Financial risk management (continued)

Liquidity risk (continued)

| CONSOLIDATED | 2008 CONTRACTUAL CASH FLOWS $'000 | 2008 1 YEAR OR LESS $'000 | 2008 1-3 YEARS $'000 | 2008 3-5 YEARS $'000 | 2008 5+ YEARS $'000 | 2007 CONTRACTUAL CASH FLOWS $'000 | 2007 1 YEAR OR LESS $'000 | 2007 1-3 YEARS $'000 | 2007 3-5 YEARS $'000 | 2007 5+ YEARS $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Contractual maturity of financial liabilities including derivatives & estimated interest** | | | | | | | | | | |
| Trade and other payables | **(3,328)** | **(3,328)** | **–** | **–** | **–** | (1,490) | (1,490) | – | – | – |
| Distribution payable | **(1,193)** | **(1,193)** | **–** | **–** | **–** | – | – | – | – | – |
| Deferred consideration | **(32,032)** | **(32,032)** | **–** | **–** | **–** | (33,332) | (33,332) | – | – | – |
| Loan facility[1] | **(63,006)** | **(4,457)** | **(58,549)** | **–** | **–** | (65,935) | (3,880) | (62,055) | – | – |
| Interest rate swap | **4,062** | **927** | **1,581** | **1,114** | **440** | 1,974 | 362 | 831 | 441 | 340 |
| | **(95,497)** | **(40,083)** | **(56,968)** | **1,114** | **440** | (98,783) | (38,340) | (61,224) | 441 | 340 |

| TRUST | 2008 CONTRACTUAL CASH FLOWS $'000 | 2008 1 YEAR OR LESS $'000 | 2008 1-3 YEARS $'000 | 2008 3-5 YEARS $'000 | 2008 5+ YEARS $'000 | 2007 CONTRACTUAL CASH FLOWS $'000 | 2007 1 YEAR OR LESS $'000 | 2007 1-3 YEARS $'000 | 2007 3-5 YEARS $'000 | 2007 5+ YEARS $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Contractual maturity of financial liabilities including derivatives & estimated interest** | | | | | | | | | | |
| Trade and other payables | **(2,799)** | **(2,799)** | **–** | **–** | **–** | (1,420) | (1,420) | – | – | – |
| Distribution payable | **(1,193)** | **(1,193)** | **–** | **–** | **–** | – | – | – | – | – |
| Deferred consideration | **(32,032)** | **(32,032)** | **–** | **–** | **–** | (33,332) | (33,332) | – | – | – |
| Loan facility[1] | **(63,006)** | **(4,457)** | **(58,549)** | **–** | **–** | (65,935) | (3,880) | (62,055) | – | – |
| Interest rate swap | **4,062** | **927** | **1,581** | **1,114** | **440** | 1,974 | 362 | 831 | 441 | 340 |
| | **(94,968)** | **(39,554)** | **(56,968)** | **1,114** | **440** | (98,713) | (38,270) | (61,224) | 441 | 340 |

[1] The facility matures on 27June 2010 and may be extended for a further 12 months on an ongoing basis upon agreement with both the Trust and ANZ.

# notes to the consolidated financial statements

for the year ended 30 June 2008

## 17 FINANCIAL INSTRUMENTS (CONTINUED)

**(b) Derivative financial instruments used by the consolidated entity**

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

### Interest rate swap contract

The Responsible Entity, on behalf of the consolidated entity, has entered into an interest rate swap contract with STML to manage cash flow risks associated with the interest rates on borrowings that are floating. The interest rate swap allows the consolidated entity to swap the floating rate borrowing into a fixed rate. The consolidated entity does not hold derivative financial instruments for speculative purposes.

In the previous year, the Trust entered into an interest rate swap contract to hedge the anticipated variable interest rate exposure of the consolidated entity on the property facility provided by ANZ. The 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 as the loan repayment falls due. 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 2008 was 7.87% p.a. plus with a margin of 0.40% p.a.

At 30 June 2008, the notional principal amounts and period of expiry of the interest rate swap contract is as follows:

| | **CONSOLIDATED 2008 $'000** | CONSOLIDATED 2007 $'000 |
|---|---|---|
| 1-5 years | **–** | – |
| Over 5 years | **54,193** | 54,193 |

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.

This swap has been designated as an effective cash flow hedge in accordance with "Financial Instruments: Recognition and Measurement" ("AASB 139") and has been tested for effectiveness. At 30 June 2008, the swap is considered to be effective and accordingly the full change in the fair value is recognised in Unitholders' funds. Refer accounting policy at Note 1(h).

At balance date, the swap contract had a fair value of $3,325,000 (2007: $1,615,000) included in other assets on the Balance Sheet.

**(c) Fair values of financial assets and financial liabilities**

The carrying amounts of cash and cash equivalents, trade and other receivables, the facility and interest rate swap as disclosed in the Balance Sheet reflect the fair value of these financial assets and liabilities as at 30 June 2008.

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.

## 18 RELATED PARTIES

Stockland Capital Partners Limited ("SCPL"), formerly known as SFML, is the Responsible Entity of the Trust. The Key Management Personnel of the Trust has been defined as the Responsible Entity. The Responsible Entity does not hold any units in the Trust.

The Directors of the Responsible Entity and their units held in the Trust at 30 June 2008 are as follows:

| DIRECTOR | NUMBER OF UNITS HELD |
|---|---|
| Mr David Kent | 85,000 |
| Mr Matthew Quinn | 10,000 |
| Mr Peter Scott | 20,000 |

## 18 RELATED PARTIES (CONTINUED)

| RESPONSIBLE ENTITY FEES AND OTHER TRANSACTIONS | CONSOLIDATED 2008 $'000 | CONSOLIDATED 2007 $'000 | TRUST 2008 $'000 | TRUST 2007 $'000 |
|---|---|---|---|---|
| **Trust establishment fee**<br>In the prior year, the Responsible Entity received a gross establishment fee for facilitating the issue of units under the offer including undertaking the property due diligence and for establishing the Trust calculated as 4.4075% of the value of the Trust's property interest. In the prior year, the Responsible Entity has paid $2,944,000 plus GST for underwriting and distribution services. The Responsible Entity deferred $550,000 of the Trust establishment fee. | – | 5,649 | – | 5,649 |
| **Responsible Entity fees**<br>The Responsible Entity charged responsible entity fees calculated at 0.45% p.a. of the gross value of the assets of the consolidated entity.<br>As at 30 June 2008, the Responsible Entity has agreed for the Trust to defer payment of part of the Responsible Entity fees amounting to $292,938 (2007: $6,827). | 651 | 7 | 651 | 7 |
| **Performance fees**<br>The Responsible Entity is entitled to a fee calculated as 20.5% of the performance of the Trust 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 Trust as disclosed in the balance sheet at each reporting date or realised on a sale of the property or properties during the year. The Trust has not provided for a performance fee at 30 June 2008. | – | – | – | – |
| Total Responsible Entity fees and other transactions | 651 | 5,656 | 651 | 5,656 |

### Other related party transactions

#### Product Disclosure Statement Issue

During the previous financial year, SCPL issued a Product Disclosure Statement ("PDS") offering 60,020,000 units in the Trust at an application price of $1.00 per unit to be issued by SCPL as Responsible Entity of the Trust. The offer opened on 2 April 2007 and closed on 27 June 2007. The units were allotted on 15 June 2007 and 27 June 2007.

#### Property Management Fee

Stockland Property Management Pty Limited was appointed as the property manager to undertake the ongoing property management and leasing of the properties. A fee of $398,000 (2007: $nil) was paid to the property manager during the year.

#### Limited Liquidity Facility ("LLF")

ANZ has agreed to acquire up to 1,000,000 units in the Trust each quarter from investors seeking to realise their units. The price for each unit will be the most recent Net Tangible Asset ("NTA") per unit less a 2.5% discount, any transfer costs and a $110 processing fee per application. The facility will commence operation in the quarter beginning 1 July 2008. Stockland Trust Management Limited ("STML"), as Responsible Entity for Stockland Trust, has placed a standing order to acquire the units that ANZ acquires under the LLF. This standing order from STML can be terminated at any time. During the period STML, as Responsible Entity of Stockland Trust, acquired no units in the Trust via the LLF.

#### Underwriting

During the previous financial year, SCPL entered into an Underwriting Agreement with ANZ and Stockland Trust under which ANZ underwrote the subscriptions for 47.5% of the units and Stockland Trust underwrote the subscriptions for the remaining 52.5% of the units.

No underwriting fee was charged by Stockland Trust.

## 18 RELATED PARTIES (CONTINUED)

### Other related party transactions (continued)

#### Units held by Stockland Trust

As at 30 June 2008, STML, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, held 6,402,000 (2007: 21,079,500) units in the Trust.

#### Stockland

During the previous financial year, the controlled entity acquired the following properties from Stockland related entities:

- 181 Great Eastern Highway, Belmont, Western Australia;
- 40 Cameron Avenue, Belconnen, ACT (50% ownership);
- 541 St Kilda Road, Melbourne, Victoria;
- 222 Russell Street, Melbourne, Victoria; and
- 75 George Street, Parramatta, New South Wales.

Stockland received $132.7 million, being the fair value of the properties.

#### Acquisition of a 50% interest in the Belconnen Property

In the previous financial year, the consolidated entity purchased a 50% interest as a tenant in common for the Belconnen property for a total consideration of $32.8 million. The purchase was made by way of the redemption of units by Stockland Trust in SDOT 3 Property No. 2 with the fund Unitholders taking up the new units issued by SDOT 3 Property No. 2. Stockland has provided a rental guarantee for 12 months in the event that the tenant vacates the property at the end of their current lease that expires in February 2012. Refer Note 22. Each co-owner has a first right of refusal to acquire the interests of the other co-owner who is looking to sell its interest in the property.

#### Acquisition of 300 year leasehold interest in the St Kilda Road Property

In the previous financial year, the consolidated entity entered into a 300 year concurrent lease with Australian Commercial Property Trust, a controlled entity of Stockland Trust, for the St Kilda property for a consideration of $30.1 million. The fair value of the property included a rental guarantee on vacancies at the time of entering into the long term lease for a 12 month period to a maximum of $398,000 together with a lease incentive of $563,000. This expired on 15 June 2008. The lease incentive included rent free periods and fit-out contributions required to lease any vacant space for the first time.

#### Acquisition of 300 year leasehold interest in the Russell Street Car Park

In the previous financial year, the consolidated entity entered into a 300 year concurrent lease with Stockland (Russell Street) Pty Limited, a controlled entity of Stockland, for 427 car parking spaces for a total consideration of $16.8 million.

#### Deed of Agreement for the Parramatta Property

In the previous financial year, the consolidated entity entered into a deed of agreement with SHT 2 to acquire the Parramatta property. The agreement required the parties to enter into a put and call option and a concurrent lease over the property. The general effect of the concurrent lease was to transfer to the Trust all benefits, obligations and responsibilities accruing to the owner of the Parramatta office. Both the concurrent lease and put and call option terminated or lapsed by 19 August 2008. The agreement also contemplated the stapling of SHT 2 to the consolidated entity. As disclosed in the PDS that was issued to Unitholders on 12 August 2008, the Responsible Entity had decided that it is in the best interest of Unitholders to complete the acquisition of the Parramatta property by issuing to Unitholders the units in SHT 2 and stapling those units to the units in the consolidated entity. This stapling arrangement occurred on 18 August 2008. Upon stapling, the property will belong to the stapled entity which comprises of the consolidated entity and SHT 2.

Under the put and call deed, the Trust paid to SHT 2 a call option fee of $8.01 million for the purchase of the Parramatta property. This fee has been refunded to the Trust to effect the stapling arrangement. The purchase price of $40.04 million comprised a call option fee of $8.01 million and the exercise price of $32.03 million (“deferred consideration”). The option had to be exercised by 19 August 2008. Instead, the stapling arrangement occurred on 18 August 2008.

SHT 2 granted a concurrent lease to the consolidated entity until 19 August 2008. A 12 month rental guarantee on all vacancies has been provided to the consolidated entity at the time of entering into the concurrent lease.

As discussed in the PDS, the Trust paid interest of $1.31 million in the current financial year (2007: $nil) to SHT 2 on the balance of the deferred consideration.

#### Stockland Trust Management Limited

Stockland Trust Management Limited has provided an interest rate swap on the property loan facility to the Trust. The interest rate swap will incur a fixed cost equal to 6.35% payable quarterly in arrears and will terminate on the earlier of 6 years or when the underlying debt becomes due and payable.

# notes to the consolidated financial statements

**for the year ended 30 June 2008**

## 18 RELATED PARTIES (CONTINUED)

**Other related party transactions (continued)**

Intercompany loans between the Trust and sub-trusts

| | CONSOLIDATED 2008 $'000 | CONSOLIDATED 2007 $'000 | TRUST 2008 $'000 | TRUST 2007 $'000 |
|---|---|---|---|---|
| Aggregate amount receivable by the Trust from its sub-trusts | **–** | – | **67,238** | 77,194 |
| The loans are interest free and repayable at call. | | | | |

## 19 CONTROLLED ENTITIES

The following entities were 100% controlled by the parent entity during the current financial year:

*Stockland Direct Office Trust No. 3*
*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. 3 Trust

SDOT 3 Property No. 4 Trust

SDOT 3 Property No. 5 Trust

## 20 COMMITMENTS

The Trust has no commitments at balance date (30 June 2007: $nil).

**Non-cancellable operating lease receivable from investment property tenants**

Non-cancellable operating lease commitments receivable:

| | CONSOLIDATED 2008 $'000 | CONSOLIDATED 2007 $'000 | TRUST 2008 $'000 | TRUST 2007 $'000 |
|---|---|---|---|---|
| Within one year | **11,691** | 12,249 | **3,863** | 2,623 |
| Later than one year but not later than five years | **31,691** | 44,740 | **13,162** | 10,660 |
| Later than five years | **2,418** | 2,990 | **2,105** | 2,990 |
| | **45,800** | 59,979 | **19,130** | 16,273 |

## 21 OTHER INFORMATION

**Life of the Trust**

The Trust terminates on the earliest of:

a) the date specified by the Responsible Entity as the date of termination of the Trust in a notice given to Unitholders;

b) a date which has been proposed to Unitholders by the Responsible Entity, and which the Unitholders have approved by Special Resolution; and

c) the date on which the Trust terminates in accordance with the provisions of the Trust Constitution or by law.

# notes to the consolidated financial statements

**for the year ended 30 June 2008**

## 22 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2008 the consolidated entity has no contingent liabilities (30 June 2007: $nil).

As at 30 June 2008 a contingent asset exists in relation to the rental guarantee for the Belconnen property. The Belconnen property is currently let to one tenant until 2012. Stockland has provided a rental guarantee for 12 months in the event that the tenant vacates the property at the end of their current lease that expires in 2012. Stockland will pay a minimum of $1.8 million regardless of whether any part of the property remains vacant with a maximum amount payable of $3.6 million if the property is vacant for the full 12 months. The guaranteed minimum payment has been recognised as a present valued receivable as at 30 June 2008 with the remaining portion of $1.8 million being classified as a contingent asset.

## 23 EVENTS SUBSEQUENT TO BALANCE DATE

The stapling of units in SHT 2 to the units of the consolidated entity took place on 18 August 2008. A PDS outlining the stapling arrangement was issued to Unitholders on 12 August 2008. Refer to Note 18 for further detail.

# directors' declaration

**for the year ended 30 June 2008**

In the opinion of the Directors of Stockland Capital Partners Limited, the Responsible Entity of Stockland Direct Office Trust No.3:

1. the Financial Statements and Notes, set out on pages 6 to 27, are in accordance with the Corporations Act 2001, including:

   (a) giving a true and fair view of the financial position of the Trust and the consolidated entity's as at 30 June 2008 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 will be able to pay its debts as and when they become due and payable;
4. the Trust has operated during the year ended 30 June 2008 in accordance with the provisions of the Trust Constitution as amended dated 13 March 2007; and
5. the Register of Unitholders has, during the year ended 30 June 2008 been properly drawn up and maintained so as to give a true account of the Unitholders of the Trust.

Signed in accordance with a resolution of the Directors of the Responsible Entity made pursuant to Section 295 (5) of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors:

**Matthew Quinn**
Director

Dated at Sydney, 21 August 2008

# independent audit report to the unitholders of stockland direct office trust no.3

for the year ended 30 June 2008

KPMG

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

### Report on the financial report

We have audited the accompanying financial report of Stockland Direct Office Trust No. 3 (the Trust), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 23 and the directors' declaration of the Group comprising the Trust and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of the Responsible Entity, Stockland Capital Partners Limited, are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's responsibility*

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with

# independent audit report to the unitholders of stockland direct office trust no.3

**for the year ended 30 June 2008**

KPMG

our understanding of the Trust's and the Group's financial position and of their 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 report of Stockland Direct Office Trust No.3 and its controlled entities is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Trust's and the Group's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

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

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

KPMG

Scott Fleming
*Partner*

Sydney

21 August 2008

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

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